

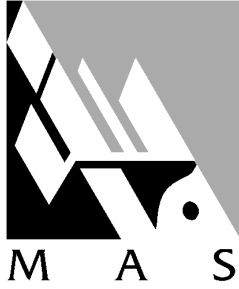


Palestine Economic Policy Research Institute (MAS)

The Social Capital and Corruption Puzzle: Evidence from a Palestinian Survey

Luca Andriani

2011



Palestine Economic Policy Research Institute

**The Social Capital and Corruption Puzzle:
Evidence from a Palestinian Survey**

Luca Andriani

2011

The Palestine Economic Policy Research Institute (MAS)

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

Mission

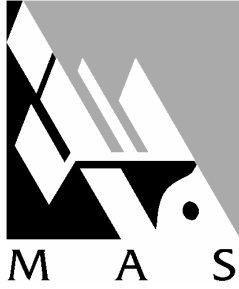
MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

- ◆ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ◆ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ◆ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ◆ Disseminating up-to-date socio-economic information and research results.
- ◆ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ◆ Strengthening economic and social policy research capabilities and resources in Palestine.

Board of Trustees

Ghania Malhees (Chairman), Samer Khoury (Vice chairman), Ghassan Khatib (Treasurer), Luay Shabaneh (Secretary), Nabil Kaddumi, Nabeel Kassis, Mohammad Mustafa, Raja Khalidi, Rami Hamdallah, Radwan Shaban, Sabri Saidam, Samir Huleileh, Samir Abdullah (Director General).



Palestine Economic Policy Research Institute

The Social Capital and Corruption Puzzle: Evidence from a Palestinian Survey

Luca Andriani

2011

The Social Capital and Corruption Puzzle: Evidence from a Palestinian Survey

Researcher: **Luca Andriani**, Birkbeck University of London

Reviewer: Dr. Numan Kanafani, Research Director at MAS, University of Copenhagen

Layout: Lina Abdallah

Funding: This study was funded by The Arab Fund for Economic and Social Development

Palestine Economic Policy Research Institute (MAS)
Jerusalem and Ramallah

ISBN 978-9950-374-13-3

Foreword

The Palestine Economic Policy Research Institute is pleased to introduce the following study on social capital and corruption in the Occupied Palestinian Territory. This is the eighth and final study in MAS's ongoing research program entitled, "Deployment of Social Capital for the Benefit of Development in the Occupied Palestinian Territory" – The aim of this study is twofold: to critically analyze the relationship between social capital components and corruption in the Palestinian Territories, and to investigate methods of deploying social capital to combat corruption. The research relies heavily on the results of a comprehensive survey on social capital in the Occupied Palestinian Territories undertaken by MAS in 2007, as well as surveys on the perception of corruption carried out by other independent Palestinian institutions. Ultimately, the study arrives at insightful and important conclusions which shed light on the roles and problems inherent to social capital and corruption in the Palestinian context.

MAS would like to thank the author for providing a credible and thorough analysis and for arriving at important conclusions which will aid in strengthening social cohesion and enhancing the capacity of future policy to combat corruption. I would also like to thank the reviewers whose feedback helped to improve the quality of the study. Finally, I would like to thank the Arab Fund for Social and Economic Development for funding this study and for its continued support of MAS's research programs and the Palestinian development effort in general.

Dr. Samir Abdullah
Director General

Contents

1. Introduction	1
2. Social Capital and Corruption: Literature Review and Measures	3
2.1 Social Capital and the “Social Capital Dream”	3
2.2 Social Capital and Corruption Puzzle	6
2.3 Measures of Corruption	7
2.4 Why Corruption Can Be Bad	10
3. The Corruption in the Palestinian Context	11
3.1 Palestinian “Regulatory Capacity”	11
3.2 Public Opinion on Corruption in the Palestinian Territories	13
4. Data Description and Variables	17
4.1 The Variables of Corruption	17
4.2 The variables of Socio-Economic Dimensions	18
4.3 Descriptive Analysis	22
5. Methodology and Empirical Analysis	25
5.1 Methodology for Empirical Analysis	25
5.2 Empirical evidence for social capital and corruption puzzle	26
6. Conclusions and Policy Recommendations	29
References	31

List of Figures

Figure 1	Bridging VS Bonding Connections	5
Figure 2	Percentage distribution of the respondents relative to the most prevalent forms of corruption in the public sector in 2009	13
Figure 3	Reasons of corruption (2009)	14
Figure 4	Percentage of Palestinians that thinks that there is corruption in PA institutions under the control of President Abu Mazen (2008-2010)	15
Figure 5	Percentage of Palestinians that thinks that there is not corruption in PA institutions under the control of President Abu Mazen (2008-2010)	16

List of tables

Table 1	CPI 2010	8
Table 2	Corruption and socio-economic factors	19
Table 3	The idea of corruption among the respondents	22
Table 4	Correlation among corr1, corr2 and tax-moral (obs = 2,349)	22
Table 5	High-score corruption and individual characteristics	23
Table 6	High-score corruption and working sector	24
Table 7	Social capital and corruption puzzle	26

Abstract

Palestinian perceptions about corruption and tax evasion can be affected by their endowment of social capital. This paper tries to estimate the probabilities that Palestinians will claim to be more against corruption in the presence of high social capital. This estimation is based on binomial logit regression models, where indicators of corruption are the dependent variables and the proxies of social capital are included in the group of explanatory factors. The empirical analysis uses a unique data set derived from the “Survey on Social capital” conducted by the Palestine Economic Policy Research Institute (MAS) in 2007. The survey contains several sections where a number of opinions regarding civic spirit, trust, shared values, norms and corruption have been collected from a random sample of individuals (2,350 observations) in West Bank and Gaza Strip. The indicators of corruption consist of the perceptions that Palestinians have concerning the importance of fighting corruption, the use of bribes at work and tax evasion. Empirical evidence indicates that the probability of claiming to be against the use of bribe and tax evasion is higher for individuals that trust institutions and people in general, but lower for individuals more involved in associational activities. Moreover, we find that individuals that consider the rule of law very important are likely to declare that the use of bribes at work and tax evasion cannot be justifiable at all.

1. Introduction

Social capital can be understood as those elements, such as trust, norms and networks, that can improve the efficiency of a society by reducing transaction costs, facilitating collective actions and lowering opportunistic behaviour (Grootaert 2001). On the other hand, corruption can be defined as “the misuse of entrusted authority for private benefit” (Seldadyo and Haan 2006 p.2). In order to be effective, corrupt exchanges need to occur within a “normative system” where they are kept secret (Della Porta and Vannucci 1999, Shleifer 1993), as opposed to a legalistic system where rules are enforced by law. Therefore, a corrupt exchange bases its strength upon trust, loyalty and reciprocity among the agents involved (Warren 2001). So, while the positive view of social capital indicates the elements of trust and reciprocity, the keys to combating the ‘free rider’ problem, the same elements become essential for opportunistic behaviour/corruption to occur and. In this paper we will call this ambiguity “the social capital and corruption puzzle”. The relationship between corruption and social capital has been analysed from a number of different perspectives. However, empirical evidence has not shown unidirectional results so far. In a society made up of individuals, households and small groups, the trust between the members of a community is called “generalised trust”. Notice that this does not indicate the level of trust in a specific individual (particularised trust of specific trust), rather the person’s level of trust towards other people when no other information is available (Sonderskov, 2008).

A relevant number of studies argue that societies with higher level of generalised trust are more likely to achieve higher level of economic development and less corruption (La Porta et al 1997, Uslaner 2002). On the other hand, several scholars argue that social capital does not always produce positive externalities (Fukuyama 2001, Putnam 2000, Warren 2001). More precisely, particularised trust and interpersonal relations based on strong ties are expressions of closed networks (Harris 2007). This might imply that while social resources are available to the members of a specific group, the same resources can be denied to the outsiders. In this case at least two possible scenarios are likely to occur. Firstly, the access to public and/or social resources is available according to group-membership rather than merit. Secondly, one of the options to access to the resource available to non group-members is to incur an additional charge or bribe (Bjornskov 2003). Both of these cases refer to situations of corruption. So while social capital is believed to reduce the market’s

imperfections, corruption is viewed as one of the contributors for market inefficiencies.

In our view, Palestine is a remarkable case study for three reasons. First, Palestinians have a relatively long tradition of associational life reaching back to the beginning of the last century (Sullivan, 1996). Secondly, the geopolitical context drives Palestinian society to build a system of community governance that goes beyond traditional models. Finally, the occupied Palestinian territory is one of the only countries missing from Transparency International's corruption perception index (CPI). Hopefully this report will contribute to changing this.

We adopted three variables of corruption: *corr1*, *corr2* and *tax-moral*¹. These variables are based on the opinion that Palestinians have about the importance of fighting corruption, the use of bribes at work and tax evasion respectively.

The variables of social capital are different:

- ✧ Network-based: these variables refer to the individual network of family, friends and neighbours
- ✧ Trust-based: these variables indicate the trust that individuals have in institutions (Institutional trust) and people in general (generalised trust)
- ✧ Associational-based: these variables refer to social and political participation

The methodology applied to test the relationship between corruption and social capital is based on binomial logit models² and the data used derive from the "Survey on Social Capital" conducted by MAS in the 2007.

Empirical evidence shows that individuals with higher trust in institutions and people are more likely to claim to be against the use of bribe and tax evasion. On the other hand, individuals with more social participation are more likely to justify corruption and tax evasion. Moreover, individuals who believe strongly in the rule of law are more likely to claim to be against corruption and tax evasion.

¹ Tax moral is defined in the literature as "the individual intrinsic motivation to comply with fiscal obligation" (Barone et al, 2009 p.5)

² See section 5.1 for a detailed description of the methodology.

2. Social Capital and Corruption: Literature Review and Measures

2.1 Social Capital and the “Social Capital Dream”

Several proxies of social capital have been proposed in the literature with the ambition of satisfying what Paldam (2002) calls the “social capital dream”. Paldam argues that if Π_N is the social capital indicator in terms of density of informal networks and Π_T the indicator in terms of trust, then the social capital dream implies that all definitions have the same underlying basis, such that:

$$\Pi_N = \Pi_T = \Pi \quad (1)$$

Unfortunately equation (1) is still at the ‘dream stage’ – perhaps because “social capital is in the early stage of development” (Paldam et al, 2002 p.3).

The “trust-approach” measure of social capital makes extensive use of survey data, such as The World Value Survey (WVS) or the European Value Survey (EVS). The variable “trust” derived from these surveys is based on the question “*generally speaking, would you say that most people can be trusted or that you cannot be too careful in dealing with people?*” The possible responses to this question are: “Most people can be trusted”, “Can’t be too careful”, or “Don’t know”. At a country level, the trust indicator is given by the percentage of people giving the first answer. However, one of the problems related to this measure is that it is not clear if respondents interpret the meaning of “trust” or “most people” in the same way across countries, cultures and times (ages) (Sabatini, 2005).

The measure of social capital in terms of network is based on the idea that the interactions between members makes it possible for this social asset to be produced and maintained. However, one of the problems in measuring the density of networks is the intensity of the contacts among the members of the network (Paldam 2000). Lin (2001) points out that if social capital can be defined operationally, as resources embedded in social networks (or ties) accessed and used by its members, then two components have to be taken into account. First, social capital represents resources embedded in social relationships rather than individuals. Second, access the use of such

resources reside with the members. This implies that “the ego must be cognitively aware of the presence of such resources in his relations and networks” (Lin 2001 p.25). Only if this particular condition is satisfied can the individual capitalise on such ties and resources. Therefore, network and embedded resources are the two key elements for this social asset to be produced and accumulated.

Granovetter (1973) formalised the combination of these two elements through the concept of the “Strength of the weak ties”. Let’s consider an individual embedded in a social circle. This individual will tend to interact first with other members having similar characteristics or resources (eg. An immigrant builds relationships at a first stage with other immigrants speaking the same language and coming from the same country). These similarities, of course, will affect the type of resources accumulated, (e.g. instant information). Within the same circle with the same people, the information exchangeable will be similar. If individuals need different information they will need to interact with individuals belonging to a different circle. In other words, between the two circles (the one to which the initial individual belongs and a potential different one), a link needs to be built. The ties between different social circles are called bridges. In absence of bridges the circles are independent (Lin, 2001).

The ties within a circle are usually stronger and lead to what in the literature is called *bonding* social capital. This is characterized by closer connections between people with similar characteristics (same family, same ethnic group).

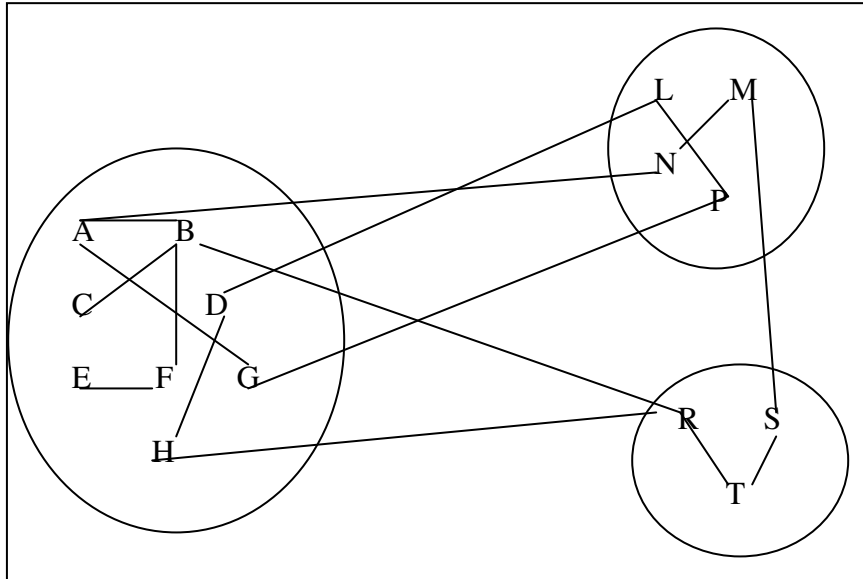
The ties between circles identify more distant and weaker connections (eg. Business associates, friends from different ethnic groups, people belonging to different companies, enterprises) and lead to what is called *bridging* social capital. According to Granovetter (1973; 1985), the weak ties might contribute to information flows since it is through these bridges that a member of a group or association may learn and gain information about other groups.

Figure 1 shows three different circles with different members belonging to each of the circle. The arrows identify the connections between two or more members.

The connections between two members belonging to the same circle (e.g. C-B or L-P or T-S) represent bonding connections (or strong ties) while

connections between two or more different circles (e.g. R-B R-H or M-S or A-N) represent bridges (or weak ties).

Figure 1 Bridging VS. Bonding Connections



An extra feature that can be derived from the figure 1 is what Lin (2001) calls direct and indirect ties. Resources can be accessed through direct and indirect connections. A and N are directly connected, but M is connected to A through N. A potential scenario could be the following. Let's assume that M is interested in a particular job position and that "information X" (for instance extra details, not available in the market, about the job position and the interviewer) is the social resource to which M wants to have access in order to increase the probabilities of securing that job. M starts to use her connections and she immediately contacts N. Unfortunately the direct contact does not possess this information but knows someone else, say A, who has it. A will represent for M an indirect tie. Hence Lin concludes that social capital extends as far as the social networks of the members of the groups.

Another common measure of social capital in the literature is the so-called Putnam's instrument *PI*. The *PI* indicates the proportion of voluntary organisation in a particular area, region or country. The idea of this proxy

is that members of this type of networks might cultivate a higher sense of civic engagement intensify the level of cooperation and trust among individuals. This can be beneficial for the society and affect its socio-economic performance (Putnam 1993; 2000). However, the intensity of the contacts between each member and the association is difficult to calculate. A strategy used in order to reduce the above-mentioned problem is to make a distinction between individuals holding a membership and active members (Beugelsdijk et al, 2005). By including the Putnam's instrument inside the "social capital dream" equation (1) becomes as follows:

$$\Pi = \Pi_N = \Pi_T = PI \quad (2)$$

2.2 Social Capital and Corruption Puzzle

Naryan and Woolcock (2000) describe social capital as a double-edged sword. Even though social capital can represent a valuable asset for economic improvement, exclusive ties and a strict sense of obligations might also represent a cost without related benefits for the community. As a double-edged sword, the cooperation among members of a certain group does not necessarily imply that it is for the benefit of the common good (Portes, 1998; Field, 2008). For instance, while group members (insiders) can benefit from common resources, the outsider might be excluded and under certain circumstances isolated. It is likely, then, that particularised trust and specific reciprocity can represent a negative externality able to favour corruption (Warren, 2001). Exclusion of outsiders, excess claims on group members and restrictions on individual freedom are some of the negative effects of social capital (Portes, 1998). Due to its exclusive nature, corrupt exchange is often based upon a system of relations where specific reciprocity and particularised trust among the members are essential. Given these conditions, the main question is whether social capital favours or reduces corruption. In this paper we refer to this question as "the social capital and corruption puzzle" (equation 3).

$$\frac{\partial corr}{\partial sc} > 0 \quad \text{or} \quad \frac{\partial corr}{\partial sc} < 0 \quad (3)$$

The main idea is that social capital "conventionally" refers to the tendency of people to cooperate due to a common system of values and norms that facilitate the foster of a sense of civic engagement. A higher level of civic engagement should reduce "cheating" and opportunistic behaviour, spread a deeper sense of justice and, hence, lower corrupt exchanges. Along this

line, Bjornskov (2003) has shown a negative relationship between the variable of generalised trust and the perception of corruption within a cross-country context. Moreover, Bjornskov (2003) finds weak indications of reverse causality by confirming previous findings advanced by Uslaner (2001) and Paldam and Svendsen (2002). This literature confirms the second part of equation (3): the higher the level of social capital, the lower the level of corruption in the country. However, empirical evidence also shows the opposite. Harris (2007) constructs a composite indicator of bonding social capital from the World Value Survey. She found that bonding social capital negatively affects perceived corruption across countries. This empirical outcome confirms the hypothesis that exclusive ties among individuals increase the likelihood of individuals to engage in nepotism and corruption. Harris (2007) argues this result in two crucial consequences. Firstly, exclusive groups are likely to reduce the freedom of their members. In a group where all agents play in favour to “corrupt exchange”, a member that plays “defect” might be excluded from the group and, hence, incur a personal-social cost too high for the potential defector. Secondly, in closed groups where specific reciprocity is highly valued, corrupt exchange will be considered acceptable by peers and the moral cost associated with such an exchange will be relatively low. Instead, it will be seen as “good reciprocity” between peers.

2.3 Measures of Corruption

Much like social capital, the concept of corruption suffers from a “dream”. As Harris points out, “what individuals consider a corrupt act depends on the social norms and the conventions within the society in question” (2007 p.3). Most of the indicators of corruption in the literature are based on individuals’ perception.

The most common measure is probably the CPI adopted by Transparency International at a country level³. According to the CPI, corruption is defined as the abuse of public office for private gain. The CPI is an aggregate indicator that brings together data from different sources⁴. The index ranks the country’s score from 0 (most corrupt) to 10 (least corrupt). Table 1 shows the list of the best (least corrupt) 10 countries and last (most corrupt) 5 countries on the base of CPI 2010.

³ The last CPI report (2010) covers 178 countries.

⁴ For instance the CPI 2010 uses data from 13 sources by 10 independent institutions.

Table 1 CPI 2010

Rank	Country	Score
1	Denmark	9.3
2	New Zealand	9.3
3	Singapore	9.3
4	Finland	9.2
5	Sweden	9.2
6	Canada	8.9
7	Netherlands	8.8
8	Australia	8.7
9	Switzerland	8.7
10	Norway	8.6
174	Uzbekistan	1.6
175	Iraq	1.5
176	Afghanistan	1.4
177	Myanmar	1.4
178	Somalia	1.1

Source: Transparency International (2010)

The assessments used to compute the index include questions about bribery of public officials, kickbacks in public procurement, embezzlement of public funds and questions about the strength and the effectiveness of anti-corruption efforts adopted by the public sector (Report CPI, 2010). Listed below are a few examples of the assessments used by Transparency International:

- ✧ On a scale to 1 to 6, to what extent do you agree that bribing and corruption exist or not in the context of the country in which you work and have resided for the past year, based on your previous international experience? (Institute for Management Development)
- ✧ Has the government implemented effective anticorruption initiatives? (Freedom House)
- ✧ Are there significant limitations on the participations of government officials in economic life? (Freedom House)
- ✧ To what extent are there legal or political penalties for officeholders who abuse their positions? (Bertelsmann Foundation – Bertelsmann Transformation Index)

Another widely used indicator is the “control of corruption index” (CCI) adopted by the World Bank. Like the CPI, the CCI is an aggregate index

that uses different international sources and combines many aspects of the phenomenon of the corruption among which public perception of corruption among politicians, magistrates, government official⁵, the frequency of informal payments to influence laws, policy regulations and to have favourable judicial decisions and so on.

One of the reasons why these indicators are so widely used in the literature is that they facilitate the development of cross-country analysis (Mauro, 2004; Paldam, 2002; Seldadyo et al, 2006). On the other hand, CPI and CCI are not immune to criticism. In fact, they refer mainly to public perception which makes the index quite “subjective” in its scoring and partially dependent on the cultural system the respondent belongs to. Kingston (2005) points out that the use of subjective indicators of corruption lead to problems of interpretation especially within a cross-country analysis. Corruption and corrupt activities might be perceived differently across countries and cultures. So, even though, for example, Russia, India and Tanzania might receive the same CPI score, these countries are likely to face qualitatively different problems (Kingston, 2005). This problem might be mitigated in the case of analysis focusing on a unique socio-economic context run by the same institutions and based on a common culture. However, “objective” indicators also face severe problems of interpretations - if not bigger problems than the subjective indicators. For example, in analysing the relationship between social capital and corruption across Indian States, Kingston (2005) uses the transfer frequency of government officials as measure of corruption. The choice of the measure is justified by arguing that these transfers are often considered a symptom of corruption and political instability. The main question was whether social capital reduced the transfer frequency. However, the problem with this kind of measure is the interpretation of the empirical results. As Kingston (2005) underlines, social capital might reduce corruption and, hence, transfer frequencies. Yet, at the same time, social capital might increase the frequency of punishment and facilitate collective action against corrupt officials and, therefore, increase the transfer frequency. Goel and Nelson (1998) use as “objective” indicator of corruption the number of public officials convicted for abuse of public office across US states. The criticism in this case is that higher conviction might indicate more widespread corruption, as well as a higher degree of legal enforcement at the state level.

⁵ The World Bank’s report on “Global Monitoring” (World Bank, 2004) points out that even though the methodology used to construct the CCI differs from that one used for the CPI, the two indicators are highly correlated with a correlation coefficient around 0.97

2.4 Why Corruption Can Be Bad

There is a broad consensus among economists that corruption is one of the prime contributors to market inefficiencies. Corruption creates greater distortions than taxation and reduces social surplus distribution (Shleifer et al, 1993). It also slows economic growth due to the shift of revenues from public to private purses (Uslaner, 2001; Mauro, 1995; 1998), reduces the amount of money available for various economic programs, including government share of the GDP and expenditures on the public sector for education and transfer from rich to poor (Mauro, 1995; 1998; Uslaner, 2002), and finally, negatively affects government intervention by shifting resources from public needs to individual gain (Shleifer et al, 1993). Because corruption is usually considered illegal, any corrupt activity must be kept secret. For instance, let's assume that a government has to decide which policy to adopt between policy A and policy B. If taking bribes without being detected is easier by adopting policy A rather than B, then a corrupted government will put a lot of effort to avoid B in favour of A. This will occur regardless whether the policy B matches tastes, social and technological needs of the population of the country better than policy A.

Shleifer et al (1993) claim that this argument might easily explain why in some countries governments with limited economic resources set policies that do not match with citizens demands and needs⁶. It has been argued that in countries with a low "regulatory capacity" (Seldadyo et al, 2006), the example above is more likely to occur. By "regulatory capacity" Seldadyo refers to a vast range of factors, including the rule of law, juridical independence, impartial courts, political stability, government effectiveness, regulatory quality, bureaucratic capacity, labour market regulation and internal conflict resolution mechanisms. For them, "regulatory capacity" is one of the main contributors to perceptions of corruption.

⁶ For instance, this might be the case of some developing countries whose public expenditures focus mainly on infrastructures and defence projects where corruption opportunities may be higher than on more transparent educational and health programs that could respond to their citizens need. Of course this is not a criticism to policies adopted for improving country's infrastructures or for securing public defence which are two essential conditions for any society and state.

3. Corruption in the Palestinian Context

3.1 Palestinian “Regulatory Capacity”

According to AMAN (2009), the main problem in the Palestinian “regulatory capacity” is the lack of a clear and transparent institutional and legal framework able to efficiently combat corruption. One of the consequences of this inefficient “regulatory capacity” is the “aggravated state of frustration among citizens... leading them to mistrust the PNA’s willingness to hold the corrupt accountable for their misdeeds or crimes” (AMAN 2009, p.42). The report by AMAN underlines that this lack of transparency is not a product of Palestinian culture, rather it derives from the unfortunate geopolitical circumstances that have historically affected the institutional and legal framework in the oPt. Since 1967, the occupied Palestinian territories have been subjected to a strict military occupation. On the base of Oslo Agreement, in 1994 the first Palestinian government was established without a legislative authority. The original governance mechanisms adopted by the Palestinian National Authority (PNA) were inherited from the revolutionary resistance movement of the Palestinian Liberation Organisation (PLO) for which transparency and public administration were not priorities.

During the post-Oslo period, the increase in the number of Israeli settlements in West Bank “played brilliantly into the hands of Palestinian extremists” and at the same time undermined the leadership of Arafat (...) After 1994, the PNA was in charge of a socio-political context where the rule of law needed to be implemented and “the judiciary and the executive branches of government *were* still highly integrated *while* a clear, coherent and accessible system of arbitration remained in its nascent stages” (Jamal, 2007: p. 23-24). The hierarchic system consolidated during Arafat’s time in office and favoured a system of vertical linkages between associations and the PNA. Although associations were welcome to support state-wide reforms, the same associations needed to be recognised by the PNA in order to work. Jamal (2007) argues that this condition is likely to favour nepotisms and clientelisms between some associational leaders and public officers, especially within a state-building process based on vertical ties. In other words, the associations supporting the PNA receive better access to local resources, more security, prestige and legitimacy compared to non-supporting associations – no matter what (Jamal, 2007: p. 21).

After the death of Arafat in 2004, “a window of opportunity has opened... for the deepening of Palestinian reforms” (Siegman et al, 2005, p. 1). Still, Siegman et al (2005) suggest that a special priority in the reform agenda should be devoted to anti-corruption measures. Besides an effective and independent judicial system, these measures should include the appointments of new key public officers with reputation for integrity and professionalism (e.g. the Attorney General, Chief of Police, Comptroller General).

The presidential elections of 2005 and legislative elections of 2006 took place under the supervision of a neutral and impartial electoral commission. Even though the presence of this commission provided a positive contribution to the success of the elections, AMAN concludes that transparency and integrity within the Palestinian democratic process are still at a very low stage. In fact, in 2007 the conflict between parties caused a geographic, political and institutional division between the “block” running Gaza and that one running the West Bank. According to AMAN (2009), this “political dis-aggregation” has (and still does) favoured the existence of *wasta*⁷, nepotism and quotas in the recruitment process of public officials where political affiliations and security play a key role. Indeed, the Report (AMAN 2009) points out that the lack of “regulatory capacity” has been affecting different areas and institutional bodies, principally due to the fact that the political division between Gaza and the West Bank has led to the Palestinian Legislative Council⁸ (PLC) being suspended. The oversight instruments available to PLC, including interpellations, accountability and formation of commissions of inquiry, have been revoked. In addition, the State Audit and Administrative Control Bureau (SAACB) has to deal with several technical, financial and administrative impediments which limit its ability to combat corruption⁹. Thirdly, the lack of transparency affects the media as well, where *wasta* and nepotism are used in the recruitment process. Finally, even though financial reports are regularly published on the Ministry of Finance website, there is not an established and functioning control system responsible for examining the validity of these reports. Meanwhile, in Gaza, the situation is even worse. Last year no financial report was published at all¹⁰.

⁷ Wasta refers to the use of personal connections or influence in order to obtain things, such as passport renewal, the waiving of traffic fines, getting hired or promoted in a job.

⁸ The PLC is the legislative body within the Palestinian institutional framework

⁹ The extreme example is that SAACB headquarter activities in Gaza have been suspended.

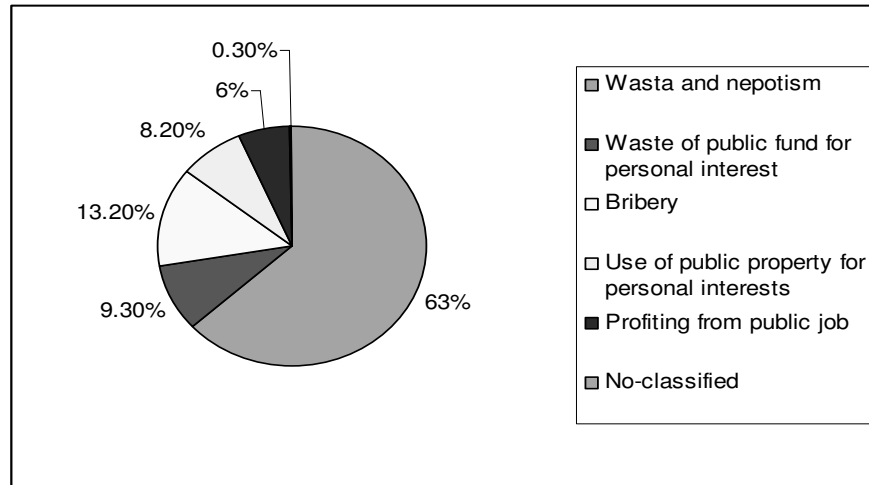
¹⁰ The reason provided by Gaza is that the reports got lost due to the conflict with Israel (AMAN 2009)

According to AMAN (2009) the legal system reflects the institutional regulatory setting. The lack of judiciary independence and ineffective legal enforcement contribute to the sustainability of this uncertain situation.

3.2 Public Opinion on Corruption in the Palestinian Territories

According to the poll conducted by AMAN (2009), wasta, nepotism and favouritism represent the most prevalent forms of corruption in Palestinian society. 63% of respondents believe that these three mechanisms are the most common forms of corruption in the public sector (Figure 2). The poll also highlights that people are still utilising these instruments to obtain personal interests in that Palestinians have confidence in the possibility of accessing public services through wasta. These findings not only cannot be omitted from our discussion, but actually might represent a crucial node for our analysis.

Figure 2 Percentage distribution of the respondents relative to the most prevalent forms of corruption in the public sector in 2009



Source: AMAN (2009)

As discussed previously, wasta is an indication of the darker side of the system of connections. In these circumstances the aphorism “it is important who you know” receives a negative connotation. Like any other forms of corruption, wasta bases its strength on personal relationships.

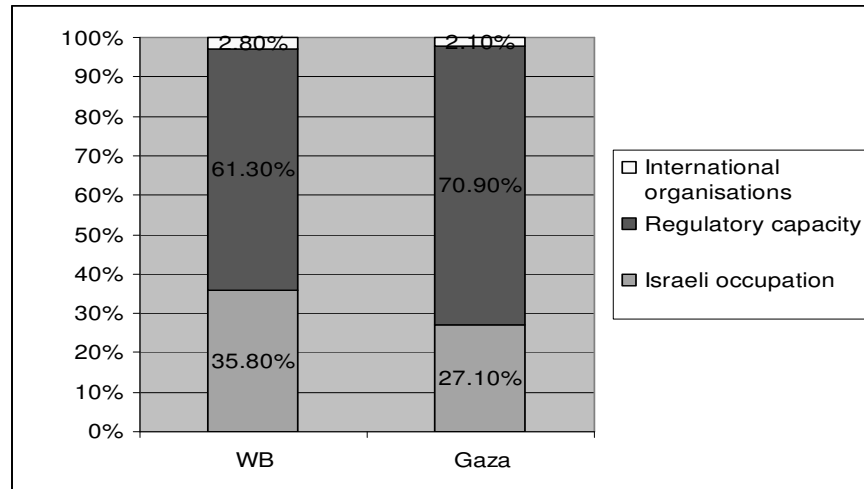
According to the poll, the main reason for corruptions stems from two particular factors: the Israeli occupation (32.8%) and the lack of the rule of

the law and accountability (20.9%). By using this poll, we have constructed an indicator of “regulatory capacity” based on the three categories mentioned in the AMAN report:

1. absence of the rule of law
2. insufficient punitive legislation
3. weakness of monitoring institutions

The sum of these three categories constitutes the indicator of “regulatory capacity”. Figure 3 shows the distribution of this indicator between the West Bank and Gaza Strip.

Figure 3 Reasons of corruption (2009)



Source: Own elaboration of data from AMAN (2009)

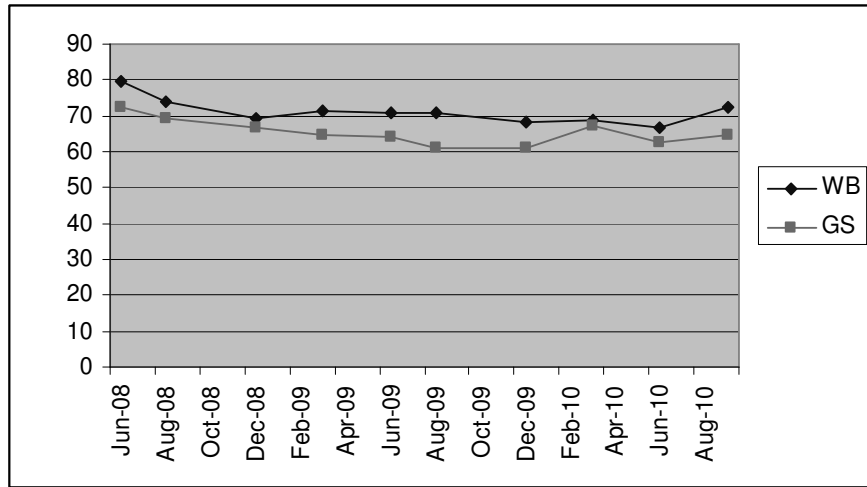
Interestingly, the figure above shows that in Gaza the lack of “regulatory capacity” is perceived as more of a problem than in West Bank. On the other hand, the “Israeli occupation” garners a relatively large proportion in both of the regions, though slightly lower in Gaza.

A short time-series descriptive picture about Palestinians’ perception of public corruption can be shown by using quarterly data derived by the Palestinian Centre for Policy and Survey Research (PCPSR). We have collected data from June 2008 to August 2010 and divided it between Gaza and the West Bank. The indicators of corruption are based on two major questions:

1. *Do you think that there is corruption in PA institutions under the control of President Abu Mazen?*
 - ✧ “Yes”
 - ✧ “No”
 - ✧ “Do not Know or Not available”

2. *If yes, will this corruption in PA institutions under the control of President Abu Mazen increase, decrease or remain as it is in the future?*
 - ✧ “Increase”
 - ✧ “Remain as it is”
 - ✧ “Decrease”

Figure 4 Percentage of Palestinians that thinks that there is corruption in PA institutions under the control of President Abu Mazen (2008-2010)

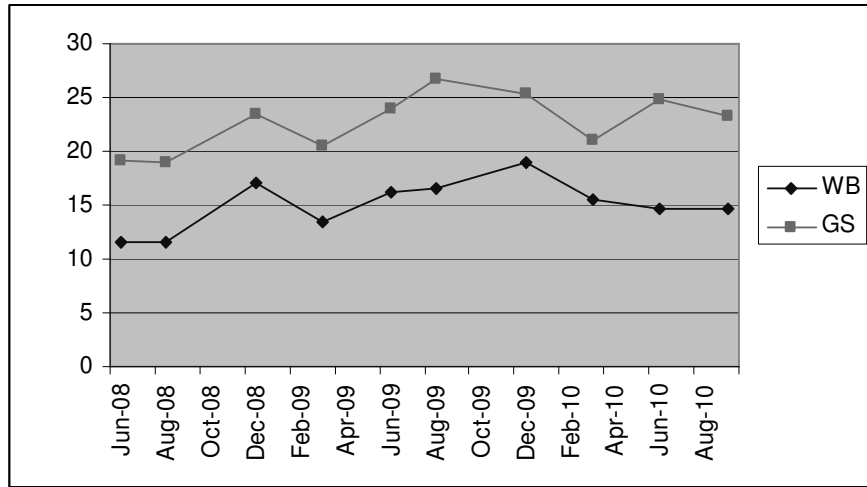


Source: PCPSR

Interestingly, the proportion of individuals answering “Yes” to the first question is higher in the West Bank than in the Gaza Strip (Figure 4). The gap between the two regions becomes even larger relative to the answer “No” (Figure 5).

Even though the time-series lines show a small gap between the two, in both the West Bank and Gaza, more than 60% of Palestinians believe that corruption pervades public Institutions.

Figure 5 Percentage of Palestinians that thinks that there is not corruption in PA institutions under the control of President Abu Mazen (2008-2010)



Source: PCPSR

If we consider question 2, indicate a positive correlation between the negative perception of future corruption in West Bank and Gaza. This result becomes even more interesting when one considers the physical and geopolitical division between the two. Despite the differences in lifestyles and circumstances between residents of the West Bank and those from Gaza, the patterns of the perception of future corruption moves in similar directions.

4. Data Description and Variables

Our data comes from the survey on social capital conducted by MAS in 2007. The survey contains a number of polls concerning civic interest, trust, shared values and norms collected from a random sample of individuals (2,350 observations) from the West Bank and Gaza Strip¹¹. Almost 50.3% of the individuals were female and 2,344 individuals out of 2,350 were between the ages of 16 and 92¹².

4.1 The Variables of Corruption

We defined three variables of corruption as: individuals' opinion towards fighting corruption; justifying bribery at work; and tax evasion. These variables are derived from the section titled "Shared values and norms" consisting of a number of statements about the social behaviours of citizens. The participants responded to the statements in an ordered scale so that they could indicate their level of agreement with each type of social behaviour listed.

The first variable of corruption, *corr1*, is defined as the degree of importance of fighting corruption. This indicator is based on the question: "Which is the importance of fighting corruption?" The respondents' choice is made on a (1-3) scale, with 1 being very important, 2 important and 3 not important. The dependent variable *corr1* is constructed by reversing this scale so that the larger value (3) indicates a greater propensity to fight corruption.

The second variable of corruption, *corr2*, is based on the individuals' opinion about bribery at work. The question is the following: "Can you justify bribery at work?" The respondents' choice is made on a (1-3) scale with the following order: 1 "can justify it", 2 "can justify it sometimes", 3 "can't justify it at all"

The third variable of corruption, *tax-moral*, is based on the individuals' opinion about tax evasion. The question is whether tax evasion is justifiable and to what extent. Once again, the respondents' choice is made on a (1-3) scale with the following order: 1 "can justify it", 2 "can justify it sometimes", 3 "can't justify it at all".

¹¹ The individuals in the sample were not equally distributed between the West Bank and Gaza Strip. 2,159 individuals out of 2,350 were from the West Bank. This might affect the reliability of a potential regional dummy variable.

¹² The six missing individuals not included in the 2,344 are less than 10 years old.

One of the limitations of these variables is the reliability of the respondents. It has been argued that respondents, when questioned about corruption, might be reticent and, hence, provide answers not corresponding to their true opinion (Azfar and Murrell, 2009). In a pioneering survey of Nigeria, Clausen et al (2010) found that 13.1% of respondents to questions about corruption were reticent. Given that this proportion is a subset of all reticent respondents, they also estimated that the percentage of reticent respondents to that survey might even have been greater than 30%. The phrasing used in the questions about corruption is one of the main factors behind biased answers. The less personal the questions are, the higher the probability of obtaining unbiased answers because respondents feel more protected by the sentence structure (Clausen et al, 2010). Moreover, Clausen et al (2010) point out that this unbiased condition is favoured by less topic-specialised surveys. For instance, where surveys are mainly focused on corruption, respondents might become more reticent because they might feel that every question could provide additional inferences about the respondent's own behaviour.

On the other hand, a more general survey, in which the topic "corruption" is only one of the numerous behavioural questions, might reduce this risk. We argue that the data source used in this paper corresponds to the latter scenario for two reasons. Firstly, the survey on social capital conducted by MAS covered multi-dimensional aspects of citizens' behaviours - where the attitude towards corruption is only one of them. In fact, the individuals in the survey are required to answer questions about many aspects of their social, political and civic life. The questions about corruption are limited to a small sub-section. Secondly, the questions on corruption are general rather than personal. They are mainly based on the respondents' opinion about other people's behaviour or a generalized conception of corruption¹³.

4.2 The variables of Socio-Economic Dimensions

In this sub-section we are going to describe the different socio-economic factors that might affect corruption. The first column of table 2 shows the measures of corruption we are going to use in the econometric analysis, while the second column lists the socio-economic factors that should have an impact on the perception of corruption and tax evasion.

¹³ A common problem of surveys dealing with corruption is the trade-off between the accuracy of the questions (general/specific) and the amount of bias in the answer. This survey is not able to overcome this problem. However, we believe that bias is mitigated and reduced by the structure of the survey and the phrasing of the questions.

1. Network

The *network* is a multi-dimensional factor that includes three different indicators: *family*, *bridging* and *affiliation*.

The *family* indicator measures the frequency that an individual meets with the family and/or talks to the family via phone or email. The respondents' choice and relative "points" are recorded as it follows: once a week (52), once or twice a month (24), few times a year (6) and never (0). In our sample 34.5% of individuals scored a 24 and almost 52% of individuals make contact with the family once a week. The difference between males and females is negligible, as both genders exhibit the same behaviour.

Table 2 Corruption and socio-economic factors

Corruption	Socio-economic factors
<ul style="list-style-type: none"> ◇ <i>Corr1</i> "Which is the importance of fighting corruption?" 	<ul style="list-style-type: none"> ◇ <i>Network</i> <ul style="list-style-type: none"> 1. <i>family</i> 2. <i>bridging</i> 3. <i>affiliation</i>
<ul style="list-style-type: none"> ◇ <i>Corr2</i> "In your opinion, can you justify bribery at work?" 	<ul style="list-style-type: none"> ◇ <i>Trust</i> <ul style="list-style-type: none"> 4. <i>gt (generalised trust)</i> 5. <i>it (institutional trust)</i>
<ul style="list-style-type: none"> ◇ <i>Tax-moral</i> "In your opinion, can you justify tax evasion?" 	<ul style="list-style-type: none"> ◇ <i>Political participation</i> ◇ <i>Social participation</i> ◇ <i>Regulatory capacity</i> ◇ <i>Working sector</i> <ul style="list-style-type: none"> 6. <i>employed</i> 7. <i>public</i> 8. <i>private</i> 9. <i>self-employed</i> 10. <i>unemployed</i> ◇ <i>Individual characteristics</i> <ul style="list-style-type: none"> 11. <i>gender</i> 12. <i>education</i> 13. <i>age</i>

The *bridging* indicator is a synthetic measure composed of the frequency that an individual contacts friends (visiting, inviting friends, contacting them via phone or via email) and neighbours (visiting, inviting neighbours, contacting them via phone or email). The indicator corresponds to the simple mean of the variables *friends* ("How often do you visit friends or talk to them through phone/email?"), *invfriends* ("How often do you invite friends to come to your home?"), *neighbours* ("How often do you visit neighbours or

talk to them through phone/email?") and *invneighbours* ("How often do you invite neighbours to come to your home?"). Like the *family* indicator, *bridging* has a score ranging between 0 (never) and 52 (once a week).

Within the *network* group we also included the variable *affiliation* which indicates the number of friends with a specific political affiliation.

2. Trust

The factor *trust* includes generalised and institutional trust. The former (*gt*) indicating the trust that an individual has for people in general, is constructed from the following question: "Can you say that you can trust people in general?" The answers we consider from the survey are two: (yes) "you can trust people in general"; (no) "you should be careful when you deal with people"¹⁴.

The indicator of institutional trust (*it*) corresponds to the sum of trust levels across 6 different institutions (Government, political parties, local government/municipalities, Parliament, the judicial system and the police). The indicator was derived from the answers to the following question: "How is your trust in these institutions?" For each of the institutions the answer to the question is based on the following choices: 1 "a lot of trust"; 2 "trust somewhat"; 3 "little trust"; 4 "no trust". We reverse the ordered such that 4 indicates "a lot of trust" and 1 indicates "no trust". Hence, summing the values over the six institutions we create a scale with a 24-point maximum. In other words the score range of *it* is 0 to 24. The mean score in our sample is 12.42. Only 0.6% assesses all the above items as "a lot of trust" while 3.44% of individuals assess all the above items as "no trust". If we consider each single item at least 12% of individuals trust the police 'a lot', while only 4% of the respondents fully trust the various political parties. On the other hand, almost 42% of respondents do not trust the government at all. This share decreases by almost half (22%) when asked about local government whom Palestinians appear to consider more trustworthy.

3. Political participation

The variable *political participation* is built from the following question: "In the last 12 months did you attend any political meeting?" The variable is binary and assumes value 1 when the

¹⁴ Given the very limited number of the individuals that have answered "I don't know" we restricted our sample to the respondents that have replied "yes" or "no"

answer to the question is “yes” and the value 0 otherwise. According to the survey, more than 27% of the respondents answered positively. The higher share of political participation is in Gaza Strip¹⁵ (35%) compared to the West Bank (26%).

4. Social Participation

This variable indicates whether individuals hold a membership across 13 different types of associations from sport clubs to cultural and online associations. Thus, the social variable has a range of 0 to 13.

5. Regulatory Capacity

The variable indicates the importance of the rule of law for the respondents. The respondents’ choice is made on a (1-3) scale as follows: 1 “very important”; 2 “important”; 3 “not important”. We reverse the scale in order to have the higher score (3) corresponding to the highest degree of importance (“very important”). About 92% of Palestinians consider the rule of law very important and only 1% of respondents gave the lowest score.

6. Working Sector

Using the survey we identified two main groups: *employed* and *unemployed*¹⁶. The former is also split into three different working sectors: *public*, *private* and *self-employed*. 43.11% of the respondents are employed. 23.2% of the employees work in the public sector, 17.8% in the private and 24.3% of the workers claim to be self-employed¹⁷. Almost 10% of respondents claim to be unemployed.

7. Individual Characteristics: Education

The survey sets eight different educational levels from *illiterate* to “*Master or above*”. The average lies between secondary and the high school educational levels. Almost 7% of the respondents were illiterate; at least 27% held a university degree and less than 1% held a master degree. It is interesting to note that most of the illiterate are male (60.25% versus 39.75% female). Similarly, the proportion of females holding a university degree is higher than that one of males (57.21% and 42.79% respectively).

¹⁵ This is in spite of the limited sub-sample for Gaza Strip (only 191 observations) against the 2,154 for West Bank.

¹⁶ Notice that in the section on the working sector the survey presents other types of working conditions such as “*unemployed and not looking for a job*”, “*discouraged worker*”, “*housewife*”, “*student*”, “*can’t work*”, “*other*”. This represents our control group.

¹⁷ The rest of the labour force works for NGOs, international agencies, Israeli settlements, or are unpaid workers for family businesses. The proportion of workers for each category mentioned above is quite small compared to the public and private sectors.

4.3 Descriptive Analysis

The idea that corruption is not a positive element in society was quite widespread among respondents. However, the degree of importance of fighting corruption was not so homogeneous (table 3).

Table 3 The idea of corruption among the respondents

Levels / Variables	corr1 What is the importance of fighting corruption?	corr2 In your opinion, can you justify bribery at work?	tax-moral In your opinion, can you justify tax evasion?
Score 3	95.95 %	96.18 %	71.50 %
Score 2	3.62 %	2.83 %	21.80 %
Score 1	0.43 %	0.99 %	6.69 %
Observations	2,346	2,330	2,316

Score 3 indicates the highest degree of importance of fighting corruption (*corr1*) and the highest degree of disagreement with negative behaviour, such as bribery at work (*corr2*) or tax evasion (*tax-moral*). Most of the respondents answered the questions about corruption with a 3. However, the distribution of the assessments is not so homogeneous. More than 95% of the respondents considered it *very important* to fight corruption and more than 96% of respondents *can't justify* bribery at work *at all*. Notice that this attitude becomes more relaxed when the issue is about tax evasion. Unlike *corr1* and *corr2*, *tax-moral* is more personal. Tax evasion affects the individual's wealth more directly than the general feelings about corruption. Table 4 partially confirms this initial asymmetry in the response.

Table 4 Correlation¹⁸ among corr1, corr2 and tax-moral (obs = 2,349)

Variables	corr1	corr2	tax-moral
corr1	1.00		
corr2	0.205	1.00	
tax-moral	0.315	0.618	1.00

¹⁸ Table 4 indicates a tetrachoric correlation. This type of correlation is used for binary data. In our case we have set the corruption measures equal to 1 where the respondents consider fighting corruption as very important and where they consider bribes at work and tax evasion not justifiable at all. The variables assume value zero otherwise. For a more accurate discussion about tetrachoric correlation measures see Uebersax JS. *The tetrachoric and polychoric correlation coefficients. Statistical Methods for Rater Agreement* web site. 2006. Available at: <http://john-uebersax.com/stat/tetra.htm>

There is a correlation between *corr1*, *corr2* and *tax-moral*. Interestingly, the correlations among the different variables of corruption are very weak, if not negligible, as in the case of *corr1-corr2*.

Table 5 shows the relationship between the corruption variables assessed with high scores and other individual characteristics, such as gender, age and marital status. The high scores imply that we only considered score 3 for all questions concerning corruption, bribes or tax evasion. We focus on the highest score for two reasons. First, ideologically the highest score identifies individuals that are not willing to compromise at all with the idea of accepting corrupt exchanges in society. In fact, we can argue that an individual that will never avoid paying taxes or pay a bribe would choose score 3 rather than 2¹⁹.

Secondly, due to some reticent attitude in assessing a lower score, differences in higher score might be more significant than they appear. For instance, if no reticence affects the respondents, the higher score indicates a clear attitude against corruption. Hence, according to table 4, 71.50% of respondents would never justify tax evasion. On the other hand, this means that almost 30% of respondents would probably do it in case of some favourable (or unfavourable) circumstance. If all of those individuals were taxpayers, then 30% would be considerably high.

Table 5 High-score corruption and individual characteristics

High score	female	Male	single	married
corr1	95.76 % (1,180)*	96.14 % (1,166)	95.33 % (685)	96.77 % (1,518)
corr2	96.00 % (1,175)	96.36 % (1,155)	93.53 % (680)	97.16 % (1,515)
tax-moral	69.19 % ²⁰ (1,175)	73.88 % (1,141)	65.19 % (675)	74.10 % (1,506)
tax-moral if age ≥ 30	73.57 % (719)	77.11 % (712)	76.09 % (92)	75.23 % (1,215)
tax-moral if age < 30	62.28 % (456)	68.53 % (429)	63.46 % (583)	69.42 % (291)

* The number in parenthesis indicates the observations

¹⁹ The score 2 indicates that you can justify bribes sometimes (see description of corruption variables)

²⁰ Notice that, in terms of high-scores, women appear to be less against tax evasion than men. According to the survey 7.66 % of women justify tax evasion compared to 5.70% of men.

Table 5 shows that fighting corruption and bribes are important regardless of individual characteristics. A different scenario is highlighted with regard to *tax-moral*. Females and singles show a more compromising approach than males and married individuals. However, assessments on *tax-moral* change if the age of the respondents is taken into account. De Blasio et al (2010) show that age is positively related to attitudes towards civic cooperation and fiscal morality in Italy. To this purpose, we split our sample into two groups. The first group is composed by individuals aged 30 and above, while the second one by individuals below 30. It is evident that the proportion of individuals strictly against tax evasion reduces with age by more than 10%. These results seem to confirm De Blasio's et al (2010) hypothesis that tax-morality seems to increase as individuals become older²¹.

Table 6 shows the perception of corruption across different working sectors. On average individual working on the public sectors seem to be more sensitive to corruption. More than 98% of individuals working in the public sector “*can't justify bribe at work at all*”. These results seem to be in strong contradiction with figure 3 that clearly showed that the highest usage of waste were in the public sector. Concerning tax morality, the percentage of self employed and individuals working in the private sector that “*can't justify tax evasion at all*” is lower compared to workers in the public sector. On the other hand, unemployed workers are more sensitive to tax evasion.

Table 6 High-score corruption and working sector

High score	employed	public	private	self-employed	unemployed
corr1	95.46 % (1,014)*	97.92 % (298)	95.05 % (222)	96.04 % (303)	94.85 % (233)
corr2	96.64 % (1,013)	98.26 % (288)	96.40 % (222)	96.04 % (303)	97.00 % (233)
Tax-moral	70.52 % (1,011)	76.74 % (288)	68.02 % (222)	69.31 % (303)	71.55 % (232)

* The number in parenthesis indicates the observations

²¹ A sub-sample of individuals aged 50 and above was created. The results show that the proportion of males strictly against tax evasion rises to 80% and 76% among women.

5. Methodology and Empirical Analysis

5.1 Methodology for Empirical Analysis

The methodology used to test the relationship between corruption and social capital is based on binomial logit models. These models are appropriate for estimating the probability of an event to occur, conditional on certain factors. For instance, in our case, it is useful to estimate the probability that an individual is against corruption, conditional to the individual's endowment of social capital.

To this end, the logit models require the dependent variable to be a binary indication of failure or success. Hence, we set the measures of corruption into binary variables in the following forms:

$corr1 = 1$ if “it is very important fighting corruption”
 $corr1 = 0$ otherwise

$corr2 = 1$ if “in your opinion can't justify bribery at work at all”
 $Corr2 = 0$ otherwise

$tax-moral = 1$ if “in your opinion can't justify tax evasion at all”
 $tax-moral = 0$ otherwise

Given the variables above, the logit model applied to $corr1$ will indicate the following relationship:

$$pr(corr = 1) = X(socio - economic) \pm e \quad (4)$$

Where $pr(corr=1)$ indicates the probability that the individual declares that fighting corruption is very important, $X(socio-economic)$ indicates the socio-economic factors listed in Table 3 and e is a marginal error. In other words, the equation above estimates the probability of an individual to claim that fighting corruption is very important is conditional on the individual's socio-economic characteristics.

The same procedure has been applied to the other two variables $corr2$ and $tax-moral$ resulting in the following relations:

$$Pr(corr2 = 1) = X(socio - economic) \pm e \quad (5)$$

This estimates the probability of an individual to claim to be against the use of bribery at work, conditional to their socio-economic characteristics, and the same is done for tax evasion.

$$\Pr(\text{tax} - \text{moral} = 1) = X(\text{socio} - \text{economic}) \pm e \quad (6)$$

5.2 Empirical evidence for social capital and corruption puzzle

In this subsection we are going to apply the binomial logit models²² (4) to (6) to investigate whether equation (3) assumes positive or negative sign. Here, *sc* indicates the different social capital indicators²³ (*family, bridging, generalised trust, institutional trust, political participation, social participation*) and *corr* indicates the three measures of corruption (*corr1, corr2* and *tax-moral*).

$$\frac{\partial \text{corr}}{\partial \text{sc}} > 0 \quad \frac{\partial \text{corr}}{\partial \text{sc}} < 0 \quad (3)$$

Table 7 Social capital and corruption puzzle

Regressors	corr1 Logit	Marg. Effect dy/dx	corr2 Logit	Marg. Effect dy/dx	tax-moral Logit	Marg. Effect dy/dx
family			0.007 (0.006)	0.0002		
bridging	0.023** (0.009)	0.0004				
generalised trust	1.143** (0.511)	0.0150	0.418 (0.345)	0.0127	0.322** (0.141)	0.0621
institutional trust			0.102*** (0.021)	0.0035	0.049*** (0.010)	0.0100
political participation					0.285** (0.120)	0.0562
social participation	0.156* (0.089)	0.0029	-0.201*** (0.048)	-0.0069	-0.170*** (0.027)	-0.0345
female					-0.147 (0.106)	-0.0298
education	0.165 (0.105)	0.0030				

²² With a logit model, only the sign of the coefficient can be directly interpreted. Hence, the marginal effect is a method to find the quantitative effect an independent variable (for instance generalised trust) has on the dependent variable (e.g. tax morality)

²³ Notice that in Table 7 the variable *affiliation* does not appear as it was not found to be significant in any of the regressions.

Regressors	corr1	Marg. Effect dy/dx	corr2	Marg. Effect dy/dx	tax-moral	Marg. Effect dy/dx
	Logit		Logit		Logit	
age	0.019* (0.011)	0.0003	0.003 (0.007)	0.000	0.015*** (0.004)	0.0030
regulatory capacity	2.605*** (0.214)	0.0478	0.547** (0.258)	0.0189	0.532*** (0.144)	0.0189
employed	-0.435 (0.267)	-0.0082	0.497** (0.224)	0.0168	0.114 (0.106)	0.0230
constant	-5.868*** (0.872)		0.092 (0.845)		-1.609*** (0.453)	
Pseudo R ²	0.262		0.057		0.038	
N.	2,194		2,273		2,281	

* $p < 0.1$ ** $p < 0.05$ *** $p < 0.01$ Standard errors in parenthesis below each coefficient

Table 7 shows that not all the indicators of social capital are positively related to corruption. The marginal effects for *corr2* and *tax-moral* show that the probability of respondents claiming to be against bribes at work and tax evasion reduced with social participation by 0.7% and 3.4% respectively. In other words, the use of bribes and tax evasions seems to be considered less immoral among members of associational activities²⁴. On the other hand, the probability for a respondent to claim to be against tax evasion increases by 5.6% if the individual is involved in political activities (*political participation*).

The indicators of trust are positively correlated to all the variables of corruption. Individuals that trust people in general have a 6.2% higher probability of claiming to be against tax evasion. Similarly, the probabilities that a respondent declare to be against bribes and tax evasion increase by 0.4% and 1% when the individual trusts institutions. These results can be interpreted in a reverse way. The more an individual does not trust the institutions, the more they justify corrupt exchanges like bribes. Barone et al (2009) and Torgler (2005) argue that the perception that the individuals have about the institutions can affect their opinions about the practice of corrupt exchange. There exists a psychological contract between institutions and the individuals that implies a certain degree of loyalties based on trust (Torgler, 2005). The lack of trust in government and institutions might drive individuals to justify illegal actions, such as corruption. This lack of trust comes from several sources, including inefficient provision of public goods from the institutions

²⁴ We also tried to split the sample of associations between Olson-group associations (rent-seeking groups) and Putnam-group associations (more civic engagement oriented). The results did not change since, in both of the cases, the associational participation resulted in significant negative trends.

(Barone et al, 2009), lack of institutional credibility (Knack and Keefer, 1997) and a lack of institutional commitment (Torgler 2005). Similarly, with respect to tax morale, Torgler (2005, p. 138) points out that “if the state acts trustworthily, taxpayers might be more willing to comply with the taxes”.

In addition, regulatory capacity plays an important role. The probability of a respondent to claim that fighting corruption is very important increases by 4.8% if the individual believes in the importance of the rule of law. Similarly, the probability of claiming to be against bribes and tax evasion increases with a strong belief in the regulatory capacity by 1.9%. In addition, being employed²⁵ positively affects the share by 1.7%.

Across the models, the variable *age* is significant and positive with respect to *corr1* and *tax-moral*. In the first case the effect is negligible, while, in the second case, it is higher by 0.3%.

²⁵ Notice that when the variable *employed* is replaced by the variable *self-employed* the relationship with the variable of corruption becomes negative, though not significantly.

6. Conclusions and Policy Recommendations

The main conclusion of our work is that most Palestinians say that fighting corruption is very important, that bribes at work cannot be justified at all and that tax evasion is not acceptable. In other words, Palestinians claim that they would, in general, prefer a socio-institutional context based on fairness and good behaviour, where corrupt exchanges are reduced at minimum and where everyone can contribute to the public good in a fair and equal way. However, this general picture is based on some conditional factors. The descriptive analysis shows that the proportion of individuals declaring to be corrupt-averse is substantially higher than that of tax moralists, as both age and working sectors affect individuals' feelings about tax evasion. In fact, Section 4 indicates that individuals aged 30 and above are more averse to tax evasion than those under 30 years of age. On the other hand, individuals working in the public sector justify tax evasion less than workers in the private sector or those self-employed. It is likely that workers in the public sector are more aware of the possible consequences of tax evasion. Indeed, the loss of taxes can be compensated by the public finance with an increase in the tax revenue from the public sector workforce (Cannari et al 2007).

The positioning of Palestinians as corruption-averse is also conditioned by social capital indicators. Empirical evidence shows that the social capital and corruption puzzle is valid in the Palestinian context. Generalised trust and institutional trust are positively correlated to the opinion that bribes and tax evasion cannot be justified at all. On the other hand, there is a negative relationship between social participation and the opinion about bribery and tax evasion. Jamal (2007) believes that the polarisation of voluntary associations was one of the root causes of increased nepotism and clientelistic networks in the past. Indeed, intra-group solidarity might condition moral and ethical perceptions of some members and facilitates favouritism.

Unlike Harris (2007), our analysis does not show a negative relationship between family ties and the perception of corruption. Moreover, the positive relationship between bridging ties and the variables of corruption is valid only in the case of *corr1*, while table 8 shows no correlation between *bridging* and the opinion about bribery and tax evasion.

In line with the 2009 AMAN polls and Seldadyo et al (2006), the regulatory capacity holds the most explanatory power for different types of

perceived corruption among Palestinians. In fact, the marginal effects of the binomial logit models show that individuals assessing the rule of law as very important are corrupt-averse (in both *corr1* and *corr2*) and do not justify tax evasion at all.

Finally, at this stage, policy recommendations become as important as they are difficult to propose. The empirical analysis suggests that policies that increase the number of NGOs in Palestinian territories might not have the expected pay off in terms of civic engagement that Putnam has posited again and again (Putnam et al 1993; Putnam 2000). This reinforces the idea that social capital cannot be reduced to the solely associational activity. Instead, institutional trust and regulatory capacity might represent the key elements for fighting corruption. Both of these elements can be increased by institutional transparency reforms aimed at creating a better, less corrupt government (Islam 2006).

In this respect, it seems that the Palestinian Authority is moving in the right direction. The Government and some institutions are starting to make better use of modern information technologies, such as the internet, to provide more transparent information about finances and organisational performance. The report produced by AMAN (2010) underlines how the Ministry of Finance publishes the monthly and annual financial reports on its official website. Moreover, the Ministry of Health publishes job vacancies, quarterly and annual health reports, tenders, complaints and suggestions on its website. However, transparency reforms can increase trust in institutions only if accompanied by other anti-corruption measures (Bauhr et al 2010). For instance, transparency reforms might be more credible if they showed a clear break from the past and were led by individuals with reputations for integrity and professionalism. If this combination is missing, it is more likely that transparency reforms will only create high expectations without corresponding change – leading to lower institutional trust and civic engagement (Bauhr et al 2010).

References

- Aidt, T S (2010) "Corruption and Sustainable Development" CWPE 1061 Working Paper
- Attila, G (2008) "How do African population perceive corruption: microeconomic evidence from Afrobarometer data in twelve countries" CERDI Etudes and Documents, E 2008. 11
- Banfield, E 1958 *The Moral Basis of a Backward Society*, New York, Free Press
- Barone, G Mocetti, S (2009) "Tax Moral and Public Spending Inefficiency" Bank of Italy Working Paper N. 732
- Barr, A Serra, d (2010) "Corruption and Culture: An Experimental Analysis" *Journal of Public Economics* 94 862-869
- Bauhr, M Grimes, M Haring, N (2010) "Seeing the State: the Implication of Transparency for Societal Accountability" The QoG Working Paper Series 2010: 15 University of Gothenburg
- Beugelsdijk, S Schaik, van Ton 2005 "Social Capital and Growth in European regions: an empirical test *European Journal of Political Economy* Vol. 21 pp. 301- 324
- Bjornskov, C (2003) "Corruption and Social Capital" Department of Economics Aarhus School of Business Working Paper 03-13
- Cannari, L d'Alessio, G (2007) "Le opinioni degli italiani sull'evasione fiscale" Bank of Italy Working Paper N. 618
- Clausen, B Kraay, A Murrell, P (2010) "Does respondent Reticence Affect the Results of Corruption Surveys? Evidence from the World Bank Enterprise Survey for Nigeria" The World Bank. Policy research Working Paper 5415 September 2010
- Clausen, B Kraay, A Nyiri, Z (2009) "Corruption and Confidence in Public Institutions: Evidence from Global Survey" The World Bank. Policy research Working Paper 5157 December 2009
- Coalition for Integrity and Accountability (AMAN) "Combating Corruption in public Institutions: Measures and Procedures" Corruption Report 2009 Palestine
- Coalition for Integrity and Accountability (AMAN) "No to Impunity" Corruption Report 2010 Palestine
- Della Porta, D Vannucci, A (1999) "Corrupt exchanges: Actors, Resources and Mechanisms of Political Corruption" *Crime Law and Social Change* 31 (2) 162-165
- Dong, B Torgler, B (2010) "Corruption and Social Interaction: Evidence from China" CREMA Working Paper 2010 – 22
- Field, J 2008 *Social Capital* New York Routledge
- Fisman, R Gatti, R (2002) "Decentralization and Corruption: Evidence Across Countries" *Journal of Public Economics* 83 (2002) 325-345
- Fukuyama, F 2001 "Social Capital, Civil Society and Development" *Third World Quarterly*, 22, 1, 7-20

- Gambetta, D (2000) "Mafia: The Price of Distrust" in Gambetta, D *Making and Breaking Cooperative Relations* Electronic edition Chapter 10 pp. 158-175
- Goel, R K Nelson M A (1998) "Corruption and Government Size: A Disaggregated Analysis" *Public Choice* XCVII 107-120
- Granovetter, M (1973) "The Strength of Weak Ties" *American Journal of Sociology* N. 78 p. 1369-80
- Granovetter, M (1985) "Economic Action and Social Structure: the Problem of Embeddedness" *American Journal of Sociology* N. 91 p. 481-510
- Groenedijk, N (1997) "A Principal-Agent Model of Corruption" *Crime, Law and Social Change* 27 207-229
- Grootaert, C (2001) "Does Social Capital Help the Poor? A Synthesis of Findings from the Local Level Institutions Studies in Bolivia, Burkina Faso, and Indonesia" World Bank Working Paper N.10 June 2001
- Guiso, L Sapienza, P Zingales, L (2004) "The Role of Social Capital in Financial Development" *American Economic Review* Vol. 94, No. 3: 526-556
- Harris, D (2007) "Bonding Social Capital and Corruption: a Cross-Country Empirical Analysis" Environmental Economics and Policy Research Discussion Paper Series 27. 2007 Cambridge
- Khan, M H (1998) Patron-Client Networks and the Economic Effects of Corruption in Asia" *European Journal of Development Research* 10 (1) June 1998 15-39
- Kinghston, C (2005) "Social Capital and Corruption: Theory and Evidence from India" BREAD Working Paper N. 75
- Knack, F Keefer, P (1997) "Does Social Capital Have an Economic Payoff? A Cross-Country Investigation. *Quarterly Journal of Economics* 112/4, 1251-1288
- La Porta, R Lopez-de-Silanes, F Shleifer, A Vishny, R W (1997) "Trust in Large Organizations" *The American Economic Review* Vol. 87 N. 2 pp. 333-338
- Lambsdorff, J G (1999) "Corruption and Empirical Research – a Review Transparency International Working Paper November 1999
- Lin, N 2001 *Social Capital a theory of Social structure and Action* Cambridge, CaMbridge University Press
- Mauro, p (1995) "Corruption and Growth" *Quarterly Journal of Economics* 110 (3) Aug.1995 681-712
- Mauro, p (1998) "Corruption: Causes, Consequences and Agenda for Further Research" *Finance and Development / March 1998* 11-14
- Mauro, p (2004) "The Persistence of Corruption and Slow economic Growth" IMF Staff Working Paper Vol.51 N.1 International Monetary Fund

- Narayan, D Woolcock, M 2000 "Social Capital: Implications for Development Theory, research and Policy" *The World Bank Research Observer* Vol. 15 No. 2 August 2000, 225-249
- Paldam, M (2002) "The Cross-Country pattern of Corruption: Rconomic, Culture and Seesaw Dynamics" *European Journal of Political Economy* 18 (2) 215-240
- Paldam, M Svendsen, G T (2002) "Missing Social Capital and the Transition in Eastern Europe" *Journal for Institutional Innovation, Development and Transition* 5, 21-34
- Portes, A (1998) Social capital: its origins and applications in modern sociology" *Annual review of Sociology* pp.1-14
- Putnam, R D 2000 *Bowling Alone: the collapse and revival of American community*, Simon & Schuster, New York
- Putnam, R D Leonardi, R Nanetti, R Y 1993 *Making Democracy Work*, Princeton: Princeton University Press
- Sabatini, F 2005a "Social Capital and Social Network. A new Framework for Measurement" Working Paper N.83 University of Rome "La Sapienza" Department of Public Economics
- Sciarrone, R (2002) "The Dark Side of Social Capital: The case of Mafia" Workshop on Social Capital and Civic Involvement Cornell University, September 13-14, 2002
- Seldadyo, H de Haan, J (2006) "The Determinants of Corruption: A Literature Survey and New Evidence" Paper prepared for the 2006 EPCS Conference, Turku, Finland, 20-23 April 2006
- Shleifer, A Vishny, R W (1993) "Corruption" *Quarterly Journal of Economics* 108 (3) 599-617
- Siegmán, H Shikaki, K Sayigh, Y (2005) "Reforming the Palestinian Authority: an Agenda for the Next Six Months" Independent Task Force on Strengthening Palestinian Public Institutions February 2005
- Slemrod, J (2007) "Cheating Ourselves: The Economic of Tax Evasion" *Journal of Economic Perspectives* 21 (1) Winter 2007 25-48
- Sullivan, J D (2006) "NGOs in Palestine: Agents of Development and Foundation of Civil Society" *Journal of Palestine Studies* 25 (3) Spring 1996 93-100
- Tabellini, G (2008) "The Scope of Cooperation: Values and Incentives" *Quarterly Journal of Economics* 123 (3) 905-950
- Torgler, B (2005) "Tax Morale in Latin America" *Public Choice* 122 (1/2) Jan.2005 133-157
- Transparency International "Corruption Perception Index 2010" www.transparency.org
- Uebersax JS. *The tetrachoric and polychoric correlation coefficients. Statistical Methods for Rater Agreement* web site. 2006. Available at: <http://john-uebersax.com/stat/tetra.htm>
- Uslaner, E M (2002) "Trust and Corruption" Paper prepared for presentation at 2002 Annual Meeting of the American political Science Association Boston August 29-Septemebr 2002

- Warren, M E (1999) "Democracy and Trust" Cambridge University Press, Cambridge 1999
- Warren, M E (2004) "Social Capital and Corruption" *Democracy and Society*, Spring 2004, pp. 1, 16-18
- Woolcock, M (1998) "Social Capital and Economic Development: toward a theoretical synthesis and policy framework" *Theory and Society*, 27, 2, 151-208
- Woolcock, M 2001 "The Place of Social Capital in Understanding Social and Economic Outcomes", *Isuma: Canadian Journal of Policy Research*, 2, 1, 11-17
- World Bank 2004 "Corruption, Governance and Security: Challenges for the Rich Countries in the World" The Global Competitiveness Report 2004/2005