



Working Papers in International Studies Centre for International Studies Dublin City University

***Political Competition, The Rule Of Law And Corruption In
Successful Post-Communist Countries***

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Working paper 7 of 2004

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The current orthodoxy in post-communist political economy explains the difference between different levels of corruption and economic performance, by reference to the constraint provided by political competition. However, political competition cannot explain the difference in levels of corruption between successful post-communist countries and the West. We develop a theory of how political competition and the rule of law can interact to actually lock-in post-communist corruption at a substantial level. The rule of law constrains the ability of the executive to punish firms, but not their ability to reward firms. Thus, if parties alternate in power it is rational for firms to marry parties, that is, to develop exclusive corrupt relationships. We test our theory against qualitative insider interviews and a quantitative elite survey. Both sets of evidence are from Poland, which is representative of successful post-communist states, in terms of both levels of corruption and political competition.

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Acknowledgments: Roger Schoenman's research was generously funded by the National Science Foundation, Grant # SES-02-15451. The survey data in this paper was provided by Jacek Wasilewski of the Institute of Political Studies, Polish Academy of Sciences, co-ordinator of the State Committee for Scientific Research project # H01F00912. We are indebted to him for the use of this dataset.

INTRODUCTION

The current orthodoxy in the study of post-communist political economy was brilliantly set out in Hellman's article, "Winners Take All" (Hellman 1998). He argues that winners, rather than losers, have been the main obstacles to a successful post-communist transformation: "While winners have acquired an early stake in the reform process, they have also developed a stake in the very distortions that impede the realization of the efficiency gains of a fully functioning market" (Hellman 1998: 233). Therefore, the key to success has been to constrain the winners so that reforms are completed. Constraint, in turn, is defined as political competition. Political competition, as measured by indices of democracy, executive turnover, and coalition government, does indeed serve to separate the more and less successful post-communist states.

Another, very closely related orthodoxy is that corruption¹ is a vital part of what distinguishes relative political and economic success from failure (Kaufmann, Kraay and Mastruzzi 2003). Corruption is the method by which the winners maintain political and economic dominance and block reforms that should benefit a much wider portion of society. Hellman's argument also applies to levels of post-communist corruption, and is indeed a restatement of the classic public choice argument that corruption is due to a lack of competition, be it political or economic. Political competition clearly separates post-communist countries above the global median of perceived corruption from those below the median.

However, political competition is of no help in explaining the significant differences in corruption levels between the relatively successful post-communist cases and the apparently much less corrupt "Western" countries. Both sets of

countries have more or less the highest levels of democracy possible under most measures. The successful post-communist cases have higher levels of political competition than the “West” according to executive turnover, cabinet government and related measures (---- 2003; Fortin 2004; Roberts 2004). Clearly, then, the applicability of Hellman’s argument has a limit. Indeed, this limit also applies to more general conclusions about corruption and political competition (Montinola and Jackman 2002).

This article contributes to the explanation of why political competition is insufficient to achieve really low levels of corruption. In the context of the reigning orthodoxy, the analysis is doubly ironic. We argue that the interaction of high levels of political competition and a relatively well-established rule of law serve to lock in post-communist corruption. The rule of law gives parties much greater potential to reward firms than it does to punish them. This means that is rational for firms to ally themselves to parties, which are in government in only one out of every two parliamentary terms. The rewards firms gain from their political allies are greater than the punishments they receive from competing political parties. Thus, firms develop corrupt relationships instead of trying to distance themselves from political parties.

In section two, we discuss our selection of Poland as our country case. In section three, we define our dependent variable by presenting a simple typology of the relationships with parties that firms may choose. In section four, we analyze a variety of independent variables. In section five, we present qualitative evidence to support our theory. Section six tests our theory using an elite survey, which includes uniquely direct measures of the concepts in the paper. In section seven, we conclude.

POLAND

Poland is clearly a member of the group of relatively successful post-communist countries. In terms of political competition, its Freedom House rating is the maximum for political rights, and one short of the maximum for civil liberties (Freedom House 2004). In Freedom House's jargon it is fully "free". This is the same as for all other post-communist EU members, except Slovenia, which also scores the maximum for civil liberties. In contrast there is another group of post-communist countries, with limited political competition, which are classified as merely "partly free". Virtually the same division applies to perceived corruption (Kaufmann, Kraay, and Zoido-Lobaton 2002). Poland is in a group of post-communist EU members, which score between the global mean and 1.5 standard deviations above the global mean for perceived corruption, while post-communist countries with lower political competition are below the mean. Poland and the other successful post-communist countries are also clearly separated from the Western cases, which are almost all 1.5 to 3 standard deviations above the mean for control of corruption. The Western and successful post-communist cases are virtually inseparable in Freedom House ratings. The only difference is the slightly lower rating for civil liberties in the post-communist cases. Poland is close to the mean for political competition and perceived corruption for a group of at least eight countries. Thus, we are faced with the puzzle of how political competition and substantial, but by no means rampant, corruption co-exist in a significant group of countries. We begin to tackle this question in the next section by defining our dependent variables.

RELATIONSHIPS

It is obvious that there are many different types of corrupt relationships between parties and firms, and there have been several interesting attempts to classify these

relationships. Our classification is unique because it is directly linked to political competition. Our distinctions are not relevant in the context of low political competition. The orthodox analysis has been developed in that very context and one of its weaknesses is that it does not envisage distinctions such as those we make here.

From the firm's point of view, the best relationship with political parties could conceivably be any of the following:

- *Chastity*. In this case, firms refrain from developing an association with any political party
- *Marriage*. Married firms are associated with a single political party.
- *Polygamy*. Firms are simultaneously associated with competing political parties.
- *Serial Monogamy*. Firms are associated with whatever party controls the executive.

These different relationships should have important implications for democracy and economic development. If marriage is the dominant party-firm relationship, then the economy is substantially assimilated into the party system, and will be subject to massive changes every time the government changes. Marriage helps the opposition by channeling funds to parties when they most need them, but it forms a handicap for new parties trying to break into the system. If serial monogamy is the dominant relationship, then opposition parties will find themselves in a very weak position compared to the government, but the economy will not be hugely affected by the electoral cycle. If polygamy is the dominant strategy, there should be even greater continuity in policy, but with the effect of bolstering the opposition, rather than

privileging the government. Like marriage polygamy hinders new entrants to party competition.

The choice of relationship and the relative effectiveness of these relationships are the dependent variables of our study. Next, we will outline the relevant independent variables.

INDEPENDENT VARIABLES

CONFLICTING PREFERENCES

Firms want good relationships with the government, regardless of which parties hold power. Parties, conversely, want firms to associate with their party and their party alone to maximize their campaign contribution receipts and deny contributions to competitors (---- 2004). The excellent and voluminous literature on post-communist corruption ignores this fundamental conflict of interests between parties and firms, mainly because, following Hellman, it is more strongly focused on the less successful countries, where there are lower levels of political competition (Hellman, Jones and Kaufmann 2000). Political competition is a part of models of party-firm relations inspired by the “Western” experience. In the next section, we explain why these models do not apply to the Polish context.

COSTS TO PARTIES OF POLICY

In some influential models of party-firm relations the costs to governing parties of providing policy benefits to firms are significant (Grossman and Helpman 2001). These costs are insignificant in Poland. Firstly, much of the literature deals with public goods such as tariffs and minimum-wage levels. Our analysis pertains to private goods such as privatizations, licenses, and subsidies. Individual private goods

are much less likely to have important ramifications for voters and for policy-seeking politicians. In post-communist economies, the government can, and does, provide a multitude of private goods. Secondly, many models assume party systems organised around an economic policy cleavage (Brock and Magee 1977: 248). In such a party system, the costs of the provision of policy benefits to firms may be relatively high. However, the Polish party system has been weakly defined by differences in economic policy (Bielasiak 20001; Szawiel 1999). Thirdly, relatively high levels of corruption suggest a lower level of policy-seeking, whether economic or not, amongst politicians.

PARTY COMPETITION

If there is a dominant party, then marriage is obviously the best relationship for business. If electoral competition is unpredictable then serial monogamy is clearly the best option. A recent argument has linked increased political competition to lower politicization of the state (Grzymała-Busse 2003). Applying a similar logic would seem to predict serial monogamy as the optimum choice for firms when parties alternate in power. However, if other variables are introduced, we argue that alternating parties can enforce marriage on firms. In Poland, party competition has consisted of the alternation of center-right and peasant-left blocs. This alternation seems set to continue with the next parliamentary election in 2005.

PUNISHMENT POTENTIAL

This is the ratio of the power of the government to punish firms relative to its power to reward firms. Punishment may be thought of as reducing a firm's capital, while reward may be thought of as increasing its capital. Punishment is not the same as differential reward. In Table 1, firms one and two have exactly equal amounts of

capital. In the first two columns, firm one is punished, while firm two is rewarded. In the second two columns, both firms are rewarded, but firm two receives a larger reward. This latter type of treatment we will call a differential reward.

Table 1

Punishments and differential rewards

	Punishment v Reward	Differential Reward	Punishment v Reward	Differential Reward
	Firm 1	Firm 2	Firm 1	Firm 2
Time 1	100	100	100	100
Time 2	50	150	110	150

Punishment may also be thought of as the reversibility or stickiness of decisions. Punishment involves revoking previous benefits, rather than merely privileging competitors. It requires direct interference in the firm, rather than just manipulation of its competitive environment. Punishments usually require some action on the part of the judiciary, while the executive can grant rewards. Therefore, punishment potential is linked to the rule of law. Executives with low punishment potential are constrained by the rule of law.

In Poland, government's punishment potential is relatively low. We know of no example where the government has been able to shut down or marginalize a major firm or businessperson. There have been several failed attempts to do so. For example, Roman Kluska, the information technology entrepreneur, was arrested for tax evasion in 2002 but was cleared by a court within six months. Contrast this with the punishment potential of the Russian government. In the contemporary

Khodorovsky / Yukos affair, the Russian government has managed to dismantle a giant company with relative ease.

In Table 2, we show that if punishment potential is less than one and there is alternation of parties, chastity is not a profitable, never mind an optimal, strategy. The numbers in brackets show the payoffs to firms with different relationships to the governing party. The first figure is the payoff when party one is in power and the second relates to when party two takes power. Therefore, the interaction of political competition and the rule of law can provide incentives for continued corruption, rather than a separation of the interests of political parties and particular firms. We think punishment potential is the key to explaining why the current orthodoxy is not useful for understanding the difference between successful post-communist countries and longer-established Western capitalist democracies.

Table 2

Interaction of punishment potential and alternation of parties

	Rewards = punishments	Rewards > punishments	Punishment impossible
Polygamy	(2, 2) = 4	(2, 2) = 4	(2, 2) = 4
Serial monogamy	(2, 2) = 4	(2, 2) = 4	(2, 2) = 4
Marriage	(2, -2) = 0	(2, -1) = 1	(2, 0) = 2
Chastity	(0, 0) = 0	(0, 0) = 0	(0, 0) = 0

Having offered an explanation of why firms in successful post-communist countries, eschew chastity, we consider some variables, which help explain the choice between different corrupt party-firm relationships.

NUMBER OF ROUNDS

The number of elections, since a given firm first made a contribution to a political party, influences the choice of relationship. In affecting the choice of relationship, the number of rounds interacts with party competition. For example, under alternation, the number of rounds does not affect the serial monogamy and polygamy strategies. However, marriage is more profitable when there is an odd number of rounds, because the firm's partner party will be in power twice and in opposition only once. In addition to interaction, the actual number of rounds is itself substantially influenced by the party competition and punishment potential variables. Substantial punishment potential may induce some businesspeople to take their profits from one round and flee the country, as some Bulgarian and Romanian entrepreneurs have done. This does not seem to have happened in Poland. Punishment potential should interact with party competition in respect of the number of rounds. For example, under alternation, married entrepreneurs may be content to endure punishment until a partner party again comes to power. An unpredictable electoral situation may act as a further incentive to quit business in order to preserve existing large profits. Of course, to make really large amounts of money, firms normally need to stay in business for more than one electoral period.

SECRECY

Both firms and parties have incentives to keep their relationships secret from other actors. If relationships cannot be kept secret, then parties can treat the relationships differently. However, if the relationships are successfully kept secret, parties' ability to treat firms differently is severely limited. There can be no punishments because parties do not know that firms have contributed to their competitors. Moreover, the polygamy strategy becomes, in effect, a strategy of two-

timing, in which the firm conducts a relationship with two parties, with each party assuming the relationship is an exclusive one. Therefore, the married firms and two-timers should receive identical treatment from the parties.

We think the level of secrecy is relatively low in Poland. The relationship between approximately the ten richest people in each country can be relatively reliably identified from published sources. Interviews suggested that insiders are confident that they can categorize much less important actors.

DIFFERENTIAL REWARDS

In this section, we present a hypothetical scenario of party-firm relations in Poland. Political parties alternate. Punishment potential is low, and chastity is therefore unattractive. The number of rounds is four, one for each of Poland's post-communist parliaments.² Finally, we assume transparency rather than secrecy of relationships.

The following are the rules for the scenario. Each of the autonomous firms has two financial units to spend in each of the rounds. The government must give every party at least one policy unit in return for every financial unit accepted as a contribution. While the government can give multiple units of policy to benefit a firm, it can only take one away. This reflects low punishment potential. The government gives the minimum amount of policy (one unit for every unit of money) to the most unfaithful firm (the serial monogamist). The policy payoffs for firms are much greater in the first round, reflecting the extraordinary gains to be made in the early post-communist period. There are neither bonuses, nor punishments, in the first round, as

the strategies of the firms have not been revealed. In the first round, marriage and serial monogamy are indistinguishable.

Parties will punish firms that are married to their competitors but they will not punish serial monogamy or polygamy. Parties cannot resist the financial blandishments of firms. Therefore, parties always accept all of the contributions offered to them, regardless of their provenance, and regardless of the contributor's relationship with the competition. If a party were to refuse funds, for example, to punish a serial monogamist, it would be handing an advantage to the competition. However, parties do try to encourage marriage by giving different rewards to contributors, depending on their relationship with the parties. Differential rewards are awarded for two reasons: (1) for contributions while in opposition and (2) for not contributing to the competition. The first applies to polygamists and married firms, while the second only applies to married firms. Therefore, we call the second kind of bonus the "marriage bonus". Both relationships will attract a bonus over the payoffs awarded to serial monogamists. The policy of differential awards is an attempt by parties to maximize current income, while trying to achieve a long-term advantage over competitors by encouraging marriage. The size of the marriage bonus in relation to punishment potential is the key to the outcome of the scenario. Table 3 presents the payoffs for the three strategies (marriage, serial monogamy, and polygamy) with a large ratio of marriage bonus to punishment.

The government gives a fifty per cent differential reward to the polygamist, which always contributes to every party, regardless of whether it is in government. In order to encourage marriage, it gives a four hundred per cent marriage bonus to its partner firm. At this level, marriage is the best strategy for business. There seems to

be no reason why parties would not award a marriage bonus large enough to encourage marriage, and therefore we think this scenario is a realistic one.

Table 3

Hypothetical Differential Rewards

	Contributions to Parties		Married		Serial Monogamist		Polygamist	
Government	Party 1	Party 2	Policy Gained	Money Spent	Policy Gained	Money Spent	Policy Gained	Money Spent
Party 1	5	1	10	2	10	2	5	2
Party 2	3	3	-1	2	2	2	1.5	2
Party 1	5	1	10	2	2	2	1.5	2
Party 2	3	3	-1	2	2	2	1.5	2
Totals	16	8	18	8	16	8	9.5	8
Rank			1		2		3	

Our theory predicts that marriage will be the most common strategy when parties alternate in power. Parties should award the large bonuses necessary to encourage marriage, because they can still accept contributions from all firms. Firms will choose marriage for the higher overall rewards, even though more regular awards are available from a strategy of serial monogamy or polygamy. It is the interaction of relatively high political competition and low punishment potential that allows parties to enforce marriage on firms.

QUALITATIVE EVIDENCE: INSIDER TESTIMONY

This section plays an important role in our paper, but we do not want to exaggerate its status. Our qualitative evidence backs up the assumptions of our theory but these assumptions are intuitively reasonable independently of any empirical evidence. Moreover, in the next section we use quantitative data to test our

hypotheses. The interviews were conducted over a five-year period in Poland (---- and -----). We refer to prominent episodes that illustrate the actual workings of the system of party-firm relations, but our interviews did not provide only anecdotal evidence. They also contained abstract discussions of how the system works in general. Our sample of interviewees has little in common other than insider status. Hence, this is a diverse sample, which provides, a limited, but real, basis for generalization. We have only included statements supported by an overwhelming consensus of our interviewees.

Our interviewees assumed that chastity was irrelevant for big businesses. Their concern was not whether to engage with political parties, but exactly how to do so. Senior businesspeople coolly calculate, and passionately discuss, the costs and benefits of the strategies we have called marriage, polygamy and serial monogamy. Calculations were based around the conflict of preferences between businesses, which seek the flexibility and efficiency of unfaithfulness and parties, which seek the exclusivity and reliability of marriage. Interviewees, especially businesspeople themselves, were remarkably frank in admitting that large illegal contributions were made to parties, and that concrete policy benefits were required in turn. Much of the art of party-firm relations relates to the manipulation of differential rewards by parties. In spite of the limited effectiveness of punishments, parties sometimes go to great lengths to punish the business allies of their political competitors. The importance of differential rewards and punishments is dependent on relative transparency of relationships and the long-term commitment of firms to Poland. Although some business leaders implausibly denied their own specific party-political connections, others admitted theirs freely, and third parties were able to convincingly demonstrate the existence of such relationships.

Businesspeople are clearly frustrated by the limitations of marriage but the payoffs to this relationship have been so great that they have been happy to endure uncertainty and limited punishment when their party loses power. This was clearly the case of Aleksander Gudzowaty, Poland's natural gas and insurance billionaire. He struggled throughout the right-wing government of Jerzy Buzek to retain control of the natural gas pipeline business that he had developed under the left. He also commented on the aggressive behavior and demands of the right-wing party during their government. Jan Kulczyk, Poland's richest and most diversified businessman (Wprost 2004), was, similarly, closely tied to the rightists and has repeatedly won massively lucrative contracts from Solidarity governments. By contrast, he faced definite, but relatively minor, punishments when the left returned to power. The affiliations of Gudzowaty and Kulczyk are not discoveries of ours: they are widely discussed in the media, and parties themselves have come close to acknowledging them.

Although interviewees gave the impression that marriage is the most lucrative choice for firms, it is clear that other strategies are employed, are lucrative and are well-known. Ryszard Krauze of Prokom Software has brazenly shifted from left to right and back to the left again, in order to maintain his profits from public procurement, most notably the computerization of the Social Insurance Administration (Butkiewicz, Indulski, and Ryciak 2004). Zygmunt Solorz of Polsat, a satellite TV business, is often portrayed as a polygamist (Polityka 1998). These men may not have profited spectacularly from privatizations in the way that Gudzowaty and Kulczyk have but they have been able to carry on their business without the

outright governmental hostility that the married businessperson has to endure once every two parliaments.

QUANTITATIVE EVIDENCE: ELITE SURVEY

We are able to test some of the crucial observable implications of our theory using an elite survey carried out in Poland in the summer of 1998 by the Institute of Political Studies of the Polish Academy of Sciences (Wasilewski 1999). For the business section of the survey, 300 presidents and vice-presidents of the executive board were selected from the lists of the 500 biggest Polish firms published by *Polityka* (quality weekly) and *Gazeta Bankowa* (equivalent of the *Financial Times*). 194 interviews were carried out making for a response rate of 64.6 per cent. Since two members of some firms were interviewed there is data for 144 businesses. In order to eliminate selection bias, the following analysis is based on the firm. Where there were two respondents from one firm, one of them has been randomly selected. The survey contained questions about how well respondents knew 22 political leaders. The list was not drawn up systematically but seems representative of Poland's most powerful people at the time (see Appendix 1). We use this data to measure our dependent variable. This involved a number of stages.

Respondents were asked to rate how well they knew each of 22 leaders. In the present analysis, we will use the categories of "knows very well", "knows well", "has had contact with", and has never met. Treating these categories as interval level data, we created an index of political connections for all respondents. Those with political connections below the mean were classified as chaste, while the rest were classified as active. These active firms might be married or unfaithful. This means that the businesspeople classified, operationally, as chaste are not literally chaste. However,

they are relatively chaste. The mean score of connections with politicians for chaste businesspeople was 2.7, meaning that they could have “had contact” with three or the politicians, known one of them very well, or something in between. By contrast, the representatives of the active firms had a mean score of 15.5, meaning that they could have “had contact” with 16 of the politicians, known five of them very well, or something in between.

Next, we created an index of faithfulness, which aims to distinguish those with connections concentrated on one party, or a number of parties, from those with equally good connections across the political spectrum. This measure was calculated as follows:

- The number of politicians in the left (7), right (7) centre (5) and peasant (3) groups known by each respondent was calculated. “Knows very well”, “knows well” and “has had contact with” were treated equally.
- These scores were translated to percentages. So a businessperson would know 0-100% of the politicians in a certain group.
- These percentage scores were standardized, so that businesspeople who knew the same proportion of a certain group as the mean for the whole sample scored zero. Scores above and below the mean are denominated in standard deviations.
- Each businessperson’s bias towards one group over another was calculated by subtracting their standardized score for each group from their score for the other groups. This produced six comparative scores.
- Finally, the six comparative scores were simply added up. The larger the score, the more faithful, or party political, are the connections of a businessperson.

Unfortunately, this measure cannot distinguish polygamists from serial monogamists, but it can distinguish these two categories from married firms. Also, this measure may be affected by the timing of the survey. In mid-1998 the mainstream right had just returned to power in the September 1997 election after four years without any parliamentary representation. Therefore, the measure may substantially underestimate the number of unfaithful firms, since there are likely to be big differences between connections to the centre, left and peasants on the one hand and connections to the right on the other hand. For this reason, we conduct all of our analyses twice: firstly, including the right-wing, and, secondly, excluding the right-wing. Those with above the mean scores on the faithfulness measure were classified as married and those below the mean were classified as unfaithful. The distribution of the three categories is illustrated in Table 4.

Table 4

Relationships of Polish Businesspeople and Politicians

	Including Right-Wing	Excluding Right-Wing
Chaste	83	83
Married	43	35
Unfaithful	11	19
N	137	137
Missing	5	5

This data supports our theory. Married firms are much more common than unfaithful firms. Including the right-wing politicians, there are almost four times as

many married as unfaithful firms. Excluding the right-wing makes a big difference but there are still almost twice as many married as unfaithful firms.

Next, we present logistic regressions, which show that these relationships matter. The dependent variable is whether a firm has reported successful lobbying or not. Almost exactly sixty per cent of the sample reported having successfully lobbied the state. We include a number of controls to test whether relations with politicians are more important than the economic characteristics of the firms. The first of these is income in millions of Polish Złoty. The second is a variable that measures ownership by the State Treasury or another state institution or state-owned firm. It classifies firms with less than 10 per cent state ownership as private, those with 11 to 74 per cent state ownership as mixed and those with 75 to 100% state ownership as state-owned. This tripartite classification has a strong theoretical and empirical basis in the literature on post-communism (Stark and Bruszt 1998; Staniszkis 2000; ----- 2004). There is no such literature on foreign ownership, which is treated as a straightforward interval-level variable. The final control variable is policy orientation. Policy orientation distinguishes those firms, which report that contemporary state policy is the most important influence on their firm, from those which report that either the domestic or the world economy is more important to their firm's development. Theoretically, this is an extremely strong control as it is almost a direct measure of the firm's perceived need to lobby.

Both equations pass the Hosmer and Lemeshow test of significance and both support substantially the same conclusions. The results clearly show that relationships matter. The income, state ownership, and foreign ownership variables do not approach statistical significance. Neither is the policy orientation variable significant. All of

these variables are unimportant when compared to the relationships of our typology. Married firms are much more likely to have lobbied successfully than chaste firms, while unfaithful firms are even more likely to have reported successful lobbying. This fits our theory. Unfaithful firms should rarely report failure because parties will not refuse to accept contributions. Married firms will not be able to lobby successfully when their partner's competitors are in power.

Table 5

Logistic Regression of Lobbying Success

		Including Right-Wing	Excluding Right-Wing
Constant		-1.52 (0.69)*	-1.564 (0.697)*
Income ³		0.000 (0.000)	0.000 (0.000)
State ownership	Mixed	-0.897 (0.817)	-0.845 (0.813)
	State	-0.057 (0.707)	0.047 (0.713)
	(Private)		
Foreign ownership		0.005 (0.009)	0.005 (0.009)
Policy orientation	State policy	0.917 (0.493)	0.876 (0.488)
	(Other)		
Relationship	Married	1.607 (0.482)**	1.735 (0.509)**
	Unfaithful	3.362 (1.154)**	2.15 (0.707)**
	(Chaste)		
Hosmer and Lemeshow Test		0.871	0.088
Cox and Snell R ²		0.211	0.192
Nagelkerke R ²		0.286	0.26
N		109	109
Missing ⁴		33	33
* significant at five per cent ** significant at one per cent			

Our theory, qualitative data and quantitative data are an imperfect match, but we think they complement each other well, and provide a plausible explanation for the persistence of substantial corruption in the context of high political competition and the rule of law. Our qualitative data provides some basis for generalization, but only a relatively weak one. Our interviewees overwhelmingly gave an account which accords with our theory's prediction of the prevalence of marriage, the relative ineffectiveness of punishments and the temptation of differential rewards. Our quantitative data provides a solid basis for generalization, but is missing any measure of contributions and a direct measure of payoffs. Nonetheless, it is entirely consistent with our theory. Moreover, the results of the logistic regression give a very strong hint that differential rewards and low punishment potential are a regular part of Polish party-firm relations. Our theory of payoffs dissolves the apparent paradox in the data: the most regularly successful relationship (unfaithfulness) is not the most commonly chosen one. We think this is because married firms receive greater rewards, even though they often have to endure punishments, and our interviewees agree. There are great variations amongst successful post-communist countries, but our analysis is very abstract and it is not obviously based on any uniquely Polish characteristics. In our opinion, the theory is a hypothesis well worth investigating elsewhere.

CONCLUSIONS

We do not think that political competition directly causes corruption. We agree with the consensus that the extraordinary rents available in a partially reformed economy created strong incentives to corruption. These rents, and very possibly the level of corruption, have been reduced in successful post-communist countries. Hellman argues convincingly that political competition is a powerful explanation for

this trajectory. However, the reduction in corruption has not continued to reduce as far as Western levels, and seems unlikely to do so any time soon.

We think political competition, interacting with low punishment potential, has locked in corruption at its current level. From a post-communist point of view, many countries have locked themselves into a virtuous circle of low corruption, steady economic development and stable democracy. However, from a Western point of view, these countries may be locked into a vicious circle of high corruption, lower than potential economic development, and low-quality democracy (Greskovits 1998: 184-187). Advice to political actors on how to curb corruption is unlikely to work (World Bank 2000) when corruption is so central to political competition.⁵ Ironically, it is an interaction of the Western institutions of political competition and the rule of law that is serving to prevent some countries from proceeding from post-communist “success” to unequivocal membership of the “West”.

As in so many other areas of the post-communist transformation, the international dimension has been underplayed in studies of corruption. Our analysis has optimistic implications for the role of the European Union (EU) in reducing corruption. So central is corruption to political competition, that exhortation by, and socialization among, the “European partners” is unlikely to change party behaviour. Recall that the key to the outcome of the struggle between parties and firms is the massive difference between rewards and punishments such that parties can calibrate benefits in order to encourage marriage. This is dependent on a huge supply of private goods. There are many examples of how European integration limits the supply of private goods. EU public procurement norms have made repetition of many of the most egregious post-communist scandals very difficult, if not impossible. The EU closely watches state

aid; it frequently cannot be granted; and sometimes it even has to be rescinded. As Hellman emphasized, constraint is vital, but this constraint is due to international integration, not political competition.

APPENDIX ONE

LIST OF POLITICAL LEADERS FROM INSTYTUT STUDIÓW POLITYCZNYCH SURVEY

Balcerowicz, Leszek	Freedom Union
Bielecki, Czesław	Solidarity Electoral Action
Borowski, Marek	Democratic Left Alliance
Cimoszewicz, Włodzimierz	Democratic Left Alliance
Geremek, Bronisław	Freedom Union
Goryszewski, Henryk	Peasant Party
Kaczmarek, Wiesław	Democratic Left Alliance
Kaczyński, Jarosław	Solidarity Electoral Action
Krzaklewski, Marian	Solidarity Trade Union
Kwaśniewski, Aleksander	Democratic Left Alliance
Lewandowski, Janusz	Freedom Union
Miażek, Ryszard	Peasant Party
Miller, Leszek	Democratic Left Alliance
Pawlak, Waldemar	Peasant Party
Pol, Marek	Union of Labour
Rokita, Jan Maria	Solidarity Electoral Action
Siwiec, Marek	Democratic Left Alliance
Suchocka, Hanna	Freedom Union
Syryjczyk, Tadeusz	Freedom Union
Tomaszewski, Janusz	Solidarity Electoral Action
Walendziak, Wiesław	Solidarity Electoral Action
Wałęsa, Lech	Christian Democracy of the Third Republic

APPENDIX TWO

PARTIAL LIST OF INTERVIEWS

Some interviewees requested confidentiality, so their names have not been included.

Ryszard Bankowicz,	Polska Rada Biznesu
Agnieszka Dziedzic	Feedback / Hill and Knowlton (Lobbyist)
Zofia Gaber	Chairwoman, Agros Holding
Urszula Karpinska	Deputy Director, Polish Confederation of Private Employers
Grazyna Jaskula-Pereta	General Director, Business Centre Club
Aleksander Gudzowaty	President of Bartimpex, (Reportedly 4 th Wealthiest Polish Businessman ⁶)
Jan Kulczyk	President, Kulczyk Holding (Reportedly wealthiest Polish Businessman)
Jan Lityński	Centrist Politician and Lobbyist
Jan Waga,	Chairman of the Board, Kulczyk Holding
Jan Stefanowicz	Polish Lawyer & Lobbyist

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NOTES

¹ In this article we define corruption widely as payments to those who wield public power with the goal of obtaining a private, but not necessarily personal, benefit. While, this definition is obviously vague and normative, narrower, more legalistic, definitions miss much of what is important about post-communist political economy. Many corrupt payments are legal or alegal, rather than illegal. Crucially, they are often made to political parties, not to individuals.

² This includes the “contract parliament” of 1989-91, which was only partially freely elected.

³ The income variable is insignificant, and also non-linear, because neither of the firms with the two highest incomes reported successful lobbying. Deleting the cases resulted in a significant income variable, the continuing insignificance of all other controls, and the continued dominance of the relationship variable. Since we have no reason to doubt the validity of the lack of lobbying success of the two largest firms, we present models in which they have not been deleted.

⁴ Both equations suffer from a large number of missing cases. Most of these (24) are due to a refusal to report income. Missing income data is not associated with dependent variable, so the listwise deletion procedure adopted above should produce unbiased results. Moreover, the logistic regressions were repeated with 21 of the 33 missing cases replaced with scores estimated by the EM maximum likelihood procedure. Again, these equations produced substantially the same results.

⁵ The Polish *Sejm* has a register of members’ interests, which is effectively ignored by a huge proportion of deputies. From a random sample of 50, taken in January 2004, 27 had made no declaration. In the Czech Republic there is a similar register of interests but there are no penalties for non-compliance, not even in theory! Unsurprisingly, very few politicians provide information to the Czech register.

⁶ According to *Wprost* rankings