What Can Firm and Household Surveys Tell Us About Expert Assessments of Corruption?*

Scott Gehlbach
University of Wisconsin–Madison

Cross-national comparisons of corruption levels exploit two kinds of data: expert assessments and surveys of firms and households. Examples of the former include the corruption ratings provided by Political Risk Services for its *International Country Risk Guide* (ICRG) and by Freedom House in its annual study of *Nations in Transit* (NIT). Examples of the latter, which generally but not exclusively focus on actual corruption experiences, include various surveys conducted by the World Bank and the European Bank for Reconstruction and Development (EBRD)—of which more below—and the World Economic Forum's (WEF) Executive Opinion Survey. Two widely used corruption indicators aggregate information from multiple data sources in both categories: Transparency International's (TI) Corruption Perceptions Index and the World Bank Institute's (WBI) Control of Corruption Index.

Most cross-national empirical work on corruption uses some combination of expert ratings and the composite indicators provided by TI and WBI, and the corresponding rankings of corruption levels often figure in public discussion of particular countries. The emphasis on expert assessments is a natural consequence of the relative infrequency and restricted geographic focus of many firm and household surveys. This limited coverage, in turn, implies that the composite indicators lean heavily on expert assessments to provide annual ratings of corruption in a large number of countries.

To what extent do expert assessments of corruption levels correspond to actual corruption experiences? What do the country-level assessments miss? In this memo, I discuss the relationship between expert ratings and the picture provided by firm and household surveys.

Expert Assessments Reflect Cross-Country Variation in Individual Experiences

Surprisingly, perhaps, corruption ratings by experts correlate fairly highly with firms' and individuals' self-reported corruption experiences. Figure 1 is representative: the 2005 ICRG and NIT corruption ratings generally track the mean country-level responses to a question about bribe payments from the 2005 Business Environment and Enterprise Performance Survey (BEEPS), conducted jointly by the World Bank and EBRD.[1] Knack (2006) shows more generally that several expert assessments correlate highly with responses to a range of questions in the 2005 BEEPS and the 2005 WEF survey. Similarly, Treisman (2007) documents a high correlation between the TI and WBI composite indexes and the mean country-level responses to questions about bribe frequency in the World Business Environment Survey (conducted in 1999/2000 by the World Bank) and TI's Global Corruption Barometer.

These results suggest that expert assessments, and the composite indicators that use them as inputs, may reflect actual corruption levels. Of course, there is no way to test

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[1]The question asks, "On average, what percent of total annual sales do firms like yours typically pay in unofficial payments/gifts to public officials?" The pairwise correlation between the two expert ratings is -0.741. For the ICRG rating, lower values correspond to more corruption. The graphs display 95-percent confidence intervals.

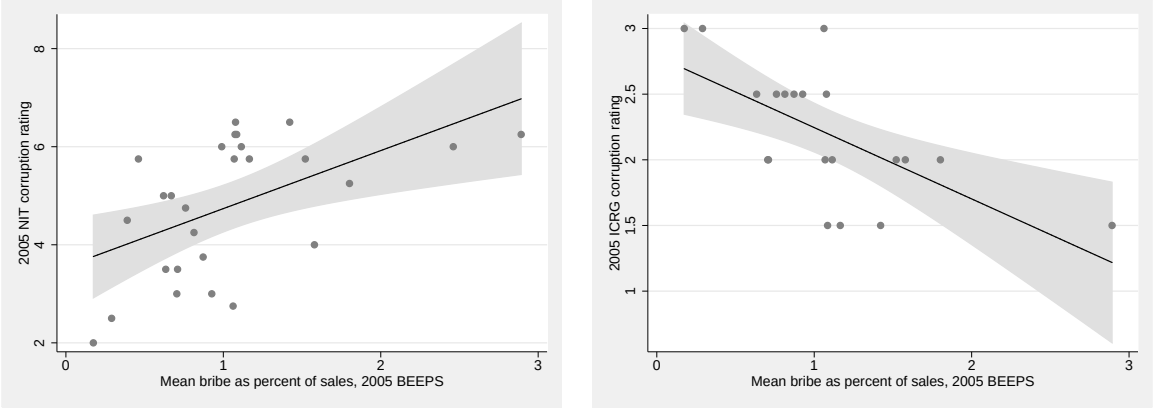

Figure 1: Expert Assessments vs. Self-Reported Firm Experiences with Corruption

the assumption that expert assessments and individual corruption experiences coincide in countries and periods where firm- and household-level data are unavailable. Moreover, survey respondents may be cautious in answering questions that appear to ask about their own corrupt behavior, and responses to questions about corruption outside of individuals' direct experience may contain relatively little information (Olken, 2009). Still, given what we know from data-rich environments, the use of expert ratings and the corresponding composite indicators should not be dismissed out of hand.

An important caveat applies to this general assessment. As scholars who have worked with these data know well, cross-sectional variation should probably be treated more seriously than intertemporal variation. Changes in expert assessments may result from data "fixes" rather than actual changes in corruption levels. Knack (2006), for example, documents a substantial change in the ICRG rating in November 1991, and he suggests that the rating may have been recalibrated to bring it in line with the TI composite indicator. Intertemporal variation in the TI and WBI composite indicators can also reflect changes in country coverage and the set of underlying corruption ratings.

Expert Assessments Obscure Subnational Variation in Individual Experiences

Even if they capture actual variation across countries in corruption levels, cross-national corruption ratings are nonetheless blunt instruments, not ideally suited to measuring the effects of particular policies and institutions. Recognizing this, much recent work has focused on within-country variation in corruption levels, often using data on corruption experiences from firm or household surveys. This approach has numerous advantages: one can control for factors that are difficult to hold constant in cross-country studies, construct surveys that measure the effects of specific policy changes, and exploit contextual knowledge to identify natural experiments.[2]

An important lesson of these studies is that within-country variation in corruption levels is often as great as cross-country variation. Figure 2 illustrates the point using data from

[2]The multi-year project "Monitoring the Administrative Barriers to Small Business Development in Russia," sponsored by USAID and conducted by CEFIR in Moscow, is an excellent example of a project tailored to examine particular policies; see `http://www.cefir.ru/monitoring`. Malesky and Samphantharak (2008) exemplifies the natural-experiment approach.

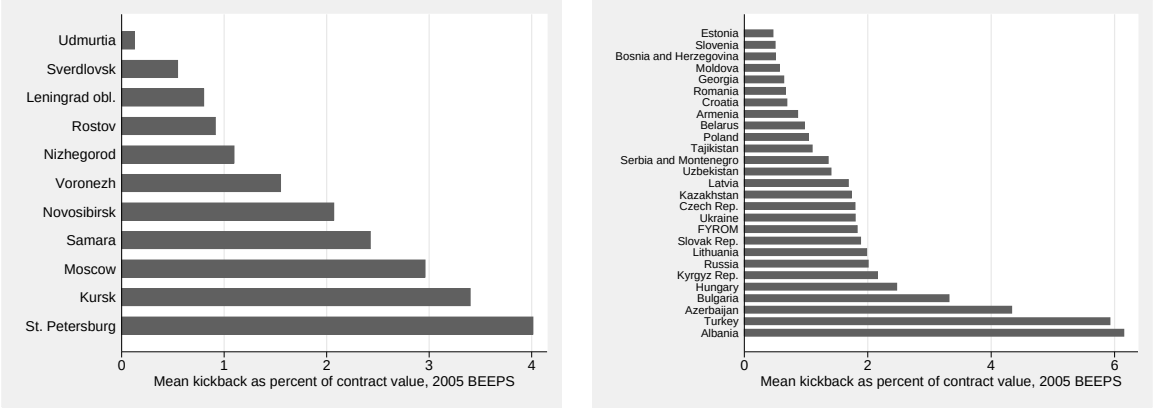

Figure 2: Within-Country vs. Cross-Country Variation in Corruption Experiences

the 2005 BEEPS: variation across Russian regions in the size of kickbacks to government officials rivals that across countries.[3] The corruption questions in the 29-country Life in Transition Survey (conducted in 2006 by the World Bank and EBRD) tell a similar story: for responses to a battery of questions about bribe payments, PSU-level variance (where PSUs roughly correspond to census enumeration areas) is three to five times as large as country-level variance, indicating substantially greater within-country than cross-country heterogeneity.[4]

An irony is that policy makers and practitioners have paid increasing attention to cross-country corruption ratings, often based on expert assessments, even as academic study has illuminated the often richer variation that exists at the subnational level. As scholars, we might contribute to the public discussion by highlighting what country ratings obscure as well as what they illuminate.

References

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[3]The question asks, "When firms in your industry do business with the government, what percent of the contract value would be typically paid in additional or unofficial payments/gifts to secure the contract?"

[4]Results from linear mixed-effects models. Respondents were asked, "In your opinion, how often is it necessary for people like you to have to make unofficial payments/gifts in these situations?" Eight situations are described, ranging from interactions with road police to the receipt of medical treatment.