Title:
An Analysis and Discussion of the Economic, Political and Socioeconomic Implications of Corruption: Central and Eastern Europe a Regional Focus.

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I hereby certify that the thesis I am submitting is entirely my own original work except where otherwise indicated. Where I have drawn on the work of others it is appropriately and fully acknowledged via referencing.
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1. Introduction:
The purpose of this dissertation is to critically analyse and discuss the economic, socioeconomic and political implications of corruption within Central and Eastern Europe (CEE).

To achieve this purpose the main hypotheses and methodology of this dissertation will first be introduced. Definitions of key terms including corruption and Central and Eastern Europe will then be established, and subsequently the prevalence of corruption within CEE will be analysed and the limitations of measurements of corruption will discussed.

This dissertation will then analyse and discuss the economic implications of corruption within the CEE region. Particular emphasis will be on the macroeconomic and microeconomic implications of corruption within CEE. Firstly, the concept of macroeconomic effects of corruption will be introduced. Secondly, the macroeconomic concept of economic efficiency will be introduced and its association with corruption will be explored. Thirdly, the argument that corruption can have economic efficiency enhancing and reducing effects on economies will be examined in the context of CEE. Fourthly, the concept of microeconomic effects of corruption will be introduced. Fifthly, the microeconomic concept of firm efficiency will be introduced and the association to corruption will be examined. Sixthly, the argument that corruption has efficiency enhancing and efficiency reducing effects on firms will be examined within the context of CEE.

Subsequently, this dissertation will analyse and discuss the socioeconomic implications of corruption within the CEE region. Particular emphasis will be on the relationship between corruption and economic inequality as well as corruption and poverty within CEE. Firstly, the concept of direct and indirect implications of corruption regarding economic inequality and poverty will be introduced. Secondly, the prevalence of inequality within CEE will be introduced and this prevalence will be compared with the previously established prevalence
of corruption within CEE. Thirdly, the indirect implications of corruption regarding income inequality will be examined whilst drawing upon (in part) the findings within Section 2 Macroeconomic Implications of Corruption. Fourthly, the prevalence of poverty within CEE will be established and this prevalence will be compared with the previously established prevalence of corruption within CEE. Fifthly, the indirect implications of corruption regarding income inequality will be examined whilst drawing upon (in part) the findings within section 2 Macroeconomic Implications of Corruption. Finally, the findings of the implications of corruption regarding inequality and poverty will be analysed in the context of the wider sand verses grease debate within the corruption literature.

Finally, the political implications of corruption within the CEE region will analysed and discussed. Particular emphasis will be on the relationship between corruption and political stability as well as corruption and political participation within CEE. Firstly, the concept of political instability will be introduced and the theory that corruption has direct and indirect implications regarding political stability will be established. Secondly, the direct implications of corruption on political instability will be explored and political stability’s association to economic efficiency will be established. Thirdly, the indirect implications of corruption regarding political instability will be examined focusing on the macroeconomic effects of political instability and their association to economic efficiency. Fourthly, the concept of political participation will be introduced and its prevalence within CEE will be established. Fifthly, the direct implications of corruption on political participation will be examined. Sixthly, the indirect implications of corruption regarding political participation will we examined, focusing on the macroeconomic effects of political participation and their association to economic efficiency. Finally, the findings of the implications of corruption regarding political stability and political participation will be analysed in the context of the wider sand verses grease debate within the corruption literature.
1.1. Hypothesis: This dissertation examines the prevalence and implications of corruption within CEE. Particular emphasis will be on the analysis of the political, economic and socio-economic implications of corruption.

**Primary Hypothesis:** Corruption is prevalent within CEE and whilst corruption may have some macroeconomic and microeconomic benefits, overall corruption has a predominantly negative effect on most CEE countries at the macroeconomic level and most firms within countries in the region at the microeconomic level. Furthermore corruption will have a further predominantly negative direct and indirect effect on socio-economic and political factors.

**Economic implications hypothesis:** Within CEE corruption will have a predominantly negative macroeconomic and microeconomic effect. In the macroeconomic context whilst corruption will predominantly result in economic inefficiency some examples of economic efficiency enhancement will be experienced in some nations whilst in the microeconomic context most firms will experience firm inefficiency as a result of corruption whilst a small number of firms will experience a firm efficiency enhancing effect.

**Socioeconomic Implications hypothesis:** Corruption will have a predominantly negative effect on poverty alleviation and economic inequality within CEE.

**Political Implications Hypothesis:** Corruption has both direct and indirect political implications in regards to political stability and political participation which are predominantly negative within the CEE region. Corruption will have a negative effect directly on both political stability (i.e. corruption results in political instability) and political participation within CEE, and subsequent indirect effects of corruption on these two elements will be predominantly negative in the macroeconomic and political context.
1.2. Methodology:
In order to achieve the purpose of this dissertation a comparative analysis methodology will be utilised. A comparative analysis methodology consists of five fundamental elements; frame of reference, grounds for comparison, hypothesis, organizational scheme, linking of theory A and theory B (Walk 1998).

The two fundamental contrasting theories which will form the foundation of this dissertation’s comparative analysis is the “Sand” or “Greece” debate within the implications of corruption literature (Dreher and Gassebner 2007). These contrasting perspectives will constitute the ‘frame of reference’ element required for effective comparative analysis (Walk 1998). For example the first perspective argues that in the macroeconomic context corruption is viewed as a “Sand” because it impedes economic growth as it entails the misallocation of resources (OECD 2015) whilst in a microeconomic context corruption results in increased transaction costs and uncertainty for companies (Kochanova 2012). Whereas the second perspective argues that in corruption can be viewed as a “Grease” because in the macroeconomic context it arguably enables the circumvention of the worst institutional deficiencies within a nation which act as a hindrance to macroeconomic factors such as economic growth (Aidt et al 2008) whilst in the microeconomic context corruption enables companies to benefit by facilitating transactions and speeding up otherwise time-consuming procedures (Dreher and Gassebner 2007). As previously indicated the primary hypothesis of this dissertation is that within CEE whilst corruption has a predominantly negative effect on most CEE countries at the macroeconomic level and most firms within countries in the region at the microeconomic level there are arguably some benefits arising from corruption which a relatively small proportion can benefit from. Thus this dissertation will suggest that corruption can neither be seen as simply having either a “Sand” or a “Grease” effect but rather since corruption’s implications are multifaceted, corruption’s implications on CEE
nations and firms can be seen as a combination of both (i.e. some elements acting as a “sand” whilst others act as a “grease”). These aforementioned elements will constitute the ‘grounds of comparison and hypothesis’ elements required for effective comparative analysis (Walk 1998).

As previously established, this dissertation will examine the economic, socioeconomic and political implications of corruption. Whilst each section will introduce various arguments and debates specific to the type of implication under examination, each element will subsequently be analysed in the context of the “Sand” verses “Grease” debate. Given this context, the analysis and discussion of the indirect socioeconomic and political implications of corruption will focus on the implications regarding macroeconomic factors (which this dissertation will have established within Section 2.1 ‘Macroeconomic Implications of Corruption’ are directly affected by corruption). The indirect socioeconomic implications of corruption section will analyse and discuss how macroeconomic factors such as economic growth, foreign direct investment (FDI), trade and inflation, which are affected by corruption, have implications on poverty alleviation and income inequality. The indirect political implications of corruption section will analyse and discuss how the direct effect of corruption on political stability and political participation subsequently (thus indirectly) affects macroeconomic factors such as growth, composition of government revenue, FDI and inflation. For example, whilst analysing corruption’s economic implications in CEE, views regarding the macroeconomic and microeconomic implications of corruption will be examined within the context of the debate regarding corruption having an efficiency enhancing or efficiency decreasing effect on the macroeconomic level and firm efficiency enhancing or firm efficiency decreasing effect on the microeconomic level. The findings of this analysis and discussion will subsequently be linked to the “Sand” verses “Grease” debate notably that the economic and firm efficiency enhancing implications of corruption can arguably support the corruption as a “Grease”
theory, whilst the implications of corruption that create economic and firm inefficiency can arguably support the corruption as a “Sand” theory. For instance, this section will establish that corruption arguably has predominantly negative economic implications on most CEE nations and firms (corruption acts as “Sand”) although a small number can derive benefits from corruption (corruption acts as a “Grease”) as a result of country characteristics such as the quality of institutions at the macroeconomic level and firm characteristics such as firm size at the microeconomic level, thereby supporting this dissertation’s primary and economic hypotheses. Thus the ‘organisational scheme’ utilised for this dissertation’s comparative analysis of corruption is ‘point by point’ rather than text by text. Moreover these aforementioned elements highlight how this differentiation will achieve the ‘linking of Theory A (“Sand”) and Theory B (“Grease”)’ element required for effective comparative analysis (Walk 1998).

This assignment will draw upon corruption, economics, politics, political economy and sociology literature. Secondary sources, including academic journal articles, academic books and local/regional statistics (e.g. Transparency International Corruption Perception Index (TI 2016a) and EBRD BEEPS (European Bank for Reconstruction and Development Business Environment and Enterprise Performance Survey) dataset (EBRD 2014a) will form the most important and core source of literature and data for this dissertation. These secondary sources will enable this assignment to critically analyse different theories regarding corruption.

1.3. Definition of Corruption and CEE:
Corruption is a complex political, social and economic phenomenon (UNODC 2017); World Bank 1997) that arguably permeates nations and societies across the globe (TI 2016a; EBRD 2014a).

This dissertation will examine the prevalence and implications of corruption in countries within CEE. Particular emphasis will be on the critical analysis of the economic, socio-
economic and political implications of corruption and the embeddedness of this informal practice within CEE.

Corruption is defined as the abuse of public office for private gain (World Bank 1997; World Bank 2017a). Despite a lack of a single universally accepted definition of corruption (Gorta 2016; IMF 2016a; UNODC 2003) the aforementioned World Bank corruption definition is one of the most widely used within the academic literature (Birney 2014; IMF 2016a; Yadav 2011). Bribery is arguably one of the main tools of corruption (World Bank 1997) which can be utilised by individuals or businesses to influence the behaviour of public officials (Knack 2007; Koudelková et al 2015; Yalamov 2014). However, other forms of corruption exist including political corruption (i.e. use of legislative powers by public officials for private gain) and theft of state assets and government resources (World Bank 1997; Huberts and Lasthuizen 2014).

Central and Eastern Europe (CEE) consists of 12 countries which include Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia and the Baltic states of Estonia, Latvia and Lithuania (OECD 2001). Albania is the only CEE nation which is not a European Union member state (Europa 2017) and only CEE nation which is classified as a transition economy (UN 2017).

1.4. Prevalence of Corruption:
Corruption is arguably an unethical (Zhao et al 2017), illegal (Gamberoni et al 2016) and hidden practice (OECD 2004). Due to such inherent characteristics it is arguably difficult to measure in a precise and scientific manner (OECD 2004; Reinikka and Svensson 2002; Urra 2007) which has given rise to a debate within the literature regarding how to most effectively measure corruption thus consequently there is no single universally accepted corruption measurement (Urra 2007).
This dissertation will utilise Transparency International’s (TI 2016a) Corruption Perception Index (TI CPI) to establish the perceived level of corruption within CEE.

The CPI is a composite index calculated using data from a combination of corruption surveys and assessments (TI 2016b) from 13 data sources from 12 different institutions (TI 2016c) including the World Bank, World Economic Forum and the World Justice Project (TI 2016d).

The CPI is arguably one of the most widely used corruption indicators (Anderson and Tverdova 2003; Seligson 2006). The CPI scores and ranks countries based on how corrupt a country’s public sector is perceived to be (TI 2016b). A country receives a corruption score based on a 0-100 scale where 0 equates to the highest level of perceived corruption within a country whilst 100 indicates the lowest level of perceived corruption. A country’s rank indicates its position on the index relative to other countries included on the CPI (TI 2016c).

Upon examination of the 2016 CPI (shown in Figure 1) it can be seen that CEE nations tend to be perceived to be more corrupt than other European nations (European Single Market member states) located outside of CEE (TI 2016a). Liechtenstein is omitted from this analysis due to a lack of data (TI 2016a).

The European Single Market consists of 32 nations and is comprised of all 28 European Union nations, 3 European Economic Area nations (Iceland, Liechtenstein and Norway) and Switzerland. The latter 4 nations gain access to the single market via bilateral treaties and are not full members. Albania is the only CEE country not included within the European Single Market (Emmerson et al 2016).
As of 2016 of the 20 non-CEE countries, 7 countries (35%) have a CPI score of less than 70. 13 countries (65%) have a CPI score of 70 and above and 9 nations are ranked within the top 10 least corrupt countries in the world (TI 2016a; Emmerson et al 2016).

Conversely, 11 of the 12 CEE countries (92%) have a CPI score of below 70 and no CEE nations are ranked within the top 10 least corrupt countries in the world (TI 2016a).

Between 2012 and 2016 the majority of CEE nations, excluding Bulgaria, Hungary and Slovenia, reduced their country’s perceived level of corruption (shown in Figure 2).
Whilst the perceived level of corruption within Slovenia and Bulgaria has remained the same, Hungary’s perceived level of corruption has worsened (TI 2016a). TI prior to 2012 used methodology that did not enable cross-time comparison of a specific country’s score (TI 2012).

Albania is currently perceived as the most corrupt CEE country (TI 2016a). Albania is a transition economy (UN 2017) and in the context of the wider corruption literature it is argued that inherent characteristics of transition economies, such as weak institutions and government policies designed to generate economic rents, results in an environment which facilitates a high prevalence of corruption (World Bank 1997; Eizenstat 1998; Nowak 2001).

However the CPI’s methodology arguably has deficiencies which could affect interpretation and analysis of CPI data (European Commission 2014a). Perceptions of corruption are the fundamental element of the TI CPI (TI 2016a) however perception of corruption is arguably effected by public expectation, political bias and public awareness (European Commission 2014a). Firstly, in countries where governments continuously underperform the population within those countries arguably tend to expect less from public officials thus their perception of corruption can be more benign (Gamberoni et al 2016). Secondly, when a government is unpopular amongst the citizenry there is arguably greater dissatisfaction regarding government policies with a more negative corruption perception (Gamberoni et al 2016).

Thirdly, a temporary increase in public awareness of corruption resulting from recent corruption scandals covered in the media may distort perception based measures (Gamberoni et al 2016).

Thus despite the CPI being a useful tool for enabling cross country comparison and analysis of corruption, since it is based on perceptions it is not an objective based measure (Urra 2007). Between 2006 and 2016 Albania consistently recorded the highest level of perceived
corruption within CEE (TI 2016a). However, corruption data from the 2014 EBRD BEEPS dataset indicates that within CEE other nations including Hungary paid a larger percentage of their total annual sales as an informal payment or gift to public officials as shown in Figure 3 (EBRD 2014a).

![Figure 3: % of Total Annual Sales Paid as Informal Payment/Gift – CEE (EBRD 2014a)](image)

Although conversely not only do the Baltic States of Estonia, Latvia and Lithuania pay less on informal payments or gifts to public officials but these nations are concurrently 3 of the 5 CEE nations with the lowest perceived level of corruption (EBRD 2014a; TI 2016a). To calculate the mean values in Figure 3 ‘j7a’ observations valued lower than zero have been dropped from the BEEPS database as this dissertation assumes that most firms would not pay more than their sales for informal payments.

Firm-level survey-based corruption measures such as BEEPS are also subject to measurement issues such as misreporting or non-reporting (Jensen et al. 2010) with corruption arguably being one of the least reported crimes in surveys (Dugato et al. 2013). However, BEEPS questions are arguably formulated indirectly thus by avoiding direct questioning they increase the interviewee’s ability to potentially reply honestly (Gamberoni et al. 2016).
2. Economic Implications of Corruption:
The purpose of this section is to analyse and discuss the economic implications of corruption within CEE. Particular emphasis will be on the macroeconomic and microeconomic implications of corruption within CEE.

Firstly, the concept of macroeconomic effects of corruption will be introduced. Secondly, the macroeconomic concept of economic efficiency will be introduced and its association with corruption will be explored. Thirdly, the argument that corruption can have economic efficiency enhancing and reducing effects on economies will be examined in the context of CEE. Fourthly, the concept of microeconomic effects of corruption will be introduced. Fiththly, the microeconomic concept of firm efficiency will be introduced and the association to corruption will be examined. Sixthly, the argument that corruption has efficiency enhancing and efficiency reducing effects on firms will be examined within the context of CEE.

From an economic perspective corruption arguably has macroeconomic and microeconomic effects (Aidt 2009).

2.1. Macroeconomic Implications of Corruption:

A substantial amount of academic literature is dedicated to examining macroeconomic effects of corruption (Ugur and Dasgupta 2011). Macroeconomic effects of corruption arguably include effects on national economic growth and economic development (Lizala and Kocenda 2001, Gamboroni et al 2016), national income levels (Hanna et al 2011), inflation (Ali and Sassi 2016), trade (Thee and Gustafson 2012), foreign direct investment (Egger and Winner 2005), the volume and composition of government revenue (Alm et al. 2016) and expenditures (Delavallade 2006; D’Agostino et al 2016) as well as the quality of a government’s public services provision (Delavallade 2006). In addition, corruption arguably
effects the efficiency of the allocation of resources (Ulman and Bujancă 2014) whilst also weakening the financial stability of a country (IMF 2016b).

This dissertation’s focus when analysing the macroeconomic effects of corruption will be the analysis of how corruption effects the economic efficiency of CEE nations.

Economic efficiency is viewed as a fundamental economic concept (Shubik 1999; Luenberger 1994). Economic efficiency is defined as the economic use of resources and economists arguably use the standard of economic efficiency to assess the desirability of economic outcomes (Gwartney et al 2008).

There is a debate within the corruption literature regarding whether corruption increases or decreases economic efficiency (Mendez and Sepulveda 2006; Gamberoni et al 2016).

2.1.1. Economic Efficiency Debate – Creates Inefficiency:
Corruption arguably increases economic inefficiency because corruption negatively effects national economic growth (Gamberoni et al 2016), increases inflation (Ali and Sassi 2016), negatively effects trade (Thede and Gustafson 2012), reduces inward FDI (Javorcik and Wei 2009), negatively effects the volume and composition of government revenue (Alm et al 2016), government expenditure (Delavallade 2006; D’Agostino et al 2016) and the quality of a government’s public services provision (Delavallade 2006) and results in higher levels of government debt (Cooray et al 2017).

2.1.1.1. Economic Growth:
Corruption arguably has negative implications on growth within CEE nations, thus resulting in a decrease in economic efficiency (Gamberoni et al 2016).

Utilising a conditional convergence model constructed using variables including corruption, total factor productivity growth, political stability, regulatory quality and population with data from the EBRD BEEPS dataset and Compnet (Competitiveness Research Network), for
the time period 2003-2012 for 9 CEE nations (Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovakia, Slovenia, Romania and Croatia), Gamberoni et al’s (2016) empirical analysis concludes that within CEE increases in corruption has a negative effect on total factor productivity growth resulting in a decrease in economic growth, thus decreasing a nation’s economic efficiency.

2.1.1.2. Inflation

Corruption arguably has negative effects on inflation within CEE, thus decreasing economic efficiency (Ali and Sassi 2016).

Using a dynamic panel dataset constructed using Transparency International data and World Bank World Governance Indicator and World Development Indicator data, with variables including corruption, inflation, economic growth, trade openness (total amount of exports and imports as percent of GDP) and political stability, for the time period 2000-2012 for 100 countries including 11 CEE nations (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia), Ali and Sassi’s (2016) empirical analysis, which utilises a pooled OLS regression, generalized two stage least squares method and two steps system GMM method, concludes that within CEE, as well as all other nations within the dataset, corruption has a negative effect on inflation since an increase in corruption results in higher inflation, thus decreasing a nation’s economic efficiency. Inflation has negative effects on nations since inflation arguably reduces the real wage level and minimises the purchasing power of money, whilst inflation may also potentially entail income loss of individuals and groups and distortion of income distribution (Akça et al 2012).

In the context of the wider academic literature there are differing arguments regarding causality in the corruption and inflation relationship (Akça et al 2012; Ali and Sassi 2016) with arguments supporting the view that corruption affects inflation (Ali and Sassi 2016)
whilst concurrently there are arguments emphasising a reversed causal relationship thus arguing that inflation affects corruption within CEE (Akça et al 2012).

Using a panel dataset constructed using World Bank World Development Indicators data, with variables including corruption, inflation, growth, legislation quality, efficacy of government and political stability, for the time period 2002-2010, for 97 countries including two CEE nations (Bulgaria and Romania), Akça et al’s (2012) empirical analysis concludes that within CEE, as well as all other nations within the dataset, that inflation has a negative effect on corruption with an increase in inflation causing an increase in corruption. Thus, theoretically these views could be consistent with the view that a vicious circle exists regarding the implications of corruption and inflation since higher corruption arguably results in higher inflation (Ali and Sassi’s 2016) whilst concurrently increases in inflation results in increased corruption (Akça et al 2012). However there is arguably a lack of research focused on the examination of the relationship between corruption and inflation (Ali and Sassi 2016).

2.1.1.3. Trade

Corruption arguably has negative implications on trade within CEE, thus decreasing economic efficiency (Thede and Gustafson 2012).

Utilising a gravity equation model constructed using a dataset with variables including corruption, import level (trade), trade tariffs and GDP with data from the World Bank World Business Environment survey, World Development Indicators and World Integrated Systems database and data from CEPII (Centre d'Études Prospectives et d'Informations Internationales), for the year 1999 for 31 countries including 4 CEE countries (Czech Republic, Poland, Romania and Slovenia), Thede and Gustafson’s (2012) empirical analysis concludes that within CEE, as well as the other nations under examination, that corruption has a negative effect on trade, thus decreasing a nation’s economic efficiency.
2.1.1.4. Foreign Direct Investment

Corruption arguably has negative implications on FDI within CEE, thus decreasing economic efficiency (Javorcik and Wei 2009).

Utilising an empirical model constructed using a firm-level dataset with data from the World Bank, EBRD, the Kaufmann, Kraay and Zoido-Lobaton (KKZ) corruption index and the Neuman Corruption Index, with variables including corruption, FDI, GDP and firm size, for the time period 1985-1995 for 22 countries including 12 CEE nations (Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia), Javorcik and Wei’s (2009) empirical analysis concludes that within CEE, as well as the other nations under examination, corruption reduces inward FDI which the authors attribute to corruption making local bureaucracy less transparent thus increasing costs, thus decreasing a nation’s economic efficiency.

2.1.1.5. Volume and Composition of Government Revenue

Corruption arguably has negative implications on the volume and composition of government revenue within CEE via its negative effect of lowering the amount of tax revenues received (Hwang 2002; Alm et al. 2016).

Using a firm-level dataset constructed using World Bank World Enterprise Survey and EBRD BEEPS data with variables including bribe paid for taxes, bribery (as percentage of sales), tax inspection in last year and sales, for 32 countries including 12 CEE nations (Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), Alm et al’s (2016) empirical analysis concludes that within CEE, as well as the other nations under examination, corruption results in higher levels of tax evasion with the presence of tax inspectors who request bribes resulting in a reduction of sales reported for taxes of between 4 and 10 percentage points, whilst larger bribes also result in higher levels of tax evasion, therefore negatively effecting the volume of a government’s
revenue, thus decreasing a nation’s economic efficiency. A limitation of Alm et al.’s (2016) empirical analysis is that the time period of the dataset is not indicated within the journal article.

2.1.1.6. Government Expenditures
Corruption affects the volume and composition of government expenditure (Delavallade 2006) since it arguably tilts public spending towards projects that makes it easier to collect on bribes, at the expense of social programmes such as education, with spending on defence projects often preferred in this context because it is difficult to benchmark prices of custom-built high-tech equipment hence obscuring the existence of bribes (bribes which often increases the total project cost), which ultimately has a negative effect on economic growth within a nation.(Cartier-Bresson 2000; D’Agostino et al 2016)

Using a panel dataset constructed using variables including corruption, government military expenditure, government investment spending, current government consumption, regulatory quality and political stability with World Bank World Development Indicators, Governance Indicators and Control of Corruption Index data as well as data from Transparency International’s CPI and the PRS Group’s International Country Risk Guide (PRS ICRG), for the time period 1996-2010 for 106 countries (including 7 CEE nations (Albania, Bulgaria, Croatia, Romania, Slovakia, Latvia, Lithuania), D’Agostino et al’s (2016) empirical analysis concludes that within CEE, as well the other nations under examination, that the interactions between corruption and government military expenditure and corruption and government investment have strong negative impacts on economic growth within nations, thus resulting in a decrease in a nation’s economic efficiency.

However, Delavallade’s (2006) empirical research whilst concurring with the view that corruption tilts public spending towards defence projects, argues that although the wider sectors related to public services and order experience greater expenditure as a result of
corruption at the expense of social expenditure unlike D’Agostino et al (2016) Delavallade (2006) does not claim that these sectors are prioritised due to the ease to collect bribes relative to other sectors.

Utilising an empirical model using three-stage least squares method constructed using variables including corruption, 9 public spending variables (culture, fuel and energy, defence, public services and order, other economic activities, housing and commodities, social protection and welfare, health and also education), population, military personnel as percentage of labour force, central government debt and proportion of social contribution to GDP, with data from the World Bank World Governance and Development Indicators and data from the IMF Government Finance Statistics Yearbook, for the time period 1996-2001 for 64 countries including 9 CEE nations (Albania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia), Delavallade’s (2006) empirical analysis concludes that within CEE, as well as the other nations under examination, corruption distorts the structure of public expenditure in favour of defence, fuel and energy, culture, and public services and order sectors at the expense of the social sectors like education, health and social protection, thus decreasing a nation’s economic efficiency.

2.1.1.7. Government Debt Levels
Corruption arguably results in an increase in public debt, thus decreasing a nation’s economic efficiency (Cooray et al 2017).

Using a panel data model constructed using variables including corruption, public debt, GDP per capita, secondary enrolment ratio, government expenditure to GDP ratio, military expenditure to GDP ratio, inflation rate, and interest payments on debt as a ratio of revenues, with data from Transparency International and the World Bank World Development Indicators, for the time period 1996-2012 for 126 countries (including a number of Eastern European nations), Cooray et al’s (2017) empirical analysis concludes that within Eastern
Europe, as well as the other nations under analysis, that corruption leads to an increase in public debt, thus decreasing a nation’s economic efficiency.

2.1.2. Economic Efficiency Debate – Efficiency Enhancing

In contrast to the aforementioned economic inefficiency argument Gamberoni et al (2016) highlight the concept of ‘efficiency enhancing corruption’ in the macroeconomic context.

Whilst a general consensus arguably exists within the corruption and economic literature regarding the view that corruption has negative macroeconomic effects, there is an additional faction of the literature which suggests that corruption can have a positive effect in the macroeconomic context (Ali and Sassi 2016). These positive effects of corruption can arise by enabling the circumvention of inefficient institutions and complicated tariff structure or regulations within a nation (Ali and Sassi 2016)

Within CEE corruption arguably has an economic efficiency enhancing effect since corruption arguably has a growth maximising effect within certain nations (Mendez and Sepulveda (2006) and it can arguably act as an instrument that stimulates FDI by enabling administrative and regulatory restrictions to be circumvented (Egger and Winner 2005).

2.1.2.1. Economic Growth:

Whilst this dissertation previously established that within CEE corruption can reduce total factor productivity growth, thus reducing economic growth (Gamberoni et al 2016), it is argued that corruption does not necessarily damage economic growth (Mendez and Sepulveda 2006; Cartier-Bresson 2000). Mendez and Sepulveda’s (2006) empirical analysis established that corruption has a growth maximising effect on free nations, thus increasing the economic efficiency of a free nation.

Utilising cross-sectional regressions using a dataset with variables including corruption, GDP growth, investment, government expenditures and instability (political instability), with data
from the World Bank World Development Indicators, the Freedom House Index of Freedom and corruption data from the PRS ICRG corruption index, TI CPI and the Institute for Management Development (IMD) Corruption Index, for the time period 1960-2000 for a large sample of countries, Mendez and Sepulveda’s (2006) empirical analysis concludes that within free nations corruption has a growth maximising effect, thus increasing a free nation’s economic efficiency.

2.1.2.2. Foreign Direct Investment

Corruption arguably has positive implications on FDI within CEE, thus increasing economic inefficiency (Egger and Winner 2005).

Utilising an empirical model constructed using an unbalanced panel dataset with data from UNCTAD, Transparency International’s CPI, PRS ICRG and the World Bank World Development indicators, with variables including corruption, FDI, country size (real GNP), and legal quality, for the time period 1995-1999 for 73 countries including 8 CEE countries (Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic and Slovenia) Egger and Winner’s (2005) empirical analysis concludes that within CEE, as well as the other nations under examination, corruption acts as a stimulus for FDI which the authors argue is as a result of corruption enabling regulatory and administrative restrictions to be circumvented, thus increasing a nation’s economic efficiency. Whilst the authors highlight that corruption can overcome regulatory and administrative restrictions this finding contrasts the aforementioned conclusion of Javorcik and Wei (2009) who argue that corruption results in the existence of a less transparent local bureaucracy (which includes regulatory and administrative restrictions) that ultimately increases transaction costs which reduces overall FDI inflows. Although the time period differs in these two aforementioned studies with Javorcik and Wei (2009) spanning the time period 1985-1995, which covers the initiation of
the transition period from a centrally planned economy to market-based economy for the
CEE nations included in the study, whilst Egger and Winner (2005) covered the latter period
1995-1999, never the less both studies covered a period (1985-1999) which was dominated
by market reforms and economic and political turmoil thus resulting in an environment which
contained a complex and changing bureaucracy (Roaf et al 2014). Yet only one study
identified an economic efficiency enhancing effect of corruption in this context (Egger and
Winner’s 2005).

2.1.3. Macroeconomic Implications of Corruption – Country Characteristics

The macroeconomic implications of corruption arguably vary as a result of country
conditions within a CEE nation, with the quality of a nation’s institutions (political
institutions) arguably influencing corruption’s macroeconomic implications (Aidt et al 2008).

Utilising a threshold model constructed using variables including corruption, quality of
political institutions, growth (GDP per capita) and age of democracy with World Bank
Governance and Global Development Network Growth database data as well as
Transparency International CPI and Penn World Tables data, covering the time period 1970-
2000 for 84 countries including 9 CEE nations (Bulgaria, Croatia, Czech Republic, Estonia,
Hungary, Latvia, Lithuania, Poland and Romania), Aidt et al’s (2008) empirical analysis
concludes that within CEE, as well as the other nations under examination, corruption’s
implications on economic growth are dependent on the quality of a nation’s political
institutions since nations with high-quality political institutions experience a substantial
negative impact on growth due to corruption, whilst in nations within low-quality political
institutions corruption experience no effect on economic growth, thus corruption decreases
the economic efficiency of nations with high-quality political institutions whilst a nation’s economic efficiency is not effected within countries with low-quality political institutions.

2.1.4. Macroeconomic Implications of Corruption – Sand Verses Grease Debate:

The economic efficiency debate can be associated with the wider “Sand” verses “Grease” debate within the wider corruption and economics literature (Aidt et al 2008).

Within this debate corruption is viewed as “Sand” on the macroeconomic level because corruption arguably increases economic inefficiency since corruption, for example, impedes economic growth as it entails the misallocation of resources (OECD 2015), conversely corruption on the macroeconomic level can be viewed as a “Grease” because corruption may arguably improve economic efficiency since it enables, for example, the circumvention of the worst institutional deficiencies (Aidt et al 2008) and complicated regulations (Ali and Sassi 2016) in a nation which act as a hindrance to macroeconomic factors such as economic growth (Mendez and Sepulveda 2006) and FDI (Egger and Winner 2005), thus improving a nation’s economic efficiency.

Within CEE corruption arguably predominantly acts as a “Sand” via its predominantly negative effects on macroeconomic factors including growth, FDI, inflation, trade, government debt levels, government revenue, government public services provision and government expenditure (Delavallade 2006; Javorcik and Wei 2009; Ali and Sassi 2016; Alm et al 2016; D’Agostino et al 2016; Gamberoni et al 2016; Cooray et al 2017). However, this dissertation further established that country-specific characteristics are an important determinant of whether corruption acts as either a ‘Grease’ (economic efficiency enhancing) or a as a ‘Sand’ (causing greater economic inefficiency) (Aidt et al 2008) in the macroeconomic context highlighting that it cannot simply be viewed that all corruption is good or that all corruption is bad. Rather there arguably exists a middle ground in which
corruption can be viewed as both a ‘Sand’ and a ‘Grease’ with the implications of corruption regarding these two perspectives arguably being dependent on the context in which it occurs which is, for example, influenced by factors such as country characteristics (Aidt et al. 2008).

2.2. Microeconomic Implications of Corruption:
In the context of the microeconomic effects of corruption literature, corruption arguably affects firm efficiency (De Rosa et al. 2010; Bosco 2016), increases a firm’s exposure to legal risks such as prosecution (OECD 2012a) and increases the risk of damaging a firm’s reputation (Bray 2005; Deloitte 2014). Furthermore, corruption arguably affects firm growth (Fisman and Svensson 2007), firm competitiveness (Gaviria 2002) and firm innovation (Paunov 2016).

2.2.1. Firm Efficiency Debate – Creates Inefficiency:
This dissertation’s focus when analysing the microeconomic effects of corruption will be the analysis of how corruption affects firm efficiency within CEE.

Firm efficiency is defined as the economic use of resources by firms for production (Li 2014) and the concept of firm efficiency is viewed as a fundamental economic concept (Callender 2008).

There is a debate within the corruption literature regarding whether corruption increases or decreases firm efficiency (De Rosa et al. 2010; Bosco 2016).

Corruption arguably makes firms more inefficient as corruption increases transaction costs (Kochanova 2012), is associated with less reliable electricity supply and a subsequent loss of sales due to power outages (Pless and Fell 2017), the rigging of bids for public procurement contracts (Fazekas et al. 2013), a lower quality of firm management (Athanasouli and Goujard 2015) and decreases firm performance (De Rosa et al. 2010).
2.2.1.1. Increases Transaction Costs:

Corruption arguably increases transaction costs through increasing operating costs due to the cost of bribes and time taken to negotiate them, the cost of enforcing corrupt contract terms and the additional costs incurred after contract finalisation (Lambsdorff 2002).

Utilising an empirical model constructed using a firm-level panel dataset with variables including bribery, location and local environment (even and uneven bribery usage), with bribery data from the EBRD BEEPS and balance sheets and profit and loss account data from the Amadeus database, for the time period 1999-2007, Kochanova’s (2012) empirical analysis concludes that within CEE bribery increases the transaction costs of most firms by increasing their operating costs while also potentially undermining firm growth incentives within environments where most firms participate in bribery, therefore decreasing firm efficiency. However, Kochanova (2012) further established that within uneven bribery environments, the possibility to bribe can enable higher than average firm performance for some firms.

2.2.1.2. Less Reliable Electricity Supply and Loss of Sales Due to Power Outages:

Corruption is arguably associated with a less reliable electricity supply and a subsequent loss of sales due to power outages, thus decreasing firm efficiency (Pless and Fell 2017).

Utilising a firm-level dataset with variables including bribery (propensity to bribe for electricity connection), average number of monthly power outages, percentage of total annual sales lost specifically due to power outages as well as a number of firm-level control variables (such as firm age) and country level control variables (such as electricity generation per capita and GDP per capita), with firm-level data from the World Bank Enterprise Surveys on topics including electricity and corruption and country-level data from the World Bank’s
Development Indicators and Governance Indicators for various control variables, for the time period 2006-2012 for 104 countries including 10 CEE nations (Albania, Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia) containing a cumulative total of 69,283 manufacturing and services firms across the 104 countries, Pless and Fell’s (2017) empirical analysis concludes that within CEE corruption is associated in an increase in power outages and a loss of sales for firms as a result of power outages, thus decreasing firm efficiency.

2.2.1.3. Bid Rigging within Public Procurement:

Corruption is arguably associated with the rigging of bids (Fazekas et al 2013). Firms may bribe to influence a government’s firm choice to supply goods and services or to ensure that contractual breaches are tolerated (World Bank 1997). Furthermore, corrupt public officials may award purchase or service contracts to the highest bribe paying firm and not the most productively efficient (Habib and Zurawicki 2002).

Utilising an empirical model constructed using a pooled database with contract-level public procurement data obtained from official government public procurement announcements, with variables including call for tenders, contract modification notices and length of submission period, for the time period 2009 to 2012, Fazekas et al’s (2013) empirical analysis concludes that within the Czech Republic, Hungary and Slovakia, bid rigging occurs with call for tenders modification associated with a greater probability of receiving a single bid within the Czech Republic. Moreover, within Hungary extremely short submission periods (5 days maximum) are associated with a 20% higher probability of a single bidder contract therefore limiting competition and facilitating the recurrent awarding of contracts to the same company. In Slovakia the avoidance of the transparent and accessible publication of new tenders is associated with 9% higher probability of a single bidder.
2.2.1.4. Firm Management Quality:

Corruption arguably decreases the quality of the management within firms in CEE, thus decreasing firm efficiency (Athanasouli and Goujard 2015).

Utilising an empirical model constructed using a firm-level dataset with 2009 EBRD BEEPS bribery practices data, management quality and practices data from sources including the 2008 Management, Organization and Innovation Survey, as well as two measures of exposure to corruption using 1997 US benchmark Input–Output data, Athanasouli and Goujard’s (2015) empirical analysis concludes that CEE firms within the manufacturing sector located within regions containing higher corruption tend to have a lower management quality, therefore decreasing the efficiency of these firms relative to the firms situated within less corrupt regions.

2.2.1.5. Decreases Firm Performance:

Corruption arguably decreases firm performance within CEE, thus decreasing firm efficiency (De Rosa et al 2010).

Utilising an empirical model constructed using firm-level data with variables including corruption, firm productivity, time tax and bribe tax with data from EBRD BEEPS, Transparency International’s CPI and the World Economic Forum’s Index of the Effectiveness of the Legal Framework, for the year 2009 for 28 Countries including 12 CEE nations (Croatia, Estonia, Slovenia, Czech Republic, Hungary, Slovakia, Bulgaria, Latvia, Lithuania, Poland, Romania, Albania), De Rosa et al’s (2010) empirical analysis concludes that within CEE, as well as the other nations under examination, corruption has a negative effect on firm performance since bribe paying firms subsequently experience lower firm productivity than non-bribe paying firms, thus decreasing firm efficiency. Furthermore, De Rosa et al (2010) further established that corruption’s negative effect on firm productivity is
greater in non-EU countries compared to EU countries, consequently within CEE Albania and Croatia (Croatia was a non-EU member at the time of this study) experienced a relatively greater decrease in firm efficiency than other EU CEE nations.

2.2.2. Firm Efficiency Debate – Efficiency Enhancing:

In contrast to the aforementioned firm inefficiency argument Dreher and Gassebner (2007) highlight the concept of firm “efficiency enhancing” corruption.

In CEE corruption can potentially be efficiency enhancing since it can enable firms to reduce transaction costs by utilising bribes to facilitate the circumvention of overly restrictive regulations (Dreher and Gassebner 2007), to help negotiations, increase production and increase sales (Koudelková et al 2015) and to ensure decisions of public officials are made quickly (Lui 1985).

2.2.2.1. Avoid Overly Restrictive Regulations:

Corruption arguably enables firms within CEE to circumvent overly restrictive regulations, thus increasing firm efficiency (Dreher and Gassebner 2007).

Utilising an empirical model with variables including corruption, entrepreneurship rate (% of population), regulation, procedures necessary for start-up process, business start-up cost and minimum capital required for start-up with data from the World Bank World Development Indicators, Governance Matters and Doing Business datasets as well as OCED, Transparency International CPI, Gwartney and Lawson’s Economic Freedom Index and the Global Entrepreneurship Monitor data, for the time period 2003-2005 for 43 Countries including 5 CEE nations (Croatia, Hungary, Latvia, Poland and Slovenia), Dreher and Gassebner’s (2007) empirical analysis concludes that within CEE, as well as the other nations under examination, corruption can be efficiency enhancing in the entrepreneurship context since corruption can be used to facilitate the circumvention of overly restrictive regulations which
prevents firm market entry (such as high firm start-up capital requirements), thereby facilitating firm entry into markets with restrictive regulations. However, Dreher and Gassebner (2007) highlight that if regulations were designed to prevent firms that were most likely to go bankrupt from entering the market or provide goods and services that governments do not want to be provided to the population, the circumvention of these regulations may have negative consequences, despite being firm efficiency enhancing from the firm’s perspective.

2.2.2.2. Increase Sales, Help Negotiations and Increase Production:

Corruption arguably enables firms within CEE to increase production, help negotiations and increase sales (Koudelková et al 2015).

Utilising an empirical model using a firm-level dataset with variables including the perception of the prevalence of corruption and the perception of the effect of corruption (does corruption enable firm growth) using data from survey responses primarily from management-level employees, with observations for 110 firms in various sectors within the Czech Republic in 2014, Koudelková et al’s (2015) empirical analysis concludes that within the Czech Republic most firms have experienced some corruption whilst many have utilised corruption in order to help negotiations, increase production or increase sales. Furthermore, Koudelková et al (2015) argues that within the Czech Republic corruption is prevalent as a result of a high level of bureaucracy that exists within the country and firms surveyed having stated that for business corruption was useful as it increases firm efficiency within a highly bureaucratic country.

2.2.3. Microeconomic Implications of Corruption – Firm Characteristics:

Within CEE firm characteristics such as firm size (O’Toole and Tarp 2014; Hanousek and Kochanova 2016), state-owned or foreign-owned (Blagojević and Damijan 2013), whether
the firm owner was a former State Owned Enterprise (SOE) manager (Chavis 2013-EEC-A), and whether the firm is family or non-family owned (Bassetti et al 2015) can arguably influence whether a firm experiences an efficiency reduction or enhancement as a result of corruption.

2.2.3.1. Firm Size:

Corruption increases transaction costs and smaller firms arguably bear a disproportionately larger share of these costs relative to larger firms, thus decreasing firm efficiency (O’Toole and Tarp’s 2014).

Using a firm-level dataset constructed using World Bank Enterprise Surveys data, with variables including corruption, firm size, foreign-owned firm, private-owned firm, trade (firm), trade (country) and GDP growth, for the time period 2002-2010 for 90 countries including 9 CEE nations (Albania, Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania) with a cumulative total of 17,051 firm-level observations from the manufacturing, services and other industrial sectors, O’Toole and Tarp’s (2014) empirical analysis concludes that within CEE, as well as all other nations within the dataset, smaller firms incur greater costs than larger firms due to corruption since larger firms unlike small firms are typically in a position to use influence to bypass specific corrupt officials (large firms are able to use a relocation threat against corrupt officials whilst small and medium sized firms typically cannot since they operate in local markets) which reduces a larger firm’s bribe payments, thus resulting in a greater firm efficiency decrease for smaller firms relative to larger firms.

Conversely, Hanousek and Kochanova (2016) argue that corruption is a greater obstacle to larger firms relative to small firms.
Utilising an empirical model constructed using an unbalanced firm-level panel dataset, using bribery data from the EBRD BEEPS and balance sheets and income statements data from the Amadeus database, for the time period 1999 to 2007, Hanousek and Kochanova’s (2016) empirical analysis concludes that within CEE corruption is a greater obstacle for large firms relative to small firms. This finding contrasts with the academic literature which typically views corruption as a greater obstacle for smaller firms since they typically have weaker bargaining power and influence on public officials (Aterido et al. 2011; O’Toole and Tarp 2014).

2.2.3.2. State or Foreign-Owned Firm:

The firm characteristic of foreign-ownership or state-ownership arguably influences whether a firm experiences an efficiency reduction or enhancement due to corruption (Blagojević and Damijan 2013).

Utilising an empirical model with variables including corruption (business environment stability, sector specific informal payments and state capture impact) and firm characteristics with firm-level data from the EBRD BEEPS dataset for the time period 2002 to 2009, Blagojević and Damijan’s (2013) empirical analysis concludes that within CEE state-owned firms engaged in informal payments are more likely to experience a negative effect on productivity due to corruption (decreasing firm efficiency), whilst foreign-owned firms are more likely to benefit (increasing firm efficiency).

2.2.3.3. Firm Owner a Former State Owned Enterprise Manager

Corruption arguably increases transaction costs and historically within CEE firms owned by a former State Owned Enterprise (SOE) manager incur a smaller increase in transaction costs due to corruption relative to firms not owned by a former SOE manager (Chavis 2013-EEC-A).
Utilising a regression analysis with variables including corruption, owner characteristics (former SOE manager and trade association member) and firm characteristics (firm spinoff from SOE, firm profits, local trade level and foreign trade level), with survey data from Johnson et al (2002) for the year 1997 for 3 CEE countries (Poland, Romania and Slovakia) covering 898 privately-owned manufacturing firms (of which approximately 90% were less than 10 years old), Chavis’ (2013) empirical analysis concludes that within CEE firms owned by a former SOE manager on average pay lower bribes relative to companies not owned by a former SOE managers, thus resulting in a greater decrease in firm efficiency for firms not owned by former SOE managers relative to firms owned by former SOE managers.

2.2.3.4. Family-Owned and Non-Family Owned Firms:

Corruption arguably increases transaction costs and within CEE exporting family-owned firms are arguably more likely to incur additional transaction costs due to corruption relative to non-family owned firms, since family-owned firms have a greater propensity to pay bribes in this context (Bassetti et al 2015).

Utilising a firm-level panel dataset using EBRD BEEPS data, with variables including corruption (percentage of total annual sales paid in informal payments and percentage of average contract value firm pays to secure public contracts), firm’s export share (percentage of a firm’s sales), family-owned and firm total sales, for the time period 2002-2005 for 26 nations including all 12 CEE nations (Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia), Bassetti et al’s (2015) empirical analysis concludes that within CEE, as well as the other nations under examination, that in contrast to non-family firms, family firms are sensitive to corruption when exporting evidenced by their greater propensity to pay bribes relative to non-family firms, thus resulting
in a greater firm efficiency decrease for family-owned firms, due to their incurrence of additional transaction costs due to bribe payments relative to non-family owned firms.

2.2.4. Microeconomic Implications of Corruption – Sand Verses Grease Debate

The firm efficiency debate can arguably be associated with the “Sand” verses “Grease” debate within the wider corruption and economics literature (Dreher and Gassebner 2007; Kochanova 2012).

Corruption is arguably viewed as a “Sand” on the microeconomic level since it increases transaction costs and uncertainty for firms thus decreasing firm efficiency (Kochanova 2012). Conversely corruption can be viewed as a “Grease” since some companies can utilise corruption to derive benefits such as facilitating transactions and speeding up otherwise time-consuming procedures (Leff 1964; Huntington 1968; Leys 1965; Dreher and Gassebner 2007). Within CEE corruption can arguably be seen to predominantly act as a “Sand” via its predominantly negative effects on microeconomic factors including increasing transaction costs, reducing sales and decreasing firm performance and management quality (De Rosa et al 2010; Kochanova 2012; Athanasouli and Goujard 2015; Pless and Fell 2017).

Furthermore, this dissertation has established that firm characteristics such as firm size are an important determinant of whether corruption acts as either a ‘Grease’ (firm efficiency enhancing) or as a ‘Sand’ (decreasing firm efficiency) in the microeconomic context highlighting that it cannot simply be viewed all corruption is good or all corruption is bad (O’Toole and Tarp’s 2014). Rather a middle ground arguably exists in which corruption’s microeconomic implications can be viewed as both a ‘Sand’ and a ‘Grease’ depending on the context in which it occurs which is, for example, influenced by factors such as firm characteristics (Chavis 2013;; Blagojević and Damijan 2013; O’Toole and Tarp 2014; Bassetti et al 2015 ; Hanousek and Kochanova 2016).
2.3. Microeconomic and Macroeconomic Implications of Corruption – Efficiency Enhancing Approaches Critique:

Despite the aforementioned proposed advantages of the economic and firm efficiency enhancing approaches regarding the macroeconomic and microeconomic implications of corruption, it is argued that literature examining the economic and firm efficiency enhancing consequences of corruption on nations and firms is primarily theoretical, therefore it lacks substantial empirical evidence to support the proposed theories (World Bank 1997). Moreover, the efficiency enhancing concepts’ argued short term perspective has been a noted area of criticism (World Bank 1997; Dreher and Gassebnder 2007). For example, although corruption can potentially increase short-term economic and firm efficiency though facilitating the circumvention of overly restrictive regulations, in the long-term corruption arguably removes the incentive to reform overly bureaucratic systems therefore on the microeconomic level firms will continue to be subject to this transaction cost whilst resource allocation will continue to be distorted on the macroeconomic level (World Bank 1997).

2.4. Conclusion - Economic Implications of Corruption:

This section has examined the macroeconomic and microeconomic implications of corruption within CEE and has established that these implications support this dissertation’s economic implications hypothesis.

_Economic implications hypothesis:_ Within CEE corruption will have a predominantly negative macroeconomic and microeconomic effect. In the macroeconomic context whilst corruption will predominantly result in economic inefficiency some examples of economic efficiency enhancement will be experienced whilst in the microeconomic context most firms will experience firm inefficiency as a result of corruption whilst a small number of firms will experience a firm efficiency enhancing effect.
Firstly, this section established that corruption has negative macroeconomic effects since corruption increases economic inefficiency due to its negative effects on economic growth (Gamberoni et al. 2016), inflation (Ali and Sassi 2016), trade (Thede and Gustafson 2012), inward FDI volume (Javorcik and Wei 2009), the volume and composition of government revenue (Alm et al. 2016-EEC-A), expenditure (Delavallade 2006; D’Agostino et al. 2016) public services provision quality (Delavallade 2006) and government debt levels (Cooray et al. 2017).

Secondly, this section established that in contrast to creating economic inefficiency, corruption arguably has economic efficiency enhancing macroeconomic effects since corruption can have a growth maximising effect in certain countries (Mendez and Sepulveda 2006) and can be used in some countries as an instrument that stimulates FDI since it enables the circumvention of administrative and regulatory restrictions (Egger and Winner’s 2005).

Thirdly, this section established that in the macroeconomic context all CEE nations are not affected by corruption equally due to country characteristics, most notably the nation’s institutional framework in regards to the quality of its political institutions affects whether a country experiences a negative effect resulting from corruption or not (Aidt et al. 2008).

Fourthly, the aforementioned macroeconomic implications of corruption were then analysed in the context of the wider “Sand” verses “Grease” debate within the corruption literature where it was established that within CEE corruption arguably predominantly acts as a “Sand” since corruption predominantly decreases economic efficiency within CEE via its negative effects on macroeconomic factors including growth, FDI, inflation, trade, government debt levels, government revenue, government public services provision and government expenditure (Delavallade 2006; Javorcik and Wei 2009;; Ali and Sassi 2016; Alm et al. 2016; D’Agostino et al. 2016; Gamberoni et al. 2016; Cooray et al. 2017). However this section
further established that the extent to which corruption can be viewed as a ‘Sand’ in the macroeconomic context was arguably effected by country characteristics (Aidt et al’ 2008).

Fifthly, this section established that corruption has negative microeconomic effects since corruption arguably negatively effects firms by increasing firm inefficiency as corruption increases transaction costs (Kochanova 2012), is associated with a less reliable electricity supply and a subsequent loss of sales due to power outages (Pless and Fell 2017), bid rigging for public procurement contracts (Fazekas et al 2013), a lower quality of firm management (Athanasouli and Goujard 2015) and decreases firm performance (De Rosa et al 2010).

Sixthly, this section established that in contrast to creating firm inefficiency corruption arguably can be firm efficiency enhancing by enabling some firms to reduce transaction costs by utilising bribes to circumvent overly restrictive regulations (Dreher and Gassebner 2007) and to help negotiations, increase production and increase sales (Koudelková et al 2015).

Seventhly, this section has highlighted that all firms are not affected by corruption equally due to firm characteristics including firm size (O’Toole and Tarp’s 2014; Hanousek and Kochanova 2016), state-owned or foreign-owned (Blagojević and Damijan 2013), whether the firm owner was a former State Owned Enterprise (SOE) manager (Chavis 2013), and whether the firm is family or non-family owned (Bassetti et al 2015) which can influence whether a firm experiences an efficiency reduction or enhancement as a result of corruption.

Eighthly, the aforementioned microeconomic implications of corruption were then analysed in the context of the wider “Sand” verses “Grease” debate within the corruption literature where it was established within CEE corruption predominantly acts as a “Sand” since corruption arguably predominantly decreases in firm efficiency within CEE via its negative effects on microeconomic factors including increased transaction costs, lower sales, firm performance and management quality (De Rosa et al 2010; Kochanova 2012; Athanasouli
and Goujard 2015; Pless and Fell 2017). However, this section further established the extent to which corruption can be viewed as a “Sand” in the microeconomic context was arguably effected by firm characteristics (Blagojević and Damijan 2013; Chavis 2013; O’Toole and Tarp 2014; Bassetti et al 2015; Hanousek and Kochanova 2016).

Finally, this section highlighted a number of critiques regarding the efficiency enhancing view of corruption in the macroeconomic and microeconomic context. Notably, the ‘efficiency enhancing’ concept is criticised as being primarily theoretical lacking substantial empirical evidence whilst this approach also arguably has an inherent short term perspective failing to recognise long term negative implications (World Bank 1997).

Having examined the macroeconomic and microeconomic implications of corruption. The subsequent sections of this dissertation will examine the socioeconomic and political implications of corruption whilst drawing upon a number of the aforementioned findings within this economic implications of corruption section.

3. Socioeconomic Implications of Corruption:

The purpose of this section is to analyse and discuss the socioeconomic implications of corruption within CEE. Particular emphasis will be on the relationship between corruption and economic inequality as well as corruption and poverty within this geographic scope.

Firstly, the concept of direct and indirect implications of corruption regarding economic inequality and poverty will be introduced. Secondly, the prevalence of inequality within CEE will be introduced and this prevalence will be compared with the previously established prevalence of corruption within CEE. Thirdly, the indirect implications of corruption regarding income inequality will be examined whilst drawing upon (in part) the findings within Section 2.1 Macroeconomic Implications of Corruption. Fourthly, the prevalence of poverty within CEE will be established and this prevalence will be compared with the
previously established prevalence of corruption within CEE. Fifthly, the indirect implications
of corruption regarding income inequality will be examined whilst drawing upon (in part) the
findings within Section 2.1 Macroeconomic Implications of Corruption. Finally, the findings
of the implications of corruption regarding inequality and poverty will be analysed in the
context of the wider sand verses grease debate within the corruption literature.

Despite a significant amount of studies examining the relationship between corruption and
inequality as well as corruption and poverty it has been difficult to establish empirically a
direct link between either corruption and inequality or corruption and poverty (Gupta et al
2002; Chetwynd et al 2003). Consequently, it is argued that corruption alone does not in itself
produce inequality and poverty (via a ‘direct effect’) rather corruption has direct
consequences on economic and governance factors, so called intermediaries, which
subsequently produces inequality and poverty, thus the relationship which researchers
predominantly examine is an indirect one (Gupta et al 2002; Chetwynd et al 2003).
Therefore, in line with this aforementioned focus of the wider academic literature, this
dissertation’s examination of the socio-economic effects on corruption will focus on the
analysis and discussion of the indirect effects of corruption on economic inequality and
poverty.

Within the wider corruption and economic inequality and poverty literature two models
arguably emerge, the governance model and the economic model (Gupta et al 2002;
Chetwynd et al 2003). Firstly, the governance model proposes that corruption indirectly
effects economic inequality and poverty by first impacting governance factors (such as
political stability) which subsequently impact inequality and poverty levels (Gupta et al 2002;
Chetwynd et al 2003). Secondly, the economic model suggests that corruption indirectly
effects economic inequality and poverty by first impacting macroeconomic factors (such as
economic growth, FDI and inflation) which subsequently impacts inequality and poverty
levels (Gupta et al 2002; Chetwynd et al 2003). Examination of the indirect implications of corruption on these macroeconomic factors regarding inequality and poverty will be the focus of this section of this dissertation.

3.1. Inequality:
Income inequality is a pervasive phenomenon which arguably has negative social, economic and political implications (Dabla-Norris et al 2015).

In the social context inequality can be an indicator of a lack of income mobility and opportunity thus it is arguably a reflection of the persistent disadvantage experienced by particular segments of a society (Graham and Felton 2005). In the political and macroeconomic context inequality can arguably result in a concentration of political and decision making power into the hands of the few, which can lead to suboptimal use of resources (thus decreasing economic efficiency) that can lead to an increase in political and macroeconomic stability whilst concurrently having a negative effect on economic growth (Dabla-Norris et al 2015).

Income inequality is defined as the extent to which income is distributed in an uneven manner among a population (Schmid-Drüner 2016). To establish the inequality of income distribution within CEE the income quintile share ratio (S80/S20 ratio) indicator within the European Union Statistics on Income and Living Conditions (EU-SILC) survey is utilised (Eurostat 2017a). The income quintile share ratio is one of the most widely used indicators to examine inequality within European nations (European Commission 2014b).

The EU-SILC dataset is comprised of cross-sectional and longitudinal multi-dimensional microdata on the variables of income, poverty, social exclusion and living conditions (Eurostat 2017b). The EU-SILC dataset will also be used within Section 3.2 to examine poverty utilising the ‘at risk of poverty’ indicator (Eurostat 2017c; Eurostat 2017d).
The EU-SILC survey’s income quintile share ratio is a measure of the inequality of income
distribution and it is calculated as the ratio of total income received by the 20% of the
population with the highest income (the top quintile) to that received by the 20% of the
population with the lowest income (the bottom quintile) (Eurostat 2014c). All incomes are
compiled as equivalised disposable incomes (Eurostat 2014c). The equivalised disposable
income is the total monetary income of a household (income from work, investment and
social benefits, plus any other household income) after tax and social contribution that is
available for spending or saving, divided by the equivalised household size. The resulting
figure is the equivalised disposable income and is attributed equally to each household
member (Eurostat 2014d). The equivalised household size is calculated using a standard
equivalence scale which gives weight to all members of the household; 1.0 to the first adult,
0.5 to the second adult and each subsequent person aged over 14 and 0.3 to each child aged
under 14 (Eurostat 2014d).

Upon examination of the 2014 EU-SILC survey’s income quintile share ratio (shown in
Figure 4) CEE nations tend to have higher income inequality levels than other European
nations (European Single Market member states) located outside of CEE, with the arithmetic
mean of the population-weighted averages of the national figures for all CEE nations
indicating that the top 20% of the population (with the highest equivalised disposable
income) within CEE received 5.3 times as much income as the bottom 20% (with the lowest
equivalised disposable income) whilst the average for all other European nations was 4.6
times (Eurostat 2017a). Liechtenstein and Albania is omitted from this analysis due to a lack
of data and the year 2014 has been selected since it is the most recent year where data is
available for the greatest number of countries under examination in this dissertation (Eurostat
2017a).
Between 2010 and 2014 the majority of CEE nations experienced an increase in their nation’s income inequality distribution (shown in Figure 5). Whilst 6 CEE countries’ inequality of income distribution increased (Bulgaria, Estonia, Hungary, Romania, Slovenia and Slovakia), 4 experienced a decrease (Croatia, Latvia, Lithuania and Poland), whereas Czech Republic saw no change (Eurostat 2017a).

Between 2012 and 2014 (this period has been used since cross-country data is available for both corruption and inequality for this period) the majority of CEE countries experienced an
increase in the perceived level of corruption within their nation. Whilst 8 countries experienced an increase (Estonia, Poland, Lithuania, Czech Republic, Latvia, Croatia, Slovakia and Bulgaria) 3 countries experienced a decrease in the perceived level of corruption (Slovenia, Hungary and Romania) (TI 2016a). During the same three year period the majority of CEE nations also experienced an increase in their nation’s income inequality distribution (Eurostat 2017a). However, there is a discrepancy regarding the CEE countries which experienced an increase in the perceived level of corruption in comparison to the CEE countries which concurrently experienced an increase in their nation’s income inequality distribution (TI 2016a; Eurostat 2017a). Of the aforementioned 8 countries which experienced an increase in the perceived level of corruption within the 2012-2014 period only 4 (Bulgaria, Estonia, Lithuania and Slovakia) concurrently experienced an increase in their nation’s income inequality distribution and 4 nations (Croatia, Czech Republic, Latvia and Poland) experienced no change. Moreover, whilst Hungary, Romania and Slovenia reported a decrease in the perceived level of corruption within the nation, these countries concurrently experienced an increase in income inequality distribution (TI 2016a).

Therefore, from this data it could be argued that theoretically increases in corruption levels may not necessarily directly result in increased inequality since some CEE nations experience either a decrease in inequality or the inequality level stayed the same, with other factors, such as macroeconomic or governance factors, arguably potentially influencing corruption’s implications on inequality (TI 2016a; Gupta et al 2002; Chetwynd et al 2003; Eurostat 2017a). Although as previously established the TI CPI corruption measurement is based on perceptions thus may not represent the actual figure of corruption (European Commission 2014a).

Given this context of the apparent negative effects of inequality on a nation (Graham and Felton 2005; Dabla-Norris et al 2015) and inequality’s prevalence within CEE, which is at
relatively higher levels than the rest of Europe (TI 2016a), this dissertation will focus on the socioeconomic implications of corruption on inequality.

3.1.1. Indirect Implications of Corruption on Inequality:

This dissertation will now analyse and discuss the indirect effects of corruption on inequality by examining the implications of a number of macroeconomic factors, which this dissertation has previously established are directly affected by corruption, on income inequality levels within CEE.

Corruption arguably has indirect implications regarding income inequality within CEE via its relationship with economic growth (Faustino and Vali 2013; Babu et al. 2016), FDI (Bandelj and Mahutga 2010) and inflation (Rose and Viju 2014). Whilst the extent of these implications in CEE is arguably influenced by country characteristics notably the income category (as defined by the World Bank) that the country is a constituent of (Rose and Viju 2014).

This dissertation has previously established that within CEE corruption can have negative implications by reducing economic growth (Gamberoni et al 2016). Lower economic growth is associated with higher economic inequality within CEE nations (Babu et al. 2016).

Utilising a dynamic panel model with variables including inequality, growth, inflation, investment, trade openness and education with data from the World Bank World Development Index, the Penn World Tables and the Standardized World Income Inequality Database (SWIID). for the time period 1980-2010 for 29 countries including 4 CEE nations (Bulgaria, Czech Republic, Hungary and Poland), Babu et al’s (2016) empirical analysis concludes that within CEE, as well as the other nations under examination, low growth is
associated with higher income inequality, thus resulting in a decrease in an economy’s economic efficiency in the macroeconomic context.

Despite a vast theoretical literature examining the link between growth and inequality, no general consensus has emerged and the empirical evidence is rather inconclusive (OECD 2012b). Moreover in the wider academic literature there varying opinions regarding the causality of the relationship between economic growth and inequality with some authors arguing that economic growth affects inequality levels (Kuznets 1955; Gupta et al 2002) whilst others argue that inequality affects economic growth (Lazear and Rosen 1981).

In the CEE context, empirical research examining the implications of economic growth on inequality has historically been impeded due to data availability issues (Faustino and Vali 2013). Recent empirical research examines the implications of economic growth on inequality levels within OECD member states (Faustino and Vali 2013), of which numerous CEE nations are members (OECD 2017).

Utilising static and dynamic panel data analyses with variables including economic growth (GDP per capita), inequality, inflation, trade openness tax, government expenditure, secondary education enrolment and unemployment with data from the UNU-WIDER World Income Inequality Database, the World Bank’s World Development Indicators and the KOF index of globalisation for the time period 1995-2007 for 24 OECD nations, Faustino and Vali’s (2013) empirical analysis concludes that within OECD nations economic growth causes income inequality to increase. However, the limitation of this research in regards to this dissertation geographic scope is that due to data availability issues CEE OECD nations are omitted from this empirical analysis (Faustino and Vali 2013) thus conclusions from this empirical analysis for CEE can only come from inference. According to the OECD (2012b) the CEE nations of the Czech Republic, Estonia, Slovakia and Slovenia have similar patterns
of inequality as the OECD nations of Belgium, Finland, France and Italy which are included within Faustino and Vali (2013) whilst the CEE nations of Hungary and Poland have similar patterns of inequality as the OECD nations of Austria, Germany, Greece, Japan, Korea, Luxembourg and Spain which are also included within Faustino and Vali (2013). According to World Bank (2017b) growth rate data for the time period 1995-2007, the growth rate of the OECD CEE nation Slovenia is comparable with other non-OECD nations examined within Faustino and Vali (2013) with the growth rate residing within the minimum and maximum boundaries of the growth rate set by the non-CEE OECD nations (that share the same income inequality characteristics as CEE nations) although between 1997-2004 Czech Republic, Hungary, Poland and Slovakia also fit within these boundaries. Therefore, it can be inferred that within the CEE context growth theoretically can lead to an income inequality increase (although this inference does not account for the influence of other explanatory variables included within the model). Thus, whilst lower economic growth is associated with higher inequality in CEE (Babu et al 2016) and although there is relatively recent empirical evidence to suggest that within OECD member states (Faustino and Vali 2013) as well as historical evidence in a wider geographic scope that higher growth can cause higher inequality (Kuznets 1955; Gupta et al 2002), there arguably continues to be deficiencies in the literature regarding the lack of CEE specific data (Faustino and Vali 2013; Babu et al. 2016). Since, as highlighted by the Kuznets curve, that theoretically growth can both increase and decrease inequality (Kuznets 1955) and due to the aforementioned conclusions regarding growth’s effect on inequality in CEE being derived from inference based on the empirical research of Faustino and Vali (2013) this dissertation cannot ascertain empirically this relationship in the CEE context. That is not to suggest however that any empirical statement is certain (Malcolm 1942; Slote 1967). This is a notable area that future research can be conducted on as more data becomes available.
This dissertation previously established that within CEE corruption can facilitate an increase in FDI levels (Egger and Winner 2005) although conversely this dissertation also establish that corruption can also reduce FDI within CEE (Javorcik and Wei 2009). FDI arguably has negative implications on income inequality in nations within CEE (Bandelj and Mahutga 2010).

Utilising a random effects model constructed using an unbalanced panel dataset with variables including economic inequality, FDI inflow per capita, size of private sector, government expenditure, GDP and unemployment with data from UNICEF’s TransMONEE database, the World Bank World Development Indicators and the EBRD, for the time period 1989-2001 for 10 CEE nations (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), Bandelj and Mahutga’s (2010) empirical analysis concludes that within CEE FDI increases inequality which the authors attribute to FDI causing an increase in the wage premium of management and workers in the foreign sector whilst the domestic sector workforce do not derive such a benefit, thus the FDI which according to Egger and Winner (2005) is facilitated through corruption will arguably result in an increased level of inequality within the nations within which the FDI occurs.

This dissertation previously established that within CEE corruption has negative implications regarding inflation since higher levels of corruption results in higher inflation (Ali and Sassi 2016). Inflation arguably has implications on economic inequality within CEE, however the type of effect that inflation (as well as other economic, demographic, political, and cultural and environmental factors) has on economic inequality within a CEE nation is arguably different depending on the income category to which a CEE nation is a constituent of (Rose and Viju 2014).
Utilising random effects models with variables including income inequality, low income country, middle income country, high income country, inflation, privatization, political rights, corruption and FDI net inflow with data from the World Bank World Development Indicators, World Bank Governance Indicators, EBRD, Freedom House’s Political Rights Index and the World Income Inequality Database for the time period 1990-2006, Rose and Viju’ (2014) empirical analysis concludes that within CEE firstly, increased inflation results in an increase in economic inequality within middle income CEE nations (including Bulgaria, Latvia, Lithuania, Romania) whereas an increase does not occur in high income CEE nations (including Czech Republic, Estonia, Hungary, Poland Slovakia). Secondly, Rose and Viju (2014) empirical analysis concludes that different income categories of CEE countries also experience different relationships between income inequality and its contributing economic, demographic, political, cultural and environmental factors. This finding is notable since studies examining the effects of these aforementioned factors frequently do not account for the differences in the income categories to which the countries under examination are constituents of (Rose and Viju 2014). For example, in the wider European regional context of studies examining the relationship between inflation and poverty, Thalassinos et al’s (2012) empirical analysis concluded that within 13 EU nations over the period of 2000-2009 higher inflation resulted in higher economic inequality, however the authors did not account for the differences in the income categories of the EU nations under analysis thus according to the findings of Rose and Viju’ (2014) their findings may not be truly representative of the actual relationship between inflation and income inequality levels within the different EU nations. Although this argued limitation could arguably be extended to all the aforementioned articles regarding the empirical examination of income inequality in this dissertation.

In the wider context of the political implications of corruption greater income inequality (which as this this dissertation has previously established is an indirect implication of
corruption) arguably results in greater inequality in political participation which consequently increases the adoption of policies such as inflation which are more favourable to the wealthy (Crowe 2004). The direct and indirect implications of corruption on political participation within the CEE region will be analysed and discussed in greater depth in the next section of this dissertation (Section 4 Political Implications of Corruption).

This dissertation has established that higher corruption undermines a CEE nation’s ability to reduce inequality via its indirect effects on growth (Babu et al. 2016), FDI (Bandelj and Mahutga 2010) and inflation (Rose and Viju 2014). Given this context of consequential increased inequality arguably present within CEE resulting from corruption it is noticeable that within CEE higher economic inequality within a nation arguably increases the corruption level within CEE nations (Badinger and Nindl 2012).

Utilising an unbalanced panel dataset using variables including corruption, income inequality, financial openness, trade openness, GDP per capita, human capital and political rights with data from the Penn World Tables, the World Bank Development Indicators, the Freedom House Index of Freedom and Transparency international’s CPI, for the time period 1995-2005 for 102 countries including 12 CEE nations (Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia), Badinger and Nindl’s (2012) empirical analysis concludes that within CEE, as well as the other nations under examination, a higher level of economic inequality increases the corruption level within a nation.

Therefore not only does corruption arguably have negative indirect implications on inequality levels in CEE (Bandelj and Mahutga 2010; Rose and Viju 2014) but the resulting increase in inequality levels due to corruption are theoretically a contributing factor to corruption levels within CEE (Badinger and Nindl 2012). Thus arguably suggesting the potential existence of a vicious cycle whereby corruption has a direct negative effect on macroeconomic factors.
(which decreases the economic efficiency of a nation), but concurrently corruption has a negative indirect effect since the aforementioned macroeconomic factors subsequently have the negative effect of increasing income inequality which leads to an increase in corruption.

3.2. Poverty:

Poverty is a pervasive phenomenon which has been described by the World Health Organisation (1995) as one of the leading underlying causes of human suffering, disease and death.

Not only does poverty arguably have negative implications on social factors such as health (Gupta et al 2007) and child development (Engle and Black 2008), as well as political factors such as political participation (Kroh and Könnecke 2014). But poverty can also have negative implications on macroeconomic factors such as economic growth (Adams 2004).

Despite poverty arguably being seen as one of humanity’s most familiar and enduring conditions (Carney 1992) the term poverty lacks a single universally accepted definition (Jencova et al 2015) and measurement method (Drewnowski 1977).

In the context of the wider poverty literature poverty can be defined in either absolute or relative terms (Madden 1975; Oliver and Grant 2004).

Absolute poverty measures poverty in relation to the amount of money required in order to meet an individual’s basic needs (such as shelter, food and clothing) and this concept is not concerned with, nor accounts for, broader quality of life issues or with a society’s overall inequality level (UNESCO 2017). Therefore this approach arguably fails to recognise the importance of an individual’s social and cultural needs and due to such criticisms the concept of relative poverty was developed (UNESCO 2017).

Relative poverty measures poverty in relation to the economic status of other members within the society with individuals being categorised as poor when they fall below prevailing
average living standards within a given societal context, therefore this concept incorporates a 
consideration of additional social and cultural factors (UNESCO 2017).

This dissertation will utilise the at risk of poverty or social exclusion (AROPE) rate within 
the EU-SILC to establish the poverty level within CEE (Eurostat 2017c; Eurostat 2017d). 
The EU-SILC survey dataset was previously used by this dissertation to measure CEE 
inequality levels in Section 3.1 and further details regarding the composition of the dataset 
can be seen within that section.

Despite the World Bank’s poverty indicator arguably being one of the most widely used 
within poverty studies (UN 2004) whilst providing poverty data on a greater cumulative 
number of countries over a larger geographic scope, this dataset however has limited 
European region coverage. (World Bank 2016a; World Bank 2016b). The EU-SILC dataset 
provides poverty data for a larger number of European and most notably CEE nations which 
is the focus of this dissertation (Eurostat 2017c; Eurostat 2017d). Moreover, the EU-SILC is 
arguably the most prominent and used data sources on income and living conditions 
(including poverty rates) in the EU (Goedemé 2010).

In contrast to the World Bank which defines poverty in absolute terms (World Bank 2015a; 
World Bank 2015b) the European Union defines poverty in relative terms as the people who 
are viewed to be at risk of poverty or social exclusion and since the AROPE rate is a relative 
measure of poverty the poverty threshold varies greatly between the countries within the EU- 
SILC dataset (Eurostat 2015; Eurostat 2017b).

The at risk of poverty or social exclusion indicator measures the situation of people either at 
risk of poverty, severely materially deprived or living within a household that has very low 
work intensity (Eurostat 2014a). The total number of people at risk of poverty or social 
exclusion is lower than the cumulative total number of people within in each of these three
aforementioned sub-indicators since persons are only counted once even if they are present in several of these sub-indicators (Eurostat 2014b; Eurostat 2017e). At risk-of-poverty is defined by Eurostat (2017e) as people with an equivalised disposable income below the risk of poverty threshold (60% of the national median equivalised disposable income after social transfers). Eurostat (2014b) calculates the equivalised income by dividing the total household income by its size determined after utilising different weights by household member category (1.0 to the first adult, 0.5 to each additional household member aged 14 or over and 0.3 to each household member aged less than 14 years old (Eurostat 2014b). People who are viewed to be at risk of social exclusion are defined as people who are severely materially deprived and/or living within a household that has very low work intensity (Eurostat 2014a; Eurostat 2017e). Eurostat (2017e) defines severely materially deprived persons and individuals as people with living conditions which are severely constrained by a lack of resources which is established when an individual experiences a minimum of four out a total of nine deprivation items which covers a variety of instances that highlights economic stain ranging from an inability to afford to pay rent or utility bills to being unable to afford a telephone (Eurostat 2017e). Moreover, Eurostat (2017e) defines people living in households with very low work density as individuals aged 59 and under living within households that have adults (aged 18 to 59) that work 20% or less of their total work potential during the past year.

Upon examination of the 2014 at risk of poverty or social exclusion rate (shown in Figure 6) CEE nations tend to have a higher percentage of the population at risk of poverty or social exclusion relative to other European nations (European Single Market member states) located outside of CEE, with the arithmetic mean of the national figures of the AROPE rate for all CEE nations indicating that 27.8% population is at risk of poverty or social exclusion whilst the average for all other European nations was 21.6% of the population (Eurostat 2017c). Liechtenstein and Albania is omitted from this analysis due to a lack of data and the year
2014 has been selected since it is the most recent year where data is available for the greatest number of countries under examination in this dissertation (Eurostat 2017c).

Between 2010 and 2014 the majority of CEE nations experienced a decrease in their nation’s percentage of the total population at risk of poverty or social exclusion (shown in Figure 7). Whilst 7 CEE countries experienced a decrease in the percentage of the total population at risk of poverty or social exclusion (Bulgaria, Croatia, Latvia, Lithuania, Poland, Romania and Slovakia), 4 experienced an increase (Czech Republic, Estonia, Hungary and Slovenia) (Eurostat 2017c).
As previously established, between 2012 and 2014 (this period has been used since cross-country data is available for both corruption and poverty for this period) the majority of countries within CEE experienced an increase in the perceived level of corruption within their nation. Whilst 8 countries experienced an increase in the perceived level of corruption (Estonia, Poland, Lithuania, Czech Republic, Latvia, Croatia, Slovakia and Bulgaria) 3 countries experienced a decrease (Slovenia, Hungary and Romania) ([TI 2016a]).

During the same three year period conversely the majority of CEE nations experienced a decrease in the nation’s percentage of the total population at risk of poverty or social exclusion (Eurostat 2017c). However, there are discrepancies regarding the CEE countries which experienced an increase in the perceived level of corruption in comparison to the CEE countries which concurrently experienced an increase in their population at risk of poverty or social exclusion (Eurostat 2017c; TI 2016a). Of the aforementioned 8 countries which experienced an increase in the perceived level of corruption within the 2012-2014 period only one nation (Estonia) concurrently experienced an increase in the nation’s percentage of the...
total population at risk of poverty or social exclusion, whist 2 nations (Hungary and Romania) concurrently experienced a decrease in the nation’s percentage of the total population at risk of poverty or social exclusion. Conversely, one nation (Slovenia) reported a decrease in the perceived level of corruption whilst concurrently experiencing an increase in the nation’s population at risk of poverty or social exclusion and 7 nations (Bulgaria, Czech Republic, Croatia, Latvia, Lithuania, Poland and Slovakia) reported an increase in the perceived level of corruption whilst concurrently experiencing a decrease in the nation’s population at risk of poverty or social exclusion (TI 2016a).

Therefore, from this data it could be argued that theoretically increases in corruption levels may not necessarily directly result in increases in poverty since some countries within CEE experienced a decrease whilst other countries experienced an increase in corruption but experienced an increase in poverty, with other factors, such as macroeconomic or governance factors, may potentially influence the effect of corruption on poverty (Gupta et al 2002; Chetwynd et al 2003 TI 2016a; Eurostat 2017a). Although as previously established the TI CPI corruption measurement is based on perceptions thus may not represent the actual figure of corruption (European Commission 2014a).

Given this context of the apparent negative effects of inequality on a nation (World Health Organisation 1995) and the prevalence of inequality within CEE, which is relatively higher than the rest of Europe (TI 2016a), this dissertation will focus on the implications of corruption on poverty.
3.2.1. Indirect Implications of Corruption on Poverty:

This dissertation will now analyse and discuss the indirect effects of corruption on poverty by examining the implications of a number of macroeconomic factors which this dissertation has previously established are directly affected by corruption on levels of poverty within CEE.

Corruption arguably has indirect implications regarding poverty within CEE via its effects on economic growth (Loayza and Raddatz 2010; Adams 2004), FDI (Sarisoy and Koc’s 2012) and trade (Pradhan and Mahesh 2014).

This dissertation has established that there is empirical evidence to suggest that corruption potentially has positive (Mendez and Sepulveda 2006) and negative implications (Gamberoni et al 2016) on economic growth in specific nations within CEE. Economic growth is arguably one the most powerful instruments for reducing poverty (Klein et al 2001; DFID 2008; Kanbur 2016) thus in the situation where corruption reduces economic growth it thereby arguably undermines the ability of a CEE nation to alleviate poverty through economic growth, however within CEE even when corruption facilitates economic growth it is argued that this growth does not necessarily result in poverty alleviation due to the sectoral characteristics of economic growth (Loayza and Raddatz 2010). Furthermore, the extent to which poverty alleviation resulting from economic growth is observed is arguably effected by the economic growth measurement used in empirical modelling (Adams 2004).

Using an empirical model constructed utilising variables including poverty, agriculture sector growth, mining sector growth, manufacturing sector growth, utilities sector growth, construction sector growth and services sector growth with data from the World Bank, Purdue University’s Global Trade Analysis database and the Kraay (2006) database on poverty spells, for the time period 1983-2000 (with time-span variation by country) for 55 countries with 3-sector data and 51 countries with 6-sector data including 4 CEE nations
Loayza and Raddatz (2010) empirical analysis concludes that within CEE, as well as the other nations under examination, an increase in economic growth does not necessarily result in poverty alleviation, rather it is the sectoral composition of the economic growth which is important in the context of poverty alleviation with the largest contributions resulting from growth within unskilled labour-intensive sectors including agriculture, construction, and manufacturing (the input that the poor can offer to the production process), thus only resulting in an increase in an economy’s economic efficiency in the macroeconomic context when economic growth has the aforementioned sectoral characteristics, whilst poverty is only alleviated when economic growth has the aforementioned sectoral characteristics. This finding is notable because whilst it is argued that economic growth is necessary for poverty alleviation (Klein et al 2001), Loayza and Raddatz (2010) highlights that within CEE all economic growth does not necessarily result in poverty alleviation, rather only growth in certain sectors will result in a reduction in poverty.

Furthermore, the economic growth measurement tool used in empirical analyses of the relationship between economic growth and poverty alleviation within CEE arguably effects the extent to which poverty reduction resulting from economic growth is observed through empirical modelling (Adams 2004).

Using an empirical model constructed using variables including poverty, economic growth measured by changes in survey mean income and economic growth measured by changes in GDP per capita with data from the World Bank’s World Development Indicators and Global Poverty Monitoring database for the time period 1980-1998 for 60 countries including 9 CEE nations (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic), Adams’ (2004) empirical analysis concludes that within CEE, as well as the other nations under examination, whilst economic growth does reduce poverty the actual extent of this poverty reduction depends on how economic growth is defined (which
influences the choice of measurement indicator used), since when economic growth is measured by ‘changes in survey mean income (consumption)’ a greater poverty reduction is seen relative to the ‘changes in GDP per capita’ economic growth measurement. This is particularly notable because there is a lack of consensus in the literature regarding to measure economic growth with a variety of measurements utilised (Manyika et al 2015).

This dissertation previously established that in CEE corruption arguably has a negative implication on trade (Thede and Gustafson 2012). In addition to economic growth, trade is arguably an important instrument for alleviating poverty (OECD 2011) thus in the situation where corruption reduces trade it therefore arguably undermines the ability of a CEE nation to alleviate poverty, this is notable since trade arguably has positive implications on poverty alleviation within CEE (Pradhan and Mahesh 2014).

Utilising a panel regression model with variables including poverty, trade (percentage of GDP), imports, exports, merchandise trade, GDP per capita, primary school completion rate and life expectancy using data from the World Bank World Development Indicators for the time period 2000-2010 (with data only for 2000, 2005 and 2010) for 25 countries including 1 CEE nation (Romania), Pradhan and Mahesh’s (2014) empirical analysis concludes that within CEE, as well as the other nations under examination, an increase in trade results in a decrease in poverty with increases in imports, exports, merchandise trade as well as trade openness resulting in a decrease in poverty.

This dissertation has established that in the context of CEE there is empirical evidence to suggest that corruption potentially can act either act as a stimulus thereby facilitating an increase in FDI (Egger and Winner 2005) or conversely acting as a hindrance thereby decreasing FDI (Javorcik and Wei 2009) in specific nations within CEE. In addition to economic growth and trade, FDI is arguably one the most effective tools for reducing poverty
(Klein et al 2001), thus in the situation where corruption reduces FDI it therefore arguably undermines the ability of a CEE nation to alleviate poverty, although conversely when corruption facilitates FDI it can be argued that in this context corruption indirectly supports poverty alleviation within CEE, this is notable since FDI arguably has positive implications on poverty alleviation in CEE nations (Sarisoy and Koc 2012).

Using an empirical model constructed using an unbalanced panel dataset with variables including poverty and FDI variables representing FDI inflows to differing income groups (ranging from the poorest 10% to the richest 10% of the population) using data from UNCTAD and the World Bank World Development Indicators for the time period 1980-2008 for 40 countries including 8 CEE nations (Bulgaria, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland and Romania), Sarisoy and Koc’s (2012) empirical analysis concludes that within the 8 CEE nations under examination FDI has a poverty alleviating effect since FDI increases the incomes of the poorest and middle income groups within these nations whereas FDI negatively effects the incomes of the richest groups.

Whilst this finding concurs with the wider academic literature which argues that FDI is arguably an important component in facilitating poverty alleviation (Klein et al 2001), the finding of Sarisoy and Koc (2012) is notable in the CEE context given that this dissertation has previously established that FDI is concurrently associated with an increase in income inequality in Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland and Romania which Bandelj and Mahutga (2010) attributes to an increase in the wage premium of management and workers in the foreign sector whilst the domestic sector workforce do not derive such a benefit (albeit the latter study has a shorter time period under examination 1989-2001). Thus within CEE during the period 1989-2001 it can be seen that FDI both had a poverty alleviating and income inequality increasing effect within these aforementioned 7 CEE nations (Bandelj and Mahutga 2010; Sarisoy and Koc 2012) whilst for the countries of
Bulgaria, Hungary, Poland and Romania the aforementioned empirical analysis of (Egger and Winner 2005) concludes that corruption was a stimulus of FDI into these CEE nations in the 1995-1999 period. This aforementioned time period is notable because it coincides with the transition period in CEE which commenced circa 1991 (Roaf et al 2014).

This dissertation has established that higher corruption arguably undermines the ability of a CEE nation to alleviate poverty via corruption’s indirect effects on growth (Adams’ 2004; Loayza and Raddatz 2010), trade (Pradhan and Mahesh 2014) and FDI (Sarisoy and Koc 2012). Given this context of relatively higher poverty arguably present within CEE resulting from corruption’s poverty alleviation undermining implications, it is noticeable that within CEE higher poverty within a nation arguably increases the level of corruption within CEE nations (Bosco 2016).

Using a variant of Pesaran’s Common Correlated Effects model constructed using a panel dataset with variables including corruption, poverty (also called ‘social distress’ by the author which is measured by EU-SILC’s people at risk of poverty or social exclusion indicator), GDP per capita, total public expenditure, privatisation, local expenditure, technological progress, government effectiveness and a number of control variables including religion, country education level and uninterrupted democracy, with data from the Penn World Tables, the IMF, Eurostat and from Transparency International’s CPI, for the time period 2002-2011 for 31 European countries including 11 CEE nations (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania Poland, Romania, Slovakia and Slovenia), Bosco’s (2016) empirical analysis concludes that within CEE, as well as the rest of Europe, a higher level of poverty increases the level of corruption.

This finding, that higher poverty is associated with higher corruption within CEE (Bosco 2016), is consistent with the empirical research of Ünver and Koyuncu (2016) which
establishes that higher poverty results in higher corruption in an empirical study spanning a wider geographic scope (Ünver and Koyuncu 2016).

Utilising multivariate fixed time effect models as well as multivariate random time effect models constructed using an unbalanced panel dataset with variables including corruption, poverty, FDI, trade openness, inflation rate and democracy level, with data from Transparency International’s CPI, the Heritage Foundation’s Index of Economic Freedom, the World Bank World Wide Governance Indicators, the World Bank World Development Indicators, PovcalNet as well as UNCTAD (The United Nations Conference on Trade and Development) data, for the time period 2003-2013 for 154 countries, Ünver and Koyuncu’s (2016) empirical analysis concludes that countries with a higher poverty level experience a higher level of corruption and that an increase in poverty level within a country leads to an increase in the nation’s corruption level.

3.3. Poverty and Inequality - Sand Versus Grease Debate:
The socioeconomic implications of corruption in the CEE region can be associated with the wider “Sand” or “Grease” corruption debate within the wider corruption literature (Aidt et al 2008).

This dissertation has previously established within Section 2.1 that in the macroeconomic context through corruption’s direct implications on macroeconomic elements such as growth (Gamberoni et al 2016), FDI (Javorcik and Wei 2009), trade (Thede and Gustafson 2012) and inflation (Ali and Sassi 2016) there is empirical evidence to suggest that corruption can act as a “Sand” through increasing economic inefficiency whilst concurrently there is empirical evidence to suggest that corruption can act as a “Grease” since it can improve economic efficiency via growth (Mendez and Sepulveda 2006) and FDI (Egger and Winner 2005).
This section has established however that through corruption’s indirect implications on poverty and inequality via these aforementioned macroeconomic factors, even when corruption’s direct effect on macroeconomic factors can be seen to act as a “Grease” thus increasing economic efficiency, it can be seen that corruption subsequently and indirectly has negative implications via the subsequent negative implications of these macroeconomic factors in regards to inequality and poverty. Notably corruption undermining the ability of a nation to alleviate poverty and corruption resulting in an increase in economic inequality (Bandelj and Mahutga 2010; Loayza and Raddatz 2010; Sarisoy and Koc 2012; Pradhan and Mahesh 2014; Rose and Viju 2014). This arguably highlights that whilst some may derive benefits from corruption (via the corruption as a “Grease” argument) the wider population may experience negative implications from corruption resulting from it arguably causing relatively higher poverty and increased economic inequality (Bandelj and Mahutga 2010; Loayza and Raddatz 2010; Sarisoy and Koc 2012; Pradhan and Mahesh 2014; Rose and Viju 2014).

Moreover, this dissertation did highlight the view that corruption does not necessarily always have negative implications on poverty and economic inequality (thus arguably effecting the extent to which corruption can be viewed as a “Sand”). The poverty alleviation effect from corruption via economic growth (Mendez and Sepulveda 2006) found that corruption facilitates economic growth) is arguably only undermined if corruption fosters economic growth in sectors which are not unskilled labour intensive sectors like agriculture (Loayza and Raddatz 2010). Whilst country characteristics such as a country’s income category arguably results in corruption increasing income inequality via inflation only when a CEE nation is categorised as a middle income country whilst high income CEE nations experience no change in income inequality from inflation (Rose and Viju 2014).
Furthermore, this dissertation subsequently established that the resulting higher economic inequality (Bandelj and Mahutga 2010; Rose and Viju 2014) and the relatively higher poverty rate resulting from corruption undermining poverty alleviation (Loayza and Raddatz’s 2010; Sarisoy and Koc’s 2012; Pradhan and Mahesh 2014) is arguably found to increase corruption (Badinger and Nindl 2012; Bosco 2016). Which according to the previously established “Sand” view arguably results in a decrease in economic efficiency via macroeconomic factors such as growth (Gamberoni et al 2016), FDI (Javorcik and Wei 2009), trade (Thede and Gustafson 2012) and inflation (Ali and Sassi 2016) whilst conversely according to the “grease view” corruption can arguably increase economic efficiency via its effects on macroeconomic factors such as growth (Mendez and Sepulveda 2006) and FDI (Egger and Winner’s 2005).

3.4. Conclusion – Socioeconomic Implications of Corruption:
In conclusion this section has examined the argued socio-economic implications of corruption within the CEE region and has established that these implications support this dissertation’s socioeconomic implications hypothesis. Particular emphasis was on the relationship between corruption and economic inequality as well as corruption and poverty within this geographic scope.

*Socio-economic Implications hypothesis:* Corruption will have a predominantly negative effect on poverty and inequality within CEE.

Firstly, this section introduced the concept of direct and indirect implications of corruption regarding economic inequality and poverty and it was established that arguably corruption alone does not in itself produce inequality and poverty (via a ‘direct effect’) rather corruption has direct consequences on economic and governance factors, so called intermediaries, which subsequently produces inequality and poverty, thus the relationship which researchers
predominantly examine is an indirect one (Gupta et al 2002; Chetwynd et al 2003). This section focused on the indirect effects of corruption on economic inequality and poverty via macroeconomic factors.

Secondly this dissertation established that CEE nations tend to have higher income inequality levels than other European nations (European Single Market member states) located outside of CEE (Eurostat 2017a) and this prevalence of income inequality was compared with the previously established prevalence of corruption within CEE and it was established that from the income inequality and corruption data used that it could be argued that theoretically increases in corruption levels may not necessarily directly result in increases in inequality since some countries within CEE experience either a decrease in inequality or the inequality level stayed the same and other factors, such as macroeconomic or governance factors, may arguably influence the effect of corruption on inequality (Gupta et al 2002; Chetwynd et al 2003; TI 2016a; Eurostat 2017a).

Thirdly, this dissertation established, whilst drawing upon in part the findings within Section 2.1 Macroeconomic Implications of Corruption, that corruption arguably has indirect implications regarding income inequality within CEE via its relationship with economic growth (Faustino and Vali 2013; Babu et al. 2016), FDI (Bandelj and Mahutga 2010) and inflation (Rose and Viju 2014) which are predominantly negative. Whilst the extent these implications are positive or not in the context of CEE is arguably influenced by country characteristics notably the income category (as defined by the World Bank) that the country is a constituent of (Rose and Viju 2014). Furthermore, this dissertation subsequently established that corruption predominantly results higher economic inequality (Bandelj and Mahutga 2010; Rose and Viju 2014) and this economic inequality is arguably found to increase corruption (Badinger and Nindl’s 2012).
Fourthly, this dissertation established that CEE nations tend to have a higher percentage of the population at risk of poverty or social exclusion relative to other European nations (European Single Market member states) located outside of CEE (Eurostat 2017c) and this prevalence of poverty was compared with the previously established prevalence of corruption within CEE and it was established that theoretically increases in corruption levels may not necessarily result in increases in poverty since some countries within CEE experienced a decrease whilst other countries experienced an decrease in corruption but experienced an increase in poverty thus other factors, such as macroeconomic or governance factors, may arguably influence the effect of corruption on poverty (Gupta et al 2002; Chetwynd et al 2003; TI 2016a; Eurostat 2017a).

Fifthly, this dissertation established that, whilst drawing upon the findings within Section 2.1 Macroeconomic implications of corruption, that corruption arguably has indirect implications regarding poverty within CEE via its effects on economic growth (Loayza and Raddatz 2010; Adams 2004), FDI (Sarisoy and Koc 2012) and trade (Pradhan and Mahesh 2014) which are predominantly negative in regards to poverty alleviation within CEE. Furthermore, this dissertation subsequently established that the resulting relatively higher poverty rate resulting from corruption undermined poverty alleviation (Loayza and Raddatz 2010; Sarisoy and Koc 2012; Pradhan and Mahesh 2014) is arguably found to increase corruption within CEE (Bosco 2016).

Finally, the findings of these aforementioned implications of corruption regarding inequality and poverty were then analysed in the context of the wider sand verses grease debate within the corruption literature where it was established that through corruption’s indirect implications on poverty and inequality via the aforementioned macroeconomic factors such as growth (Gamberoni et al 2016), FDI (Javorcik and Wei 2009), trade (Thede and Gustafson 2012) and inflation (Ali and Sassi 2016), even when corruption’s direct effect on
macroeconomic factors can be seen to act as a “Grease” thus increasing economic efficiency, it can be seen that corruption subsequently and indirectly has negative implications via the subsequent negative implications of these macroeconomic factors in regards to inequality and poverty. Notably corruption undermines the ability of a nation to alleviate poverty and corruption results in an increase in economic inequality (Bandelj and Mahutga 2010; Loayza and Raddatz 2010; Sarisoy and Koc 2012; Pradhan and Mahesh 2014; Rose and Viju 2014). Thus arguably highlighting that whilst some may derive benefits from corruption (via the corruption as a “Grease” argument) the wider population may predominantly experience negative implications resulting from corruption since it arguably causes relatively higher poverty and increased economic inequality (Bandelj and Mahutga 2010; Loayza and Raddatz 2010; Sarisoy and Koc 2012; Pradhan and Mahesh 2014; Rose and Viju 2014) which subsequently causes more corruption (Badinger and Nindl 2012; Bosco 2016).

Having explored the socio-economic implications of corruption within this section and the macroeconomic and microeconomic implications of corruption within the previous section. The subsequent section of this dissertation will examine the political implications of corruption whilst drawing upon a number of aforementioned findings within the previous economic implications of corruption section.

4. Political Implications of Corruption:

The purpose of this section is to analyse and discuss the political implications of corruption within the CEE region. Particular emphasis will be on the relationship between corruption and political stability as well as corruption and political participation within this geographic scope.

Firstly, the concept of political instability will be introduced and the theory that corruption has direct and indirect implications regarding political stability will be established. Secondly,
the direct implications of corruption on political instability will be explored and political stability’s association to economic efficiency will be established. Thirdly, the indirect implications of corruption regarding political instability will be examined, focusing on the macroeconomic effects of political instability and their association to economic efficiency will be established. Fourthly, the concept of political participation will be introduced and its prevalence within CEE will be established. Fifthly, the direct implications of corruption on political participation will be examined. Sixthly, the indirect implications of corruption regarding political participation will be examined, focusing on the macroeconomic effects of political participation and their association to economic efficiency will be established. Finally, the findings of the implications of corruption regarding political stability and political participation will be analysed in the context of the wider sand verses grease debate within the corruption literature.

Over the last almost three decades CEE economies have been transforming from centrally planned systems into developed market economies and this process has been accompanied by numerous political reforms and general improvement in social consciousness (Gurgul and Lach 2013). Moreover, this transition process has seen significant political unrest within CEE as the new governments in these nations were increasingly forced to satisfy increasing voter expectations (Gurgul and Lach 2013).

4.1. Political Instability:

Despite the argued importance of political stability in the political, economic and social context (Alesina and Perotti 1996; Aisen and Veiga 2011) there lacks a single universally accepted definition of political instability (Hurwitz 1973; Ake 1975; Dowding and Kimber 1983).
This dissertation defines political instability as the propensity for government change (Gurgul and Lach 2013).

In the macroeconomic context political instability is arguably regarded by economists as a serious issue which harms economic performance (Aisen and Veiga 2011). This is because, for example, it is viewed that political instability is likely to shorten the horizons of policymakers thus leading to suboptimal short term macroeconomic policies whilst it can also lead to frequent policy changes therefore creating volatility which subsequently negatively effects macroeconomic performance (Aisen and Veiga 2011). Furthermore, in the macroeconomic context political stability can be associated to the aforementioned economic efficiency debate within Section 2.1 Macroeconomic Implications of Corruption since it is argued that high and increasing political instability may also fuel economic instability (Maddock 1981; Förster and Martin 2012).

Upon examination of World Bank (2017c) data indicating the perception of political stability and absence of politically motivated violence and terrorism estimate within a nation for the period 2006-2015 it can be seen that CEE has weaker political stability than the rest of Europe (European Single Market nations) as shown in Figure 8. The estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution ranging from approximately -2.5 (weak) to 2.5 (strong) with the arithmetic mean of all CEE nations during the period indicating an estimate of 0.61 whilst non-CEE nations indicated 0.89 (World Bank 2017c)
In the context of the implications of corruption, it is notable that whilst within CEE on average there is weaker political stability relative to other European nations (World Bank 2017c), there is concurrently the situation, as previously established within Section 1.4, that within CEE the perceived level of corruption is higher on average within CEE nations relative to other European nations (TI 2016a).

Corruption arguably has direct and indirect implications regarding political stability within CEE (Gurgul and Lach 2013; Farzanegan and Witthuhn Forthcoming). This section will first analyse and discuss the argued direct implication of corruption on political stability, then the indirect implications of corruption via its effect on political stability will be analysed and discussed.

### 4.1.1. Direct Implications of Corruption on Political Stability:

Corruption arguably has a direct effect on the political stability of nations within CEE, however the extent to which this implication is negative (i.e. creates greater political instability) or is positive (i.e. creates greater political stability) is dependent on whether the nation is democratic or autocratic (Fjelde and Hegre 2014).

Utilising a dynamic multinomial regression model using a dataset constructed using a six category dependent variable (incorporating political stability variables (institutional stability
of democratic countries, institutional stability of autocratic countries and institutional stability of hybrid countries) and corruption variables (low corruption and high corruption)) as well as exogenous variables including initial income per capita and oil dependence using data obtained from sources including the PRS ICRG Corruption index, Scalar Index of Polities (SIP) dataset and the World Bank, for the time period 1985-2008 for 133 countries (including a number of CEE nations), Fjelde and Hegre’s (2014) empirical analysis concludes that within CEE (as well as all other democratic nations under examination) higher corruption results in greater political instability thus resulting in an decrease in an economy’s economic efficiency in the macroeconomic context, whilst conversely within autocratic countries higher corruption results in more politically stable nations, thus arguably not experiencing the same economic efficiency decrease as in democratic nations.

It is important to note that an assumption has been made by this dissertation’s author regarding the exact number of CEE countries contained within the dataset utilised by (Fjelde and Hegre 2014-PEC-A). As of April 2017 the replication dataset of Fjelde and Hegre (2014-PEC-A) is not available for download at the location indicated by the authors within their paper (Fjelde and Hegre 2014-PEC-A ;Hegre 2017-PEC-A) and since the journal article does not individually list the countries utilised by the dataset within the journal, an inference has been made by this dissertation’s author regarding the 133 countries used based on the aforementioned datasets used by Fjelde and Hegre (2014-PEC-A) to construct their dataset. This inference is the following; for all 133 countries within Fjelde and Hegre’s (2014) dataset the authors state the ICRG Corruption Index was utilised to provide data for the corruption variable. The ICRG Corruption index contains data for 140 countries which includes the 12 CEE countries which this dissertation has previously established comprises Central and Eastern Europe (ICRG 2017; (OECD 2001). Thus since Fjelde and Hegre’s (2014) dataset consists of 133 of these 140 countries it can arguably be inferred that at least 5 CEE nations
are contained within the dataset and since CEE nations are arguably categorised as
democratic countries (with the exception of Albania which has been defined as a hybrid) it
can be argued that within most nations in CEE corruption has a negative effect on political
stability (EIU 2008; Fjelde and Hegre 2014).

Whilst Fjelde and Hegre (2014) established that within CEE corruption has a predominantly
negative effect on political stability, resulting from the democratic nature of most CEE states,
Farzanegan and Witthuhn (Forthcoming) argues that corruption will only increase political
stability within CEE nations when the ‘youth bulge’ exceeds approximately 20% of the adult
population.

Using a panel dataset constructed using Political Risk Services Group (PRS) Internal Conflict
Corruption index and the Vanhanen Index of Democracy, World Bank World Governance
Indicators and World Bank World Development Indicators data, with variables including the
dependent variable of political stability (level of civil or armed opposition to government),
independent variables including corruption and youth bulge (youth) as well as control
variables including income inequality, democracy, economic growth, oil rents, education,
fertility rate, investment rate, government spending, military spending, inflation, trade
openness for the time period 1984-2012 for 100 nations including 5 CEE nations (Albania,
Czech Republic, Poland, Romania, Slovak Republic), Farzanegan and Witthuhn’s
(Forthcoming) empirical analysis concludes that within CEE, as well as 74 non-CEE nations,
corruption increases political instability although only when the ‘youth bulge’ (the percentage
of youth population (15-24 years) in a nation’s adult population (15+)) exceeds a critical level
of approximately 20% of the adult population, thus resulting in an decrease in an economy’s
economic efficiency in the macroeconomic context.
4.1.2. Indirect Implications of Corruption on Political Stability:

This dissertation has established that corruption arguably has direct implications in the political context, notably that corruption has a negative effect on political stability within the CEE region, albeit an effect which is subject to a debate (Fjelde and Hegre 2014; Farzanegan and Witthuhn Forthcoming). This dissertation will now analyse and discuss the indirect effects of corruption by examining the implications of political instability (which corruption arguably increases) within CEE.

Within the CEE region political instability arguably has macroeconomic effects including effects on economic growth (Gurgul and Lach 2013), foreign direct investment (Busse and Hefeker 2007; Kolstad and Villanger 2008) and inflation (Telatar et al 2010) thus effecting an economy’s economic efficiency.

An increase in political instability within a nation is arguably associated with lower economic growth (Gurgul and Lach 2013), thus decreasing economic inefficiency.

Using a panel dataset containing data for 10 CEE countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) constructed using economic variables (which are related to measures of economic growth and proxies of main growth factors) including GDP growth rate, tertiary school enrolment, trade openness, unemployment rate, inflation rate and world growth rate with data obtained utilising World Bank World Development Indicators and Penn World Table 7.0 and political variables (describing various aspects of political instability) including ‘major government change’ and ‘government change’ with data for the former derived from the authors attributing a numeral value of 1 to the variable if there was a substantial government change (that is if new prime minister was representing a different party than the previous or if the outgoing or incoming prime minister did not belong to a political party), whilst data for the latter variable is derived
from the authors attributing a numerical value of 1 to the variable if there was any type of
government change (major or regular), for the time period 1990-2009 (although for some
countries the first observation is often from later than 1990 with 4 countries having data since
1990, an additional 4 countries with data from 1991 and an additional 2 countries from 1993),
Gurgul and Lach’s (2013) empirical analysis concludes that within CEE increases in political
instability had a negative impact on growth, thus resulting in a decrease in an economy’s
economic efficiency. However, it is notable that Gurgul and Lach’s (2013) empirical analysis
also established that there was no causality in the opposite direction.

Therefore it can be seen that within CEE corruption arguably has both a negative direct effect
on economic growth (Gamberoni et al 2016), whilst concurrently arguably having a negative
indirect effect via increasing political instability (Fjelde and Hegre 2014; Farzanegan and
Witthuhn Forthcoming) which subsequently results in a decrease in growth (Gurgul and Lach
2013).

Political instability arguably has negative implication on foreign direct investment levels
within a nation (Busse and Hefeker 2007).

Using a panel dataset constructed using data from the World Bank World Development
Indicators, UNCTAD and the PRS Group’s International Country Risk Guide, with variables
including FDI, political stability (Government Stability), GNI, growth, trade, inflation,
socioeconomic conditions, investment profile, internal conflict, external conflict and level of
corruption for the time period 1984-2003 for 83 countries including 7 CEE nations (Albania,
Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia), Busse and Hefeker’s
(2007) empirical analysis concludes that within CEE, as well as the other nations under
examination, that higher political instability results in lower levels of FDI within nations
since foreign investors are highly sensitive to decreases in political stability, thus resulting in a decrease in a nation’s economic efficiency.

However, in contrast it is argued that the sectoral characteristics of FDI are an important determinant of whether political instability has a negative effect on FDI levels (Kolstad and Villanger 2008).

Utilising an empirical model with variables including service sector total FDI inflows as well as four variables relating to the major service industries including finance, business activities, transport and trade in addition to other variables including political stability, GDP and trade as a percentage of GDP using data from UNCTAD, the World Bank’s World Development indicators and the PRS Group’s International Country Risk Guide, for the time period 1989-2000 for 57 countries including 6 CEE nations (Bulgaria, Croatia, Czech Republic, Estonia, Hungary and Lithuania), Kolstad and Villanger’s (2008) empirical analysis concludes that within CEE, as well as the other nations under examination, political instability does not affect FDI levels within the service sector highlighting the existence of sectoral differences in the implications of political stability on FDI levels, thus not effecting a nation’s economic efficiency when corruption is focused on the service sector in this context.

Therefore it can be seen that within CEE corruption arguably has both a negative direct effect on FDI levels (Javorcik and Wei 2009) whilst concurrently arguably having a negative indirect effect via increasing political instability (Fjelde and Hegre’s 2014; Farzanegan and Wittuhn Forthcoming) which subsequently results in a decrease in FDI (Busse and Hefeker 2007) although this decrease is limited to certain sectors (Kolstad and Villanger 2008).

Political instability arguably has negative implication on the level of inflation within a nation (Telatar et al 2010).
Utilising a dynamic panel data model with variables including political stability, inflation, political freedom and wages with data from the World Bank World Development Indicators, DataStream, the IMF International Financial Statistics (IFS), Eurostat, OECD, ILO, The PRS Group’s International Country Risk Guide and Freedom house for the time period 1983-2002 for 39 countries including 2 CEE nations (Hungary and Poland), Telatar et al’s (2010) empirical analysis concludes that within CEE, as well as the other nations under examination, higher political instability leads to higher inflation., thus resulting in a decrease in a nation’s economic efficiency.

This view is consistent with the previous empirical analysis of Aisen and Veiga (2005) which had a broader scope in terms of geography (around 100 nations) and time scale (1960-1999). Therefore it can be seen that within CEE corruption arguably has both a negative direct effect on inflation levels (Ali and Sassi 2016) whilst concurrently arguably having a negative indirect effect via increasing political instability (Telatar et al 2010).

4.2. Political Participation:

Despite the argued importance of political participation in the political, economic and social context (Verba and Nie 1972; Kern et al 2015; Peters and Ensink 2015) there is a lack of a single universally accepted definition of political participation (Lamprianou 2013).

This dissertation defines political participation as the activities of citizens that affect politics (Van Deth 2016). These activities can arguably be categorised as either institutionalised or non-institutionalised political participation (Barnes and Kaase 1979) which represents different channels through which the needs and demands of the citizenry can be expressed (Putnam 2000). Institutionalised participation includes forms of participation that are closely related to formal political institutional structures and includes activities such as voter turnout, political campaign work and political party membership whereas non-institutionalised
participation includes forms of participation that are situated outside formal political institutional structures and includes activities such as protesting and boycotting (Barnes and Kaase 1979; Olsson 2014).

Political participation is arguably a fundamental component of democracy (Verba and Nie 1972; Verba et al 1978; Parry et al 1992). Not only is political participation arguably essential to legitimise the democratic political systems of the nations in which it occurs (Verba and Nie 1972) but it is through political participation via actions such as voting and protesting that the needs, wants and desires of the citizenry is communicated to elected officials (Putnam 2000; Olsson 2014).

In the macroeconomic context, political participation is arguably regarded within the wider academic literature as a factor which effects economic performance (Kern et al 2015). This is because, for example, political participation influences the spending behaviour of opportunistic governments since when political participation is low governments may choose to prioritise government spending in such a manner in order to use it as an instrument to purchase political support to maintain political power, whereas with greater political participation the provision of public goods arguably becomes more efficient in order to ensure that the incumbent government maintains political power, and this provision of public goods can be economic growth enhancing whilst also having implications in the social context (Plümper and Martin 2003; Kern et al 2015; Peters and Ensink 2015).

There is arguably a consensus in within the academic literature regarding the view that political participation levels in nations within the CEE region, which contains a number of post-communist relatively new democracies, are lower than the rest of Europe (Badescu and Radu 2010; Kostelka 2014; Ekman et al 2016).

Upon examination of data from the International Institute for Democracy and Electoral Assistance’s (IDEA) Voter Turnout database indicating Voter Turnout (%) for parliamentary
elections it can be seen that voter participation within CEE is typically lower than the rest of Europe (single market members) as of the most recent parliamentary election within the nation (in the time period 2012-2016) as shown in Figure 9 (IDEA 2017). The single market member states of Belgium, Cyprus and Luxembourg have been omitted from this analysis since these nations legally enforce mandatory voting which results in very high voter turnout (IDEA 2016).

![Figure 9: Parliamentary Election Voter Turnout (%)](image)

**Figure 9: Parliamentary Election Voter Turnout (%) - CEE and Europe (Single Market) – Most Recent Election during 2012-2016 Period (IDEA 2017)**

In the context of the implications of corruption, it is notable that whilst within CEE on average there is a lower voter turnout rate relative to other European nations (IDEA 2017), there is concurrently the situation, as previously established within Section 1.4, that within CEE the perceived level of corruption is higher on average within CEE nations relative to other European nations (TI 2016a).

Corruption arguably has implications on the political participation of a nation (Hooghe and Quintelier. 2014; Olsson 2014). These effects can be either direct (by directly effecting political participation) (Hooghe and Quintelier. 2014) or indirect with corruption having effects on macroeconomic factors such as economic growth (Kern et al 2015) and the
composition of government expenditure (Peters and Ensink 2015) via its effects on political participation, thus corruption’s indirect effects on these macroeconomic factors can arguably be associated to the aforementioned economic efficiency debate within Section 2.1 Macroeconomic Implications of Corruption.

4.2.1. Direct Implications of Corruption on Political Participation:

There is a debate within the corruption literature regarding whether corruption has a direct negative implication on political participation within a nation (Hooghe and Quintelier. 2014; Olsson 2014).

After conducting a multilevel analysis on a dataset constructed using European Social Survey, Transparency International and Freedom House Index data as well as World Bank World Development Indicators and World Bank World Governance Indicator data, with variables including institutionalised political participation, non-institutionalised political participation, corruption levels, GDP, GINI (measure of inequality), political trust, political interest, quality of democracy and education level for the time period 2002-2009 for 27 European countries including 10 CEE nations (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia) with a sample size of 151,452 respondents, Hooghe and Quintelier’s (2014) empirical analysis concludes that within CEE, as well as the other nations under examination, corruption decreases political participation, thus resulting in a decrease in an economy’s economic efficiency in the macroeconomic context.

However, this view is partially challenged by (Olsson 2014) who argues that whilst corruption does arguably negatively affect voter participation, a distinction need to be made between institutionalised and non-institutionalised forms of participation, since their empirical analysis established that whilst corruption had a negative effect on non-
institutionalised participation, in contrast no significant effect of corruption is found for institutionalised participation.

After conducting a multilevel analysis using a dataset utilising the dependent variables of institutionalised participation, non-institutionalised participation and voter turnout with the main independent variable being corruption as well as utilising individual control variables which include gender, age, education, political interest and party motivation and country-level control variables that include democratic status, GDP growth (with the data for these aforementioned variables obtained from International Social Survey Programme data and data the Quality of Government Institute’s Quality of Government Standard dataset) for the time period 2003-2006 for 33 nations including 7 CEE nations (Bulgaria, Czech Republic, Hungary, Latvia, Poland, Slovakia and Slovenia) covering a cumulative total of 29,299 individuals, Olsson’s (2014) empirical analysis concludes that within CEE, as well as the other nations under examination, whilst corruption had a negative effect on non-institutionalised participation, no significant effect of corruption is found for institutionalised participation, thus resulting in a decrease in an economy’s economic efficiency in the macroeconomic context via non-institutionalised participation.

In the context of the wider academic literature these aforementioned views of Hooghe and Quintelier (2014) and Olsson (2014) highlight that there is a variety of differing views regarding the implications of corruption on political participation. However, it is argued that the dominant view within the literature is that corruption has negative implications on political participation (Hooghe and Quintelier. 2014) and this dissertation has established that within the CEE region this view has been empirically supported, albeit with debatable implications regarding institutionalised and non-institutionalised forms of participation (Olsson 2014).
4.2.2. Indirect Implications of Corruption on Political Participation:

This dissertation has established that corruption arguably has direct implications in the political context notably that corruption has a negative effect on political participation within the CEE region, albeit an effect which is subject to a debate (Fjelde and Hegre 2014; Farzanegan and Witthuhn Forthcoming). This dissertation will now analyse and discuss the indirect effects of corruption by examining the implications of political participation (which corruption arguably decreases) within CEE.

Within the CEE region political participation arguably has macroeconomic implications regarding economic growth (Kern et al 2015) and the composition of government expenditure (Peters and Ensink 2015), which has implications regarding the economic efficiency of a nation.

Low political participation arguably has negative effect on economic growth (Kern et al 2015). Utilising a multilevel model with variables including non-institutionalised political participation, institutionalised political participation, economic growth, individual’s satisfaction with the state of the economy as well as control variables including sex, age and level of political interest with data from the European Social Survey (ESS) and the World Bank for the time period 2002-2010 for 26 countries including 8 CEE countries (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia), Kern et al’s (2015) empirical analysis concludes that within CEE, as well as the other nations under examination, lower non-institutionalised political participation is associated with lower economic growth, thus resulting in a decrease in a nation’s economic efficiency.

Therefore it can be seen that within CEE corruption arguably has both a negative direct effect on economic growth (Gamberoni et al 2016) whilst concurrently arguably having a negative
indirect effect via lowering non-institutionalised political participation levels (Olsson 2014) which subsequently results in a lower economic growth (Kern et al 2015).

Low political participation arguably has a negative effect on the composition of government expenditure (Peters and Ensink 2015).

Utilising an empirical model with variables including public social expenditure as a percentage of GDP, low income government supporters, high income government supporters as well as control variables including government ideology with data from the European Social Survey and the OECD for the time period 2002-2010 for 25 European countries including 6 CEE nations (Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia), Peters and Ensink’s (2015) empirical analysis concludes that within CEE, as well as the other countries under examination, low levels of political participation result in the overrepresentation of the rich and underrepresentation of the poor which subsequently effects the composition of government expenditure since the finite government economic resources will be used to pay for policies that will benefit the rich minority whilst the majority fail to benefit, thus resulting in a decrease in a nation’s economic efficiency.

Therefore it can be seen that within CEE corruption arguably has both a negative direct effect on the composition of government expenditure (D’Agostino et al’s 2016) whilst concurrently arguably having a negative indirect effect via lowering political participation levels (Hooghe and Quintelier. 2014; Olsson 2014) which subsequently results in a negative effect on the composition of government expenditure (Peters and Ensink 2015).

4.3. Political Stability and Political Participation - Sand Versus Grease:

The political implications of corruption in the CEE region can be associated with the wider “Sand” or “Grease” corruption debate within the wider corruption literature (Aidt et al 2008).
This dissertation previously established within Section 2.1 that in the macroeconomic context through corruption’s direct implications on macroeconomic elements such as economic growth (Gamberoni et al 2016), FDI (Javorcik and Wei 2009), inflation (Ali and Sassi 2016) and government expenditure (Delavallade 2006; D’Agostino et al 2016), there is empirical evidence to suggest that corruption can act as a “Sand” through increasing economic inefficiency.

This section further established that through corruption’s predominantly negative direct implication on political stability, as well as through corruption’s indirect implications on these aforementioned macroeconomic factors via corruption’s predominantly negative direct effect on political stability and political participation (i.e. causing increased political stability and lower political participation), it can be seen that corruption predominantly acts as a “Sand” in this political context through it arguably resulting in a decrease in the economic efficiency of a nation via these aforementioned factors (Busse and Hefeker 2007; Kolstad and Villanger 2008; Telatar et al 2010; Gurgul and Lach 2013; Fjelde and Hegre 2014; Hooghe and Quintelier. 2014; Olsson 2014; Kern et al 2015; Peters and Ensink 2015; Farzanegan and Witthuhn Forthcoming).

This section did highlight however, that corruption does not necessarily always have negative implications regarding political stability and political participation within CEE (thus effecting the extent to which corruption can be viewed as a “Sand”). Corruption was found to arguably only directly undermine the political stability of democratic CEE nations unlike autocratic states (Fjelde and Hegre 2014) and nations where the size of the population aged 15-24 as a percentage of the nation’s population aged over 15 exceeded 20% (Farzanegan and Witthuhn Forthcoming), whilst corruption arguably only indirectly negatively affected FDI via its effect on political stability in non-service sectors within CEE (Kolstad and Villanger 2008).

Whereas, it was also established that corruption arguably only acts as a “Sand” within certain
CEE nations, in regards to political participation, when it directly effects non-institutionalised forms of political participation with no significant effect of corruption being found for institutionalised participation (Olsson 2014).

4.4. Conclusion - Political Implications of Corruption:
In conclusion this section has analysed and discussed the political implications of corruption within the CEE region and has established that these implications support this dissertation’s political implications hypothesis. Particular emphasis was on the relationship between corruption and political stability as well as corruption and political participation within this geographic scope.

**Political Implications Hypothesis:** Corruption has both direct and indirect political implications in regards to political stability and political participation which are predominantly negative within the CEE region. Corruption will have a negative effect directly on both political stability (i.e. corruption results in political instability) and political participation within CEE, and subsequent indirect effects of corruption on these two elements will be predominantly negative in the macroeconomic and political context.

Firstly, this section introduced the concept of direct and indirect implications of corruption regarding political instability. Moreover, it was established that CEE nations tended to have weaker political stability than other European nations (European Single Market member states) located outside the CEE (World Bank 2017c).

Secondly, this dissertation established that within CEE corruption has a predominantly negative direct effect on political stability as it is seen to create greater political instability within CEE nations thus decreasing the nations’ economic efficiency (Maddock 1981; Förster and Martin 2012; Fjelde and Hegre 2014; Farzanegan and Witthuhn Forthcoming). Although,
this dissertation did establish that country characteristics including democratic or autocratic political system (Fjelde and Hegre 2014) and the size of the population aged 15-24 as a percentage of the nation’s population aged over 15 (Farzanegan and Witthuhn Forthcoming) were arguably a determinant regarding whether a CEE nation experienced an increase in political instability as a result of corruption or not.

Thirdly, this section established that within CEE corruption has indirect effects on macroeconomic factors via its previously established predominantly negative direct effect on political instability including indirect effects on economic growth (Gurgul and Lach 2013), foreign direct investment (Busse and Hefeker 2007; Kolstad and Villanger 2008) and inflation (Telatar et al 2010) which are predominantly negative thus negatively effecting economic efficiency. Although in the context of the indirect effects on corruption via political instability on FDI, sectoral characteristics of FDI were established as an important determinant of whether political instability has a negative effect on FDI (Kolstad and Villanger 2008). Therefore, whilst this dissertation previously established that corruption has a negative direct effect on the macroeconomic factors of economic growth (Gamberoni et al 2016), FDI (Javorcik and Wei 2009) and inflation (Ali and Sassi 2016), this section further established that in the political context corruption arguably has primarily negative indirect implications on these factors as well via its direct effect on political stability (Busse and Hefeker 2007; Kolstad and Villanger 2008; Telatar et al 2010; Gurgul and Lach 2013).

Fourthly, the concept of political participation was introduced and it was established that CEE nations tended to have lower levels of political participation (voter turnout) than other European nations (European Single Market member states) located outside the CEE (IDEA 2017) whilst concurrently CEE countries have a relatively higher perceived level of corruption as established within Section 1.4 (TI 2016a).
Fifthly, this dissertation established that within CEE corruption has a predominantly negative direct effect on political participation since corruption is seen to decrease political participation (Hooghe and Quintelier 2014; Olsson 2014). Although this dissertation did establish that distinctions need to be made between institutionalised and non-institutionalised forms of participation within CEE since it was established that whilst corruption had a negative effect on non-institutionalised participation, in contrast no significant effect of corruption is found for institutionalised participation (Olsson 2014).

Sixthly, this section established that within CEE corruption has indirect effects on macroeconomic factors via its previously established predominantly negative effect on political participation including indirect effects on economic growth (Kern et al 2015) and the composition of government expenditure (Peters and Ensink 2015) which are predominantly negative thus negatively effecting economic efficiency. Therefore, whilst this dissertation previously established that corruption has a negative direct effect on the macroeconomic factors of economic growth (Gamberoni et al 2016) and composition of government expenditure (Delavallade 2006; D’Agostino et al 2016), this section further established that in the political context corruption arguably has primarily negative implications on these factors as well as via its direct effect on political participation (Kern et al 2015; Peters and Ensink 2015).

Finally, the findings of these aforementioned implications of corruption regarding political stability and political participation were then analysed in the context of the wider “Sand” verses “Grease” debate within the corruption literature where it was established that within CEE corruption predominantly acts as a “Sand” in this political context through it arguably resulting in a decrease in the economic efficiency of a nation via corruptions predominantly negative direct implication on political instability as well as through corruption’s predominantly negative indirect implications on macroeconomic factors including economic
growth, FDI, inflation and government expenditure via corruption’s predominantly negative
direct effect on political stability and political participation (Busse and Hefeker 2007; Telatar
et al 2010; Gurgul and Lach 2013; Fjelde and Hegre 2014; Kern et al 2015; Peters and Ensink
2015; Farzanegan and Witthuhn Forthcoming). However, this section did also highlight that
the extent to which corruption can be viewed as a “Sand” in this political context was
arguably effected by FDI inflow sector (Kolstad and Villanger 2008) as well as country
characteristics including democratic or autocratic (Fjelde and Hegre 2014) and the size of the
youth population (Farzanegan and Witthuhn Forthcoming).

5. Conclusion:
In conclusion this dissertation critically analysed and discussed the economic, socioeconomic
and political implications of corruption within Central and Eastern Europe.

*Primary Hypothesis*: Corruption is prevalent within CEE and whilst corruption may
have some macroeconomic and microeconomic benefits, overall corruption has a
predominantly negative effect on most CEE countries at the macroeconomic level and
most firms within countries in the region at the microeconomic level. Furthermore
corruption will have a further predominantly negative direct and indirect effect on
socio-economic and political factors.

Firstly, this dissertation established that CEE nations are typically perceived as more corrupt
than non-CEE (European Single Market) nations whilst they also typically have higher
political instability, lower political participation, higher poverty and higher economic
inequality relative to non-CEE (European Single Market) nations.

Secondly, this dissertation has established that within CEE corruption predominantly has
negative effects in the economic, socio-economic and political context thus supporting this
dissertations primary, economic, socioeconomic and political hypotheses.
In the economic context whilst there is some evidence to suggest that corruption can be efficiency enhancing by fostering economic growth and FDI in specific circumstances in the macroeconomic context and by for example facilitating some transactions in the microeconomic context, overall it was established that corruption predominantly has a negative effect (creating greater economic and firm inefficiency) within the economic context in CEE thus supporting the corruption as a “Sand” perspective within the academic literature. However this dissertation established that the extent to which corruption created economic and firm inefficiency, thereby being viewed as a “Sand”, was influenced on the macroeconomic level by country characteristics such as the quality of institutions, whilst being influenced on the microeconomic level by firm characteristics such as firm size.

In the socioeconomic context, it was established that arguably corruption alone does not in itself produce inequality and poverty (via a ‘direct effect’) rather corruption has direct consequences on economic and governance factors, so called intermediaries, which subsequently produces inequality and poverty, thus the relationship which researchers predominantly examine is an indirect one. This dissertation established, drawing upon the findings within Section 2 Macroeconomic Implications, that corruption predominantly has a negative indirect effect on poverty and economic inequality (i.e. undermining poverty alleviation and increasing economic inequality) thus supporting the corruption as a “Sand” perspective. This dissertation did highlight however that whilst some countries may derive benefits from corruption in the macroeconomic context (via the corruption as a “Grease” argument) the wider population may predominantly experience negative implications resulting from corruption, thus supporting the corruption as a “Sand” perspective, since it arguably causes relatively higher poverty and increased economic inequality with such a socioeconomic environment not only arguably having negative economic, political and social
consequences but notably also subsequently being found to cause more corruption which as previously established has predominantly negative economic effects.

In the political context, it was established that corruption predominantly has negative direct implications on political stability and political participation (i.e. results in greater political instability and lower political participation) in CEE, although the extent of this negative effect in the context of political stability was influenced by country characteristics including democratic or autocratic political system as well as youth population size and in the context of political participation influenced by the form or political participation (institutionalised or non-institutionalised). This dissertation further established that corruption predominantly has negative indirect implications via corruption’s direct implications on political stability and political participation on macroeconomic factors such as economic growth, FDI, inflation and government expenditure which in addition to the direct implications of corruption on political stability predominantly had a negative effect on the economic efficiency of CEE nations, thus supporting the corruption as a “Sand” perspective, in this political context. However, as previously established the extent to which corruption is viewed as a “Sand” is influenced in the context of political instability by country characteristics and by the political participation form in the context of political participation.

Moreover, whilst examining the economic, socioeconomic and political implications of corruption it was established that whilst corruption has a direct primarily negative effect on macroeconomic factors such as economic growth, FDI, inflation, trade and government expenditure it was also established that these macroeconomic factors can also be indirectly affected in regards to corruption in the socioeconomic and/or political context. For example corruption was found to have indirect implications regarding the relationship between economic growth and income inequality, poverty, political participation and political stability as well as corruption having direct implications on economic growth.
Further empirical research could be conducted to enable better cross-country and cross-sector analysis of the consequences of corruption on nations and firms within CEE due to a limited amount of cross-country, cross-industry and firm level data currently available on the region (Thede and Gustafson’s 2012-EEC-A; Hanousek and Kochanova 2016).
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