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# BUREAUCRACY AND THE DIFFERENT CURES FOR GRAND AND PETTY CORRUPTION

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## Introduction

A well-structured and efficient public administration is a fundamental attribute of civilized society and essential for the state building process, which also means that it influences prosperity over the centuries (Fukuyama 2011; Mann 1986, 1993; Tilly 1985). An “impartial” (Rothstein and Teorell 2008) or “impersonal” (North, Wallis and Weingast 2009) treatment of citizens by the public administration is a basic quality in well-functioning states, and corruption being the opposite of impartiality, the role of public administration is important to understand – for its own sake, but also because the flaws of the administration are likely to spread to the society at large, with crippling long-term effects.<sup>1</sup>

Both “public administration” and “corruption” are vague concepts. This paper will therefore discuss only some elements of both concepts. I use the term “public administration” when referring generally to different ways of organizing the public sector in a nation state. When discussing the effect of the public administration on corruption, most scholars start from the way the ideal typical bureaucracy was described by Max Weber in the beginning of the 20th century (Weber 1978, chapter 11; concerning Weberian bureaucracy and corruption see for example Rauch and Evans 2000). When I use the term bureaucracy in this paper I therefore use this word in its Weberian sense.

However, even if the analysis is limited to the Weberian bureaucracy it is still inclusive. The Weberian ideal type incorporates different features, such as the principle of office hierarchy; the specialization of tasks and the bureau organization; the terms for recruitment and employment in office holding (Weber 1978: 956-958). Instead of discussing all parts of a Weberian bureaucracy, this paper will concentrate on a few suggestions stemming from what might be called human-relations

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in a Weberian bureaucracy. Weber put a lot of emphasis on the position of the official within a bureaucracy. He described a basic set of ideas of how human relations should be organized in a “modern bureaucracy”, including terms for recruitment, salaries and promotion (Weber 1978: 956-959).

Scholars have made several proposals on how to fight corruption, based on Weberian ideas. It has for example been suggested that a meritocratically recruited administration hampers corruption (Dahlström, Lapuente and Teorell 2011); that an administration with a strong *esprit-de-corps* makes it harder for corrupt practices to occur (Rauch and Evans 2000); and that full time employment and relatively high salaries for public employees diminish the incentives for corruption among bureaucrats (Besley and McLaren 1993).

In order to understand how the administration affects corruption, we should probably also make a distinction between different levels of corruption. This paper follows a strand in the literature that makes a difference between *grand* and *petty* corruption. I refer to grand corruption as misuse of public office on the higher levels within the state (Rose-Ackerman 1999: 27). The most extreme examples are cases of “state capture”, which refers to situations where top politicians and bureaucrats join forces with private actors in order to use the state as a vehicle for private income (Hellman, Jones and Kaufman 2003). Sometimes, corruption on this level is called “political corruption”, but as this type of corruption generally involves both politicians and administrators, the term grand corruption is probably more suitable.<sup>2</sup>

With petty corruption, on the other hand, I refer to bribes and other direct and illegal perks to street level bureaucrats. Typically, in “...petty corruption ‘private’ citizens (often owners of businesses or managers of firms) are engaged in dealing with low-level government bureaucrats...”,

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<sup>2</sup> The terms “street-level” and “high-level” corruption is also sometimes used for the same distinction. See for example Nieuwbeerta, De Geest and Siegers (2003, 139).

who they in some way are depending on for licensing, approval or something similar (Lambert-Mogiliansky, Majumdar and Radner 2007: 352). Consequently, petty corruption usually only involves administrators and not politicians. However, as Susan Rose-Ackerman (2006: xix) notes, petty corruption can be organized in a way that systematically "...favor political allies..." and there is thus a point where petty and grand corruption merge. It might be good to note already at this point that petty corruption does not need to be a smaller problem than grand corruption, several studies have demonstrated the misery that follows in the footsteps of petty corruption (Lambert-Mogiliansky, Majumdar and Radner 2007; see also Holmberg, Rothstein and Nasiritousi 2009 for an overview of the consequences of corruption).

The distinction between corruption levels is made in order to uncover the shifting roles administrators might play in grand and petty corruption. In grand corruption the interaction and power balance between politicians and administrators are very important. In a corrupt system both groups are involved, and incentives for corruption must coincide between them. This creates a coordination problem for corrupt politicians and administrators, and therefore an opportunity to understand why some ways of organizing the administration are less prone to corruption than others. Separating the careers of politicians and administrators, or isolating them from each other might be ways to obstruct the coordination of corrupt networks (Dahlström, Lapuente and Teorell 2011; Rauch and Evans 2000).

In petty corruption, on the other hand, the interaction between politicians and administrators is less important, and we should probably instead analyze the incentives for administrators to take bribes. Effects of salaries for administrators can illustrate the different dynamics driving grand and petty corruption. It has been suggested that there is a negative effect on corruption of the relative pay to administrators. The basic idea from classic economic literature is that if administrators are well paid, their incentive for corruption diminishes as they have more to lose (Becker and Stigler 1974). Em-

pirical research is however inconclusive. For example, in cross-country comparisons Van Rijckeghem and Weder (2001) indeed find a negative correlation between pay in the administration and corruption, while Rauch and Evans (2000) and Treisman (2000) do not find such an effect. If a distinction between grand and petty corruption is not made, it might blur the results. It is perfectly logical that the effect of pay is very different depending on if we are talking about grand or petty corruption. There are no real reasons why a higher salary should drive down grand corruption, while it makes more sense for it to drive down petty corruption.

The remainder of this paper will first, in more detail, discuss the role of the public administration and corruption. This section will pay special attention to principles for getting and holding office within the public administration, originally suggested by Max Weber (1978), and describe how human-relations in a Weberian organization can be connected to corruption. The following section will summarize some empirical findings from previous studies, both of historical and contemporary cases. This section will suggest that it is most likely that meritocratic recruitment and a strong esprit-de-corps affect grand corruption. Thereafter, the next section will examine how full-time employment and salaries of administrators affect petty corruption. In the final section the discussion will be summarized and some limitations of the Weberian bureaucracy will be discussed.

## **Office holding and corruption**

In the essays on bureaucracy collected in *Economy and Society* (1978), Max Weber identifies two fundamentally different ways of organizing public administrations: the patrimonial and the bureaucratic types. In the patrimonial type of administration there is no difference between the "... 'private' and the 'official' sphere" for administrators (Weber 1978, 1028). In a patrimonial system the ruler (it might be a Monarch, a Dictator, or a democratically elected President) strikes a deal with various elite groups in order to organize the administration. Simplified, the ruler gets some goods, such as

soldiers, social order, or taxes; while the administrator gets a public office and thus can act on behalf of the state. In a completely patrimonial system, the administrator uses the control of office as a personal property. Therefore fees, taxes and other transactions to a smaller or larger degree go directly into the pockets of the administrator, which is accepted by the ruler as long as the goods that were part of the deal are delivered. The office in itself is also a part of the personal property in such a system. Administrative positions can be sold by the office holder, and even inherited within a family. There are historical examples of patrimonial administrative systems from ancient Egypt, the Chinese empire, and pre-modern Europe (Weber 1978: 1044-1050; Ertman 1997: 6-10); but also from developed, transition and developing countries today (Hellman, Jones and Kaufman 2003: 752; Médard 2002; Sotiropoulos 2004: 266-268).

Examples of the bureaucratic type of administration are more often from modern West European states. It is however important to bear in mind that both types described by Weber are ideal types, and there is nothing exactly corresponding to them in the real world. We should also note that historically, the West European states are all more or less governed in a patrimonial way (Fukuyama 2011; North, Wallis and Weingast 2009). Realistically, one should therefore think of most systems, historically and today, as having both patrimonial and bureaucratic characteristics.

In the bureaucratic system the administrator is, contrary to what is the case in the patrimonial system, not operating on a personal mandate. Instead, she follows general rules (laws or administrative regulations), is devoting her full working capacity to the office, and has a full-time and paid employment (Weber 1978: 956-958). In a bureaucratic system, office holding is thus what Weber (1978: 958) calls a “vocation” (“Beruf”). Simplified, one might think of an administrator as a full time, meritocratically recruited, and professionalized occupation.

The principles for office holding constitute a primary difference between patrimonial and bureaucratic systems. An important consequence of meritocratic recruitment and promotion is the way it

structures loyalty of administrators. Concerning a system where office holding is a “vocation”, Weber (1978, 959) writes: “It is decisive for the modern loyalty to an office that, in the pure type, it does not establish a relationship to a *person* like the vassal’s or disciple’s *fait* under feudal or patrimonial authority, but rather is devoted to *impersonal* and *functional* purposes”.

Why is it important for the relationship between bureaucracy and corruption, if the office holder “...establish a relationship to a *person*...”, rather than is, “...devoted to *impersonal* and *functional* purposes” (ibid.)? Bo Rothstein and Jan Teorell (2008: 169) have argued that impartiality is in fact the basic norm defining high quality, non-corrupt, institutions. According to Rothstein and Teorell (2008), impartiality is as vital for administration, as political equality is for elections and political representation in a democratic state. They see impartiality as a “system of beliefs”, necessary for well-functioning institutions to evolve (Rothstein and Teorell 2008: 184). Without an “impartial” norm it is for example irrational to think of universal rights, or universal policies. In a patrimonial system, the rational thing to do is to take care of your own “kind” (be that your family, clan or party), and not to treat every one the same way. It is not unreasonable to say that this “system of beliefs” finds its expression in the way the public administration is functioning.

In broad analyses of human history, North, Wallis and Weingast (2009) and Fukuyama (2011) have also identified the impersonal character of positions within the state as central for well-functioning societies. Impartial or impersonal characteristics of the state and its administration are important in their own right, but the effects of norm-systems and broad administrative structures are most likely to have long-term effects.

A public administration organized after Weberian ideas have, however, also more direct consequences for power relations between rulers and administrators. It therefore has the potential to hamper misuse of power and corruption also in the short term. In a bureaucratic system, where the administration is professional, full-time employed, well-paid and meritocratically recruited, the fu-



ture careers of employees are not directly dependent on the will of the ruler. As a consequence the ruler loses his or her direct control over the administration. This is very different in patronage systems, where the ruler can control the administration directly. In a patronage system the ruler can therefore use public resources, as the administration, for private gains, while this is much harder in a bureaucratic system.

It has for example been shown that political parties in the US were able to take advantage of their influence over the administration and make electoral gains because of their control over that same administration. In a study of the state level in the US, Folke, Hirano and Snyder (2011) demonstrate that the political parties were able to transform control over patronage jobs to electoral gains, as long as they were operating in a patronage system, but not after civil service reforms. When the system was moved in a bureaucratic direction, through civil service reforms, the electoral effect of controlling the administration diminished. This illustrates that a bureaucratic system is harder to manipulate, and that relatively limited reforms can have an impact.

Another consequence of a bureaucratic system is that there are two groups who do not have the same incentive structure, but are still involved in the same decisions. A bureaucratic system makes opportunistic actions, such as organizing kickbacks, more difficult than in a patronage system. The reason is that corruption requires involvement of both politicians and administrators. If these groups are not alike, their incentives and loyalties do not coincide, which in turn makes coordination of corrupt activities harder. A bureaucratic system thus builds in a monitoring mechanism between the ruler and administrators (Dahlström, Lapuente, and Teorell 2011, 4-5; Miller 2000, 308).

It is probably reasonable to expect this coordination effect to occur only when it comes to grand corruption, as it is only at the higher levels where both politicians and bureaucrats are involved in decisions potentially leading to corrupt behavior. When it comes to petty corruption, there are

however other parts of the Weberian principles of bureaucracy that might have effects. As mentioned in the introduction, relatively high pay and full-time employment for administrators might change incentives for that group to engage in corruption. The following two sections will further discuss the different of Weberian bureaucracy effect on grand and petty corruption, respectively.

## **The role of the administration in grand corruption**

During the nineteenth and early twentieth centuries, corruption and other types of misuse of public resources plagued governance on the British Isles and in the US, as well as in many other parts of Europe and America. Both policy-makers and scholars in public administration at the time identified the relations between politics and administration as key to overcome these and other problems they thought were connected to a patrimonial administrative system. Simply put, the idea in many of the reform suggestions was to untie the close bonds between politicians and administrators, by introducing meritocratically based civil service reforms. Influential reformers thought that with a professional and meritocratically recruited civil service, a more efficient and reliable public administration would be created (see for example Goodnow 1900; Wilson 1887).

In Britain, for example, the meritocratic recruitment introduced after the so-called Northcote and Trevelyan report (1853) was used as a way to curb corruption. The substitution of personal contacts by formal merit would, according to this view, put an end to the period known as the “Old Corruption” (Rubinstein 1983; Harling 1995). Similarly, reformers associated with the Progressive Era in the beginning also pushed for the adoption of merit recruitment systems in the cities in the US. As James Rauch (1995) has noted, during the first two decades of the twentieth century a wave of reforms took place at the local level in the US that “...can be seen as attempts to move away from predatory to more Weberian state characteristics” (Rauch 1995: 969). Progressive reformers

saw these means as a way to break down the informal patronage networks often referred to as political machines (Van Riper 1958; Kelman 1987; Schultz and Maranto 1998; Teaford 1993).

Consequently, there are good reasons to believe that a reformation of a patronage public administration, and more specifically the introduction of meritocratic recruitment, would hamper corruption. It is however less clear exactly in what ways civil service reforms would help to clean up government. There are at least two different ways of thinking about how a sound administration can help to diminish corruption. The first is based on an idea that societies are in a better situation to control corruption if there are groups with known different interests that monitor each other during the decision-making process, and that such a situation is more likely to occur in a bureaucratic system with merit recruitment, than in a patronage system (Miller 2000). The second way of thinking stems from the conviction that administrators, under the right conditions, can develop norms that make them more resistant to moral hazard and therefore can function as barriers against corrupt politicians (Rauch and Evans 2000). Which of the two ways is right is not only of academic interest, but can have direct policy implications. While the first causal mechanism implies reforms close to the Anglo-Saxon and Scandinavian administrative traditions, the second points more towards the Napoleonic and Germanic traditions (Painter and Peters 2010: chapter 2).

Gary Miller (2000) has in a series of papers described that it is: i) of fundamental importance to constrain morally hazardous behavior of a ruler in a society, and; ii) impossible to find a perfect solution to this problem. Together with other transaction-cost economists he has pointed out that in almost every decision that involves public resources there are incentives for decision-makers to take advantage of the situation, and for example organize some kind of kickbacks, or in other ways enrich themselves. There is, in other words, always a part of a decision that the decision-maker can use for private gain. Creating a system where the decision-maker abstains from corrupt behavior is

in this view probably the most important part of organizing a society, and also something every organization has to deal with (Miller and Hammond 1994).

Falascetti and Miller (2001) show that there is no perfect solution to this dilemma. Incentives for corruption are an inevitable part of decision-making in large organizations. It cannot be solved, and cannot be ignored. Instead, supporters of good governance should minimize its consequences by organizing the decision-making process in a way that credibly constrains rulers' morally hazardous behavior. Miller (2000) has suggested that delegating decisions to outside actors, such as a group of autonomous administrators, can help to minimize the problem. The Weberian characteristics of a bureaucracy contribute to autonomy – “above politics” – according to Miller (2000: 289). It is important to note that this solution stands in sharp contrast to the often-used principle/agent perspective, where the basic idea is to create a system where the incentives for principle (rulers) and agent (administrators) coincide.

Miller (2000: 317) gives an example of how this might work. He describes a scandal including U.S. senators and other politicians, known as the Keating-scandal. From the point of view of this paper, it is interesting that the scandal was revealed to the public by “relatively lowly civil servants”. What gave them the courage to do so, Miller (2000: 319) asks rhetorically, and answers that it was because they were protected – normatively and factually – by the Weberian characteristics of their employments.

This episode, however, also illustrates that it is unclear what, more specifically, causes the hampering effect on corruption. It could be the fact that administrators are involved in the decisions and thus can monitor politicians, but also that they are isolated from politics. Most scholars would probably agree that both characteristics contribute to lower corruption, but emphasize different aspects.

Some scholars think that it is in practice impossible to isolate politicians and administrators from each other, and that both groups are involved in both policy-making and implementation. As Alberto Alesina and Guido Tabellini state (2007: 169): “Policies are chosen and implemented by both elected representatives (politicians) and non-elected bureaucrats. The view that politicians choose policies and bureaucrats implement them is too simplistic: the boundaries between decision and execution are gray area and in many cases bureaucrats do much more than executing either *de jure* or *de facto*”. This can however be a very good thing, as it makes it possible for two groups with different incentives to monitor each other. Very simplified, we can think of politicians and administrators as two groups that are involved in policymaking and that could potentially take part in corrupt activities. According to the logic of this argument, it is important that their interests in corruption do not coincide. Why? Because, as in all illegal activities, the premises of corruption is that all involved can trust each other not to sell out the other party. If politicians and administrators have different interests in such situations, corrupt activities become a coordination problem involving the two groups. This thus makes it harder to go through with it, and corruption levels should be lower. Ideally, politicians and administrators should therefore be involved in the same decisions, but have different incentives. It has been proposed that this situation occurs when the administration is meritocratically recruited (Dahlström, Lapuente and Teorell 2011).

It should be noted, however, that the preferred monitoring effect only appears when politicians and administrators are involved in the same decisions. Hugh Heclo (1977) suggests that the civil service idea requires that civil servants employed by merit actively express their views on policy proposals. Heclo's interpretation is however not self-evident. Quite the contrary, thinking around politics and administration often starts from a dichotomy with very distinct tasks for politicians and administrators respectively (Rouban 2007). The dichotomy model thus holds that policy decisions are made in

the political sphere, with strict neutrality for the administration during implementation (for a critique of the dichotomy model see Svava 1998).

This brings us to another possible mechanism, by which the administration can hamper corruption in a society. The basic idea is that the administration should monitor potentially corrupt politicians, rather than take part in the same decisions. In this view, meritocratic recruitments, internal promotions, and other means by which the administration is isolated from politics is good because it strengthens good governance norms in the administration. There are two processes that contribute to this outcome. The first is that recruitment based on merit makes the pool of employees more competent. Selection of the best applicants makes the administration capable. The second process has more to do with the internal promotions, which are also associated with a Weberian bureaucracy. In a seminal article, examining the role of the bureaucracy in good governance, Rauch and Evans (2000: 52) argue that; “The long-term career rewards generated by a system of internal promotion should reinforce adherence to codified rules of behavior. Ideally, a sense of commitment to corporate goals and ‘esprit de corps’ develop.”

For these norms to influence corruption, one should probably think of it as a standard by which the administrators can measure the performance of politicians and monitor their activities. In many ways this is exactly in line with the ideas from the progressive era in the US to lift the administration “above politics” (Miller 2000: 289). It is thus not through the involvement by groups with different interests corruption diminishes, but rather by way of one group (administrators) monitoring another group (politicians).

### **The role of administrators in petty corruption**

As mentioned already in the introduction, the Weberian principles for office holding have several different parts that might very well affect grand and petty corruption differently. The reforms dis-

cussed in the previous section have more to do with monitoring and power relations between politicians and administrators, while the reforms that will be discussed in this section have more to do with the incentives for bureaucrats to engage in corrupt behavior in the first place.

Two interrelated parts of a bureaucratic organization have been pointed out as especially important for affecting incentives for administrators not to be corrupt. The first concerns a move away from what might be called an amateur administration. Historically, it was common in Europe that administrative positions were jobs only taking up a minimum of the officeholder's time (Ertman 1997; Fischer and Lundgreen 1975). The officeholder could have several positions at the same time and, in an informal way, sub-contract someone else to do the actual work. In such a situation the administrative position becomes merely a source of income for the officeholder. According to this line of argument, there are no strong reasons why an officeholder in that situation should not just maximize her income, even if that includes taking bribes. In order to break with the amateur administration, full-time positions should instead be created. This will in turn have two effects. One is that it will create a secure income for the office holder (an issue to which I will return in the next paragraph, for a more thorough discussion), and the second is that it will contribute to creating a norm for not being corrupt. Weber (1978: 959) writes that in a modern, professional bureaucracy "...the position of the official is in the nature of a 'duty' (Pflicht)". The feeling of carrying out a duty, rather than just making a living, could have many different effects and it is not unreasonable to suggest that one of them is that a norm of honesty is created. That norm would then drive down corruption in the administration.

Another part of a bureaucratic organization, which has gained a lot of attention especially from scholars in economics, is how administrator's incentives not to engage in corrupt behavior are affected by their salaries. While Weber (1978) emphasizes the importance of secure pay for administrators, most economists instead stress the relative level of the administrative salaries (see Becker

and Stigler 1974 for a classic article in this area). The basic idea is that administrators aim to maximize their income. Salaries and bribes are two sources of income. If corruption, when detected, is penalized with job loss, higher pay will create stronger incentives not to be corrupt. In such a model, corruption in the administration is determined by i) how high the pay is, ii) how high the bribes are; iii) how probable detection is, and iv) what the penalty for corruption is. Wages in the public sector should thus be high enough to outweigh the potential gain of taking bribes. As pointed out by Van Rijckeghem and Weder (2001: 308), when bribes are high, the probability for detection low, or fines for corruption low, it will be very costly to fight corruption with high salaries. There are also influential analyses of wage regimes showing that different regimes attract different types of administrators. Timothy Besley and John McLaren (1993) define three such regimes, and make clear that a wage lower than what an administrator could make elsewhere (Basley and McLaren calls it the capitulation wage) only attracts dishonest administrators, as it presupposes that the administrator takes bribes.

Van Rijckeghem and Weder (2001, 308) do however hypothesize that there are other factors creating “fair treatment of civil servants”, among which fair wages is an important one. This fairness might be an effective deterrent of corruption, as it arguably affects administrator’s preferences for honesty. In effect, the fair-wages explanation is norm driven.

There is mixed empirical support for a negative effect of administrative wages on corruption. In a cross-country comparison Van Rijckeghem and Weder (2001) find support for such an effect, while Rauch and Evans (2000), Treisman (2000) and Dahlström, Lapuente and Teorell (2011) do not find such an effect. It is impossible to say for sure why research is inconclusive, but there are some potential explanations. First, it is reasonable that there is some kind of non-linear relationship. It is fairly easy to imagine that there are threshold effects. If administrators indeed care about their income, but at the same time are not only driven by greed there should for example be some kind of



effect on low income levels. Another potential reason why empirical support is mixed is that the effects of pay are long-term. Van Rijckeghem and Weder (2001) are for example not able to find the negative effects of pay on corruption within countries, but only between countries in their sample. This is compatible with a long-term, rather than short-term effect. Third, as mentioned in the introduction, it might be the case that different kinds of corruption are affected by different reforms. What speaks for this is that Rauch and Evans (2000), Treisman (2000) and Dahlström, Lapuente and Teorell (2011) all use a corruption measure that does not discriminate between grand and petty corruption, while Van Rijckeghem and Weder (2001) do. As the basic idea with pay is to affect the incentives for administrators to take bribes, it is probable that an effect should only occur on petty corruption, while grand corruption should be unaffected. The cross-country measures of corruption do however mix both grand and petty corruption, making it very hard to isolate the effect.

## **Conclusions**

Previous sections in this paper have argued that there are good reasons to expect a Weberian bureaucracy to have a deterring effect on corruption. In a bureaucratic system where the public administrators are recruited by merit, have a strong esprit-de-corps, are full time employed and relatively highly paid, the risk for corruption in the public sector is relatively low, while a patrimonial administrative system comes with much higher corruption risks.

The paper has also summarized research indicating that it is reasonable to expect the bureaucratic organization to affect grand and petty corruption unevenly. The discussions in the paper have been mainly focused on four parts of the bureaucratic organization, namely merit recruitment, esprit-de-corps (created by secure positions for administrators), full time employment and relatively high pay for administrators. The case has been made that while recruitment procedures and secure positions

affect grand corruption; employment and pay instead affect petty corruption. The reason for this is that both merit recruitment and esprit-de-corps are effective as they structure contacts between politicians and administrators in a way more beneficial for prevention of grand corruption. In turn, employment and pay affect administrator's direct incentives to take bribes and accept other kick-backs in a way that should prevent petty corruption but leave grand corruption untouched.

These are important insights for both policy-makers and scholars. It is tempting to draw the conclusion from research reviewed in this paper that the Weberian bureaucracy holds the key to good governance. As demonstrated, there are indeed good reasons to expect some negative effects on corruption from for example civil service reforms, in both the long and the short term. At the same time it would be pre-mature to conclude that an introduction of a Weberian bureaucracy is a universal cure. Its effects might very well be specific not only to the level of corruption, but also to the context. What is more, it is important to note that research in no way has a clear answer whether or not there are contradicting effects from different parts of the bureaucratic organization, or if there are any pre-requisites that need to be full-filled, before for example beneficial effects of job security for administrators might be expected.

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