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## PERCEPTION OF CORRUPTION IN URUGUAY: THE EFFECTS OF THE SECTOR OF EMPLOYMENT, LIFE-COURSE ADJUSTMENTS AND EDUCATION

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### ABSTRACT

In 2004, Transparency International's Corruption Perception Index ranks Uruguay at 28, seven positions higher than in 2001, with scores increasing from 5.1 to 6.2 (a higher score means less perceived corruption). In addition, there were no relevant corruption scandals in that period.

To identify the foundations of the perception of corruption in the case of Uruguay, we assess data at the micro-level. The database is the Citizenship module from the International Social Survey Program and we estimate using an ordered probit model.

We conclude that some economic variables are significant. In particular we show that those who work in private enterprises and the unemployed tend to perceive higher corruption levels. Hence those who may be on the supply side of the bribe "market" perceive a higher level of corruption than those on the demand side (civil servants). In addition, our main contribution to the existing literature is showing that socio-demographic variables play a relevant role. We show that those who belong to the youngest group with at least high school studies and those who belong to a religious group are more likely to perceive a higher level of corruption

**Key words:** corruption, microeconomic behavior, public opinion, ISSP, bribe, Uruguay.  
JEL Classification: D70, K42.

### I. INTRODUCTION

The concept of corruption is employed in several areas and its connotations vary widely depending not only on societies but also on people. Since the definition of corruption depends on social and cultural factors, the same is true for corruption perception. Therefore, we should ask: 1) what are the individual characteristics that shape corruption perception? We analyze the foundations of corruption perception in the case of Uruguay.

Although there are very different definitions, it is possible to find some elements in common which are connected with the misuse of public office with the purpose of making private gains. This paper focuses on this wide concept of corruption.

One possible explanation for corruption is based on the premise that rules are asymmetric and highly costly; therefore, corruption could be interpreted as a tax: people may pay illegal and informal taxes which allow them to avoid a rule, a penalty etc. The cost of the rule is a function of the lost in time and the information needed to fulfill it. Consequently, rules and laws modify the decision making process (Ghersi, 2006). Moreover, You et al. (2005) show that income inequality is a significant determinant of corruption. With the increased inequality, the rich, as a class or as interest group, can use lobbying, political contributions or bribery to influence law-implementing processes

(bureaucratic corruption) and to buy favorable interpretations of the law (judicial corruption).

You et al. (2005) argue that income inequality also influences corruption perception and habituates norms about corruption in the following way: if inequality is high, "the rich are likely to believe that corruption is an acceptable way of preserving their societal position as this behavior goes unpunished and social networks of corruption expand and people will more easily justify their corrupt activities as inequality increases".

Cábelková (2001) holds that the incentives to take corrupt actions are affected by individual perception about the level of corruption and the authority's level of tolerance. Olken (2007) argues that the availability of information is relevant; he shows that providing audit results to the public, may be a useful complement to formal punishments when voting. Therefore, corruption perception is shaped by individual characteristics such as education and the capability to analyze information.

Corruption perception differs from the current level of corruption but the later may influence the former. According to Rose-Ackerman (2001) low salaries and poor monitoring at the public sector are not only incentives for corruption but also those facts hike corruption perception even when a corrupt action does not occur. The same is true when the bureaucracy may be charged with allocating a scarce benefit to many individuals or when the costs imposed on the private sector by governments are high.

Our aim is assessing what are the most important determinants of corruption perception in Uruguay. This issue has not previously study for that country. In the period 2001-2004 there were no press reports that mentioned relevant corruption scandals and Uruguay ranked higher in the Transparency International's Corruption Perception Index (to position 28 from position 35 or to 6.2 points from 5.1 points). Hence, we analyze the foundations of people's perception at the micro-level. We expect that socio-economic factors play a relevant role in shaping corruption perception in the case of Uruguay. For example, live-course adjustments may be relevant as well as the capacity of analyzing the information, and beliefs. Therefore, age, education and religiosity may shape people's corruption perception.

The data source is the module on Citizenship of the 2004 International Social Survey Program (ISSP). The survey asks respondents (approximately 1.000) their opinions on a great variety of issues, including international trade, migration, corruption, politics or religion. In addition, it includes demographic and socio-economic data, such as: age, gender, education and others.

Ordered probit models were estimated in order to study the impact of these variables on corruption perception. We conclude that there are socio-demographic variables which are significant at determining corruption perception, variables such us: religion, age and the level of education, among others.

The structure of the paper is as follows. The first section is theoretical in nature, and draw on the definition of corruption. Section two is devoted to the existing and well-developed theory on the subject. Section three sketches the main features of the econometric methods applied in this analysis, the data source and the description of variables. The fourth section deals with results. Finally, the conclusions are presented in section five.

## **II. CORRUPTION: CONCEPT AND GENERAL VIEW**

Corruption is interpreted as cultural phenomena. The concept of corruption is employed in several areas and its connotations vary widely depending not only on societies but also on people. In effect, social rules may differ among cultures; while in one society an action could be accepted as normal in another one the same action could be a corrupt action.

When assessing corruption perception, the first problem is arriving at a definition which lends itself to cross-cultural research. As we mentioned, this paper focuses on a wide concept of corruption: the misuse of public office with the purpose of making private gains; this definition incorporates the notions of wrongly getting an advantage, pecuniary or otherwise, in violation of official duty and the rights of others. Although all people have a definition of behavior labeled as corrupt, there might be cultural differences in the way "wrongfully" is defined by people. Consequently, there is need for a balance between the generalizations of this concept and the capability of explaining it in a specific historical context and culture in which it occurs.

In economic terms, there are several ways to define corruption. For example, Werlin (1973) characterizes corruption as the use of public office for making private gains and Blackburn et al. (2004) consider public sector corruption as the illegal, or unauthorized, profiteering by officials who exploit their positions to make personal gains. Focusing on public sector, Shleifer et al. (1993), define it as the sale of state assets by civil servants in order to make private gains.

Pope (2000) asserts that corruption can take place where there is a combination of opportunity and inclination. He explains that corruption can be initiated from either side of the transaction: a bribe being offered to an official, or the official requesting an illicit payment. Those offering bribes may do so either because they want something they are not entitled to, and bribe the official to bend the rules, or because they believe that the official will not give them their entitlements without some inducements being offered. On the other hand, officials may refuse to serve clients unless a bribe is paid. In this case, it is possible to differ between small bribes practiced by civil servants and the great corruption of high public officials involving large and hidden bribes in overseas bank accounts.

## **III. CORRUPTION PERCEPTION**

Institutional stability hardly depends on corruption perception. It might favored not only the growth of instability but also the persistent deterioration of the relationships among individuals, institutions and States. The loss of political legitimacy that many governments have experienced, the polarization of power and bureaucratic inefficiency are some of the political consequences of corruption. Moreover macro-economic consequences of corruption are severe: it reduces investment and the rate of growth (Mauro, 1995); the provision of services such as education and health may be distorted (Mauro, 1997) and it alters public investment projects that could be easily manipulated by high-level officials to get bribes (Tanzi and Davoodi, 1997).

Some previous studies analyzed the link between corruption and political systems. In general, it was found that democratic systems tend to reduce corruption.

Olken (2007) argues that when people could vote, the available information may influence on the decision hence providing audit results to the public, may be useful. Montinola et al. (2002) held that political competition was posited to reduce corruption because the freedom of information and association limit the opportunities for corrupt actions (by helping with the monitoring of public officials). Rose-Ackerman asserts that a competitive electoral process can give politicians an incentive to reveal the untrustworthy behavior of their opponents and to be trustworthy themselves. As there are proofs regarding this relationship we will focus on the satisfaction with the democratic system rather than the democracy itself.

Additionally, Kim (2005) study the case of Korea and he find that associational involvement and social trust negatively influence political trust when demographic factors were taken into account. She also holds that political corruption is the most relevant determinant of political trust. Hence, we expect that the interaction with other people shape corruption perception.

Corruption perception differs from the current level of corruption but the later may influence the former. Mauro (2004) find that when a high rate of people is stealing from the government, individual's decisions would be based not only on a higher marginal product of stealing because the chances of being caught are lower and it will be profitable to allocate more time to rent seeking (and less time to productive activities).

In line with the previous argument and considering cot-benefits analysis, Cábelloková (2001) shows that the incentives to take corrupt actions were affected by corruption perception and the authority's level of tolerance. Corruption perception may affect both the demand and supply of corrupt actions. She finds that the cost of legality is inversely proportional to an individual's income: a higher income makes easier the access to information. In line with this, Ghersi (2006) shows that rules and laws have asymmetric effects, which distort individual behavior.

When the fulfillment of a rule implies high costs, decisions will vary among individuals depending on their values and moral views, which modify the perception of the expected costs and expected benefits. *Ceteris Paribus*, to bribe would not mean the same to people depending on their values. While a person could be against bribery regardless of the perceived level of corruption someone else views could depend on the existing level of corruption.

Additionally, the formation of individual perceptions about the level of corruption is affected by the access to information and the capability to analyze this information. Personal experience has a significant role; it depends on the interaction among the citizen and corrupts civil servants. Obviously, there are additional sources of information about corruption such as the media (radio, TV, written press) or information from relatives and friends.

As Cábelloková (2001) indicates, the perception of corruption may influence the level of corruption in two opposite ways. When people perceive that the level of corruption is high it is likely that: 1) citizens think that a bribe is needed and 2) government employees do not consider that a bribe is improper. Hereby, a bribe is thought to be necessary and it seems unlikely that this bribe would not be accepted. In turn, government employees could consider this activity as risk-free and with low probability of detection. Therefore, corruption increases. On the other hand, when the

perception of corruption is high, the government may take greater actions in order to reduce corruption. Therefore, corruption could decrease.

Finally, corruption perception has favored the growth of institutional instability and the deterioration of the relationships among individuals, institutions and states. Moreover, the perception of economic corruption would have more devastating effects than corruption itself; it generates a “culture of distrust” towards some institutions.

#### IV. DATA SOURCE AND METHODOLOGY

As mentioned, the data source is the module on Citizenship of the 2004 International Social Survey Program (ISSP)<sup>1</sup>. The survey asks respondents their opinions on a great variety of issues, including international trade, migration, politics, taxes and corruption, as well as demographic and socio-economic information, such as age, gender, education, religiosity and others.

The question used in the survey to identify respondent’s perception of corruption is:

**Taking into account your experience,  
how widespread do you think corruption is in the public service in Uruguay?**

The answers correspond to the following categories =

- 0 if respondent answers “almost none”,
- 1 if respondent indicates “just a few” or “some of them” and
- 2 if respondent says “many of them” or “almost all”.

Table 1 shows the weighted frequency distribution of the answers to this question.

**TABLE N°1  
SHOWS THE WEIGHTED FREQUENCY DISTRIBUTION OF THE ANSWERS TO THIS  
QUESTION**

Taking into account your experience, how much is extended corruption among public employees?	
Categories	Frequency
Almost none	5,7%
Just a few or some of them	59,3%
Many or almost all	35,0%
Total	100

Source: own elaboration

<sup>1</sup> More information is available on ISSP website: [www.issp.org](http://www.issp.org).

Given this question, we constructed the dependant multinomial variable and consequently we estimate an ordered probit model. The model aims at determining how different individual characteristics affect the formation of opinions towards corruption among government employees.

The description of the variables is reported in table 2.

**TABLE N°2  
DESCRIPTION OF INDEPENDENT VARIABLES**

Area	Variable	Values
Human Capital	SCHOOL	1 if respondent took primary school
	HIGH_SCHOOL	1 if respondent took secondary school
	UNIVERSITY	1 if respondent took university studies
Religion and religiosity	RELIGION	1 if respondent identifies with some religious group
	RELIGIOSITY	1 if the person attends religious services every week or more
Place of residence	MONTEVIDEO	1 if respondent lives in Montevideo
	INTERIOR	1 if respondent does not live in Montevideo
Labor market	UNEMPLOYED	1 if unemployed
	RETIRED	1 if retired
	PUBLIC_S	1 if working in public sector
	PRIVATE_S	1 if working in a private enterprise
	IND_CTAP	1 if being self-employed
	UNION	1 if belonging to an union
Other socio-demographic variables.	GENDER	1 being a woman
	AGE1	1 if respondent's age is between 18 and 39 years old
	AGE2	1 if respondent's age is between 40 and 60 years old
	AGE3	1 if respondent's age is 61 years old or more
	MARRIED	1 if married or living as married
	DIVORCED	1 if divorced
	WIDOWED	1 if widowed
Others variables	CONTACTS	1 if the number of people with who respondent interact daily is higher than 4 people and 0 in other case

Source: own elaboration

The estimated parameters in ordered probit models do not provide direct information on the relationship between the independent and dependent variables (Long, 2001).

Substantive interpretations are usually based on the prediction of probabilities and functions of these probabilities. These predictions are made for different groups of individuals and the marginal effects of the independent variables are calculated. If the independent variable is binary, the marginal effect is the change from not having a particular characteristic to having it.

With the estimation of ordered probit models, the impact of variables such as age, gender, human capital, religion among others, on individual opinion on corruption will be established.

## **V. RESULTS**

The ordered probit model is reported in table 3. As could be seen, all cuts are significant at 1%. We calculate the marginal effects and their standard errors after estimation.

Rather than reporting coefficients, table 4 reports the discrete change in the probability for each significant independent variable. The marginal effects are nonlinear functions of the estimated parameters, so they cannot generally be inferred directly from the parameter estimates.

As expected, life-course adjustments matter. The first dummy on respondent's age is significant and due to positive sign we can conclude that youngest people are more likely to perceive a higher level of corruption than older people. Additionally, it was found that there is no significant difference among middle-aged people and the oldest group. It is often argued that more recent generations have been socialized in more troubled situations and more impersonal environments. This effect may be causing that young Uruguayans perceive a higher corruption level.

Secondly, as it was also expected, the level of education makes a significant difference. It was found that people who have taken high school studies or a higher level tend to perceive a higher level of corruption (the probability increases 9.7 pp and 8.4 pp, respectively). Hence, the capability of accessing and assessing to information play a relevant role.

**TABLE N°3**  
**THE MODEL**

	Gov_emp
GENDER	-0.015
	(0.091)
AGE1	0.300**
	(0.173)
AGE2	-0.139
	(0.162)
HIGH_SCHOOL	0.265***
	(0.104)
UNIVERSITY	0.224*
	(0.137)
PRIVATE_S	0.192**
	(0.110)
IND_CTAP	0.082
	(0.119)
UNEMPLOYED	-0.309**
	(0.159)
RETIRED	0.030
	(0.173)
UNION	-0.104
	(0.127)
MONTEVIDEO	0.082
	(0.093)
RELIGIOSITY	0.136
	(0.176)
RELIGION	0.228**
	(0.103)
MARRIED	-0.025
	(0.110)
DIVORCED	-0.031
	(0.141)
WIDOWED	0.176
	(0.193)
CONTACTS	0.273**
	(0.123)
_cut1	-0.908***
	(0.230)
_cut2	1.162***
	(0.228)
Observations	927
Robust standard errors in parentheses	
* significant at 10% level; ** significant at 5% level;	
*** significant at 1% level	

Source: own elaboration



**TABLE N°4**  
**MARGINAL EFFECTS**

	GOV_EMP
AGE1	0,110
	(0,063)
HIGH_SCHOOL	0,097
	(0,038)
UNIVERSITY	0,084
	(0,053)
PRIVATE_S	0,071
	(0,040)
UNEMPLOYED	-0,107
	(0,051)
RELIGION	0,082
	(0,036)
CONTACTS	0,095
	(0,041)
Observations	927
Robust standard errors in parentheses	

Source: own elaboration

Additionally, the sector of employment is determinant of corruption perception. Those who are working in a private enterprise are more likely to perceive a higher level of corruption than civil servants. In this case, the probability to perceiving the highest level of corruption also increases (7.1 pp). This result implies that those who may offer a bribe or may be asked for a bribe consider that corruption is higher than those who might request the bribe.

Regarding employment status, it is worth noting that those who are unemployed tend to perceive a lower level of corruption (due to the negative sign). In particular, the probability reduces 10.7 pp. On the other hand, union membership is not significant as well as there is no significant difference among those who are retired and others.

Moreover, values and beliefs also shape corruption perception. When religious groups are considered, it was found that people who identify with some religious group are more likely to perceive a higher level of corruption than those who do not (the mentioned probability rose 8.2 pp). On the other hand, the degree of religiosity (measured by weekly attendance to religious services) does not influence the perception of corruption.

The estimated model also shows that the interaction with other people plays a relevant role. The variable connected with the number of people with whom respondents interact daily is significant and registered a positive sign. This result implies that when

we change from someone who interacts, diary, with less than four people to someone who interacts with more people, the probability increases 9.5 pp.

Finally, regarding socio-demographic variables, it was found that gender is not significant, indicating that there is no significant difference among women and men. Some dummies variables representing different marital status were included but they are no significant as well as the variable on place of residence.

## **VI. CONCLUSIONS**

We found that some economic variables have a significant impact on corruption perception. Those who are employed in the private sector are more likely to perceive a higher level o corruption than those who are employed in the public sector. Regarding bribes, this result implies that those that may be on the supply side perceive higher corruption than those on the demand side (civil servants). Moreover, those who are unemployed tend to perceive a lower level of corruption.

However, our main conclusion is that there are some non-economic variables which have a significant impact on corruption perception. Summing up, we found that life adjustments, education, beliefs and interaction with others play a relevant role and in the expected direction.

Firstly, people who belong to the youngest group are more likely to perceive a higher level of corruption than older people. Secondly, the level of education matters, people who took high school studies or a higher level tend to perceive a higher level of corruption. Thirdly, regarding values and beliefs, while religiosity is not significant, it was found that people who identify with some religious group are more likely to perceive a higher level of corruption than those who are atheistic. Finally, the estimated model shows that the interaction with others plays a relevant role. This result implies that the greater the number of people with who people interact, the higher the probability to perceive a high level of corruption.

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