Chapter 3
The Outcome (Criterion Variables)

(A): Corruption and Prosperity
This chapter defines *corruption* and *prosperity* based on various underlying perspectives.

3.1   Definitions of Corruption *(A)*

Corruption is a widely used term. Dozens of definitions exist in the literature (Gingerich, 2013; Paldam, 2001; Rose-Ackerman, 2006; Treisman, 2000). However, one standard definition identifies corruption as illicit private benefit(s) (Paldam, 2001, p. 389). Another highlights the abuse of public authority or resources for the purpose of pursuing political goals or financial advantages at the expense of others (Gingerich, 2013, p. 10).

According to the Cambridge University Dictionary (2014), corruption is "illegal, bad, or dishonest behaviour, especially by people in positions of power". One common antonym is "transparency". In the world of business, this refers to activities performed openly, i.e. "without secrets, so that people can trust that they are fair and honest" (Cambridge University Dictionary, 2014).[1]

Moreover, corruption is a scourge associated with economic failure that nations have long tried to remove, albeit with little success (Chase, 2010). Corruption is symptomatic of state-society relations. It involves undermining the fairness and legitimacy of the state and leads to wasting and poorly targeting public funds (Rose-Ackerman, 2006, p. xvi). Corruption occurs when private wealth and public power overlap (Rose-Ackerman, 2006, p. xvii). Whereas corruption subverts human

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[1]Definitions of '<corruption>' and '<transparency>' from Cambridge Dictionary, www.dictionary.cambridge.org, © Cambridge University Press. Used with permission. Reproduced with permission of the Licensor through PLSclear.

rights, high transparency levels are also associated with guaranteeing human rights (Gebeye, 2012; OHCHR, 2019).

Corruption may also be understood more broadly. As a moral category, it denotes rot and putrefaction (Rose-Ackerman, 2006, p. xiv). This is its common meaning since the Old Testament. Leviticus 22:25 (King James Bible, 1769) identifies corruption as a deficient inner state: "*Neither from a stranger's hand shall ye offer the bread of your God of any of these; because their corruption is in them [. . .]*". However, one of its most important uses in the Holy Scriptures is its reference to Jesus Christ as the Holy One, as the one who did not corrupt (King James Bible, 1769, Psalms 16: 10; Psalms 49: 9; Acts 2: 27–32; Acts 13: 34–37).

In the Gospel of Matthew, the word "corrupt" refers to the warning that Jesus gave about false prophets coming on his behalf (as the title of this study indicates). Jesus compares the false prophets with the corrupt fruits of corrupt trees (King James Bible, 1769, Matthew 7: 15–23). A similar reference occurs in Luke 6: 43–45 and in Matthew 12: 33 (King James Bible, 1769): "*Either make the tree good, and his fruit good; or else make the tree corrupt, and his fruit corrupt: for the tree is known by his fruit*".

Among Protestants, Matthew 7 (King James Bible, 1769) is perhaps the most common of several scriptural warnings as it provides a basis for demonising the Roman Catholic clergy (Johnstone, 2006, p. 47). Roman Catholic clerics were depicted as "deceitful workers [that] fashion themselves like unto the apostles of Christ" and as Satan's servants, who were instructed to use the scriptures in their deceits (Becon, 1844, p. 405 as cited in Johnstone, 2006, p. 47). Therefore, reformers like William Tyndale also employed the same scriptural reference ("false prophets") to denounce the Roman Catholic Church-State in the sixteenth-century (Tyndale, 1849, pp. 121–8; Johnstone, 2006, p. 47) (see also Sect. 10.4.2.1).

Yet, historical Protestants have broadly understood "corruption" as being a phenomenon associated with a demonic influence which, therefore, permeates all humankind, not just state churches or governments (see also Sect. 10.4.2.1). As Johnstone (2006) observes:

> Godly writings give evidence of an in-depth knowledge of the conventions of Protestant demonism, particularly the defining nature of man's corruption through the fall of Adam for his constant persecution by the Devil, and his reliance on God for protection. 'Sin and corruption conceived in the heart of man is the spawn of the devil'. . .(p. 109)

The term corruption is central to this book. It is discussed in detail in Sect. 4.1 and in Parts III and V. Those sections explore the different theoretical and empirical outcomes of corruption and prosperity in those two religious systems claiming to follow the teachings of Jesus Christ: Roman Catholicism and Protestantism. Applying Jesus' parable of "false prophets" (King James Bible, 1769, Matthew 7: 15–23; Luke 6: 43–45; Matthew 12: 33) extends beyond the clergy to *a corrupt religious-political system, one that uses the name of Jesus (like a false prophet's) and thus produces corruption and a lack of prosperity in the respective countries under its influence (corrupt fruits).*

3.1.1 The Corruption Perceptions Index (CPI) as an Outcome (or Criterion Variable)

Corruption is difficult to study empirically (Treisman, 2000). Actual corruption is hard to measure, and standardising perceptions may prove challenging. Thus, for instance, if a society has high ethical standards, its citizens may perceive small infractions as outright corrupt, whereas a society with different standards may be perceived as less corrupt even if objectively measured as more corrupt. Therefore, corruption is culture sensitive.

However, expertise and subjective perceptions are the only information on corruption levels widely available for cross-country empirical research (i.e. Corruption Perceptions Index (CPI); World Bank; see Lambsdorff, 2006, p. 3; Gingerich, 2013). The coverage of such aggregate indicators (i.e. CPI) makes them the most empirically researched corruption measures, provided one assumes that they correlate with real corruption levels (Lambsdorff, 1999, 2006; Mauro, 1995; Habib and Zurawicki as cited in Gingerich, 2013). The different cross-national corruption ratings established by diverse organisations using various techniques are highly correlated, both with each other and across time (Treisman, 2000, p. 400).

Some studies at the individual (i.e. national) micro-level employ more objective data (i.e. convictions for corruption) and higher conceptual precision than cross-country research using aggregate indicators (Gingerich, 2013). Nevertheless, such micro-level data is unavailable and not standardised across countries. Furthermore, it suffers from validity issues (Lambsdorff, 2006, p. 3).

The Corruption Perceptions Index (CPI) of Transparency International (TI) (2016) is a composite index. It draws on the corruption indices of 11 independent institutions (including the World Economic Forum, the European Intelligence Unit, and the World Bank). The index summarises perceptions of business people and country experts around the world, both residents and expatriates. CPI values range from 0 to 10. Lower values indicate a higher degree of corruption (i.e. a lesser degree of transparency).

The empirical part of this study focuses on 65 countries in the Americas and Europe. I selected the *CPI*-aggregated measure on account of its comprehensive coverage and ideal availability to perform a cross-country analysis and to compare the findings with previous studies.

3.2 The Global Competitiveness Index (GCI) as a Prosperity Proxy (Outcome or Criterion Variable) (A')[2]

I define prosperity in its broader sense—of being successful—rather than restricted to economic terms (i.e. GDP). On this basis, I link the concepts of "prosperity" and "competitiveness" (GCI), which both result from related identical conditions. The World Economic Forum developed the Global Competitiveness Index (GCI) as a comprehensive proxy of prosperity to track the performance of nearly 140 countries in terms of twelve categories: institutions, technological readiness, innovation, higher education and training, health and primary education, business sophistication, infrastructure, macro-economic environment, labour market efficiency, market size, financial market development, and goods market efficiency. Through empirical and theoretical research, the World Economic Forum identified such categories as determinants of productivity which in turn is the primary determinant of economic growth and prosperity (World Economic Forum, 2016).

Thus, the World Economic Forum defines competitiveness as "the set of institutions, policies and factors that determine a country's level of productivity, which in turn, sets the level of *prosperity* that the economy can achieve" (World Economic Forum, 2016, p.11). Accordingly, I often use prosperity and competitiveness (GCI) indiscriminately.

The GCI is a highly comprehensive measure and ranks countries on a prosperity scale. The existence of institutions, education, transparency, and other factors already included within the GCI (or prosperity) means a significant advantage for the purposes of this study. First, these variables are closely related, theoretically and empirically, and thus belong to the same "prosperity phenomenon" (GCI). Consequently, their causality need not be discussed, as they are not isolated but aggregated in the GCI. Second, such aggregated factors (GCI) allow focusing on other background (i.e. exogenous) causes determining the "competitiveness phenomenon". Therefore, I focus on potential (i.e. theoretically conceivable) exogenous variables not included in the GCI. These, for example, include religion and culture, legal origin and state religion (as background proxies for institutions), or environment and geography.

The GCI (and its drivers) also correlate with indicators of equality (i.e. Inclusive Growth Performance, Gini coefficient) and environmental sustainability, exhibiting win-win synergies (rather than trade-offs) between these factors (World Economic

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Forum, 2012; World Economic Forum, 2019; World Economic Forum & European Investment Bank, 2017).

By way of illustration, throughout the Holy Scriptures, "prosperity" is often associated with following the moral commandments of the law (see Table 8.4). For instance, "Keep therefore the words of this covenant, and do them, that ye may *prosper* in all that ye do" (King James Bible, 1769, Deuteronomy 29:9). In turn, the Bible links short- or long-term misfortunes as both being consequences of rebellion:

> if thou wilt not hearken unto the voice of the Lord thy God, to observe to do all his commandments and his statutes which I command thee this day; that all these curses shall come upon thee, and overtake thee (King James Bible, 1769, Deuteronomy 28:15).

This principle refers exclusively to the free-will moral observance of the law in the Bible and is not to be confused with the blind obedience of hierarchical structures and dogmas. Obedience of hierarchies often enforces coercion instead of a rational internalisation of values, and has, in turn, a negative influence on prosperity (Guiso et al., 2006; Licht et al., 2007; Tabellini, 2005), (see Sects. 8.1.1 and 10.3). Protestant countries have applied the biblical moral principles of the Decalogue in their legal systems (Table 8.4). In contrast, Catholic countries have mostly based their legal systems on the hierarchical Roman and Canon law, which mostly derives from the Catholic Sacraments and Greek philosophy rather than from the biblical commandments (Table 8.3).

Chapter 4 and Appendices 4 and 5 indicate clear distribution patterns for competitiveness and corruption in the countries studied here: high competitiveness and low corruption in traditionally Protestant countries; lower competitiveness and higher corruption in traditional Roman Catholic or Orthodox countries.

3.3   Competitiveness and Transparency as Prosperity Proxies

The lack of competitiveness, corruption, income inequality, and policy distortions are strongly associated empirically (Rose-Ackerman, 2006); (Lambsdorff, 1999). However, deriving clear causality arguments from these features is problematic. While corruption, for instance, may cause the other variables, it is at the same time also likely to result from these (Lambsdorff, 1999). Thus, the causes and the consequences of prosperity (and corruption) are difficult to distinguish by considering these variables.

3.3.1   Economic Indicators and Corruption

Gross domestic product (GDP) per capita is the most robust variable related to corruption across empirical studies as wealthier countries tend to exhibit less

corruption (Paldam, 2001); (Treisman, 2000). Goldsmith's (1999) sample of 66 countries found a negative correlation between corruption and different indicators of economic freedom. Paldam's (2002) study of 77 countries reached similar results, including more explanatory variables.

No apparent doubt exists about a robust negative correlation between GDP per capita and corruption. However, similar agreement exists that no clear causality can be derived from that correlation (Lambsdorff, 2006, p. 24). Causation may run from low economic growth to corruption or from corruption to low growth or, and this is more likely, in both directions, thus creating virtuous or vicious loops. However, assuming economic growth as the primary cure for corruption amounts to simplistic and misleading "wishful thinking" (Rose-Ackerman, 2006, p. xvi).

Although various scholars have attempted to establish a causal link between corruption and prosperity (or vice versa) (e.g. Treisman, 2000, p. 430), causal associations suffer from pressing endogeneity issues (Lambsdorff, 2006). In practice, both variables should be interrelated in both directions (Lambsdorff, 1999); (Morris, 2003); (Uildriks, 2009). Therefore, I consider the two variables complimentarily (as a whole outcome), since their causal separation might be neither useful nor desirable for the specific purposes of this study (see Fig. 2.1).

In fact, the Global Competitiveness Index (GCI) as a prosperity proxy usefully includes the Corruption Perception Index (CPI) (World Economic Forum, 2016). Consequently, I subsume both competitiveness and corruption under the prosperity umbrella.

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