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Corruption and the Military in Politics: Theory and Evidence from around the World

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Abstract

Recent theoretical developments and case study evidence suggests a relationship between the military in politics and corruption. This study contributes to this literature by analyzing theoretically and empirically the role of the military in politics and corruption for the first time. By drawing on a cross sectional and panel data set covering a large number of countries, over the period 1984-2007, and using a variety of econometric methods substantial empirical support is found for a positive relationship between the military in politics and corruption. In sum, our results reveal that a one standard deviation increase in the military in politics leads to a 0.22 unit increase in corruption index. This relationship is shown to be robust to a variety of specification changes, different econometric techniques, different sample sizes, alternative corruption indices and the exclusion of outliers. This study suggests that the explanatory power of the military in politics is at least as important as the conventionally accepted causes of corruption, such as economic development.

JEL Classification: C23, D72, K42, H1

Keywords: corruption; military in politics; cross sectional; panel data

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1. Introduction

"A rotten apple spoils the barrel." (English proverb);
"If you go with the lame, you will learn to limp." (Italian proverb);
"Whoever sleeps with a blind-man wakes up crossed-eyed." (Turkish Proverb);
"Power tends to corrupt, and absolute power corrupts absolutely." (Lord Acton);
"Corruption is nature's way of restoring our faith in democracy." (Ashleigh Brilliant).

Although, corruption, i.e., 'misuse of public power for private gain' is disliked in its essence because of its detrimental effects on the development of a country, it is pervasive and exists in every country of the world, with varying degrees. Apart from the general negative consequences of corruption, it is considered a major obstacle in reducing inequality, poverty and infant mortality in developing countries.

However, corruption perhaps, like the poor, will always be with us. In many foreign deals, what would normally be regarded as under-the-table payoffs are aboveboard: from the shrewdly sophisticated kickback schemes of the Middle East and Latin America, to the virtual Mafia-style and shakedowns of sub-Saharan Africa and Indonesia, the universal game of bribery in the pursuit of profit goes on and on[1].

It is widely accepted by economists, development practitioners and policy makers that corruption is a real and ever present problem for developing countries. However, recently a number of scandals over corruption have shown that rich nations, traditionally regarded as corruption free. In Norway and Sweden (often seen as the cleanest nations), for example, state owned companies have been found to be involved in bribe taking. Similarly, in Germany, former Chancellor Helmut Kohl and his Christian Democratic party, the CDU, were shown to be involved in malpractices and they were penalized for receiving illegal campaign funding.[2] In fact, recent emerging major corruption scandals have affected a striking variety of countries all over the world: United States, Japan, Italy, France, Germany, South Korea, Mexico and the Kenya.

In recent years international organizations such as the United Nations, the World Bank, the IMF, and OECD have made corruption a significant focus of their agendas and have made important attempts to curb corruption in the world, particularly developing

[1] http://www.time.com/time/magazine/article/0,9171,922462,00.html#ixzz0acS3mTSS

[2] The CDU received donations from arms industries and it was shown in the process of investigation that the money was indeed a commission paid by the company Thyssen for exporting armored tanks to Saudi Arabia.

countries that are more prone to corrupt activities for their weak democracies and institutes. Understanding the significant effects of corruption on a country's development process has motivated researchers to investigate why corruption exists and what determines its high degree of variation across countries. Research on the determinants and effect of corruption has proliferated in recent years (see for example Lambsdorff, 2006 for an excellent review of the relevant literature). Cross-country empirical studies of the causes of corruption have investigated a wide range of factors such as economic, cultural, political and institutional aspects (see for example Serra, 2006). In addition, Ades and Di Tella (1997), Bardhan (1997), Jain (2001), Lambsdorff (2006) and Seldadyo and Haan (2006) provide extensive literature reviews. In the wake of the proliferation of a large number of studies on corruption, a consensus among academicians and policy makers on some of causes of corruption is slowly emerging. However, contentious results still abound as researchers adopt different measures of corruption, different conditioning information sets, or, more importantly, different samples (see, for example, Ades and Di Tella, 1999; Treisman, 2000; Paldam, 2002; Serra, 2006).

Many studies have considered 'political variables' (see, for example, Treisman, 2000; Serra, 2006) and a country's institutional structure (see, for example, Herzfeld and Weiss, 2003; Damania et al., 2004) as important determinants of corruption: specifically, economies with political stability and strong institutions are less prone to corruption. In this paper we explore other avenues that might explain corruption in order to provide a deeper understanding of corruption' incidence and its variation across nations. The motivation behind our search is to provide national governments and international bodies with more scientific and factual information on causes of corruption so that curse of global corruption can be curbed more effectively. This study indentifies the role of military elites in politics as a major factor that fosters corruption. To the best of our knowledge, this is the first study to highlight this important determinant of corruption.

According to recent estimates of the World Bank, every year more than US$ 1 trillion is paid in bribes. The estimates also suggest that countries that control corruption, using anti corruption measures, such as improvement in governance and rule of law, can dramatically increase their per capita income by a staggering 400 percent. The Institute's director for Governance, Daniel Kaufmann, states that the calculated US$1 trillion figure,

using 2001-02 economic data, is based on actual bribes that are paid in both developed and poor countries. The figure for bribes is striking in comparison to the actual size of the world economy at that time, which was just over US$30 trillion (this figure does not include stealing of public assets or the embezzlement of public funds). The director states that "It is important to emphasize that this is not simply a developing country problem, fighting corruption is a global challenge."

The embezzlement of public funds is a very serious matter in many settings, however assessing the extent of global embezzlement of public funds is not easy. According to Transparency International estimates, for example, the former Indonesian leader Suharto embezzled somewhere between $15-35 billion from his country, while Abacha in Nigeria, Mobutu in Zaire and Ferdinand Marcos in the Philippines, each may have embezzled public assets of up to $5 billion. It is noteworthy that all of these leaders, except Ferdinand Marcos, have military background meaning that military involvement in politics with the outcome of corruption and kickbacks.

The military is not elected by anyone and for that reason, its intervention in the political process of a country, even at a peripheral level, is harmful for the democratic process and accountability. Some of its other important implications are as follows: the military may be involved in government on account of an actual or created internal or external threat to national sovereignty. This situation implies the distortion of government policy because certain policy options need to be required and implemented to meet this threat; for instance, a reallocation of budget in favor of the military at the cost of other important budget allocations. The threat of a military take over can force an elected government to change its policy in line with the desires of the military or may even replace it by another government more acquiescent to the wishes of the military. If a military take over, or a threat of take over, indicates inability of the present government to function effectively then the economy will pose high risks for foreign businesses and a full-scale military regime poses the greatest risk. Although a military regime may temporarily provide stability and therefore reduce risks for businesses in the short term, in the longer term risk will almost certainly rise for two major reasons: the system of governance will be become corrupt and, second, the continuation of such a government may create an armed opposition (International Country Risk Guide, 2008).

Recent corruption reports and case studies across the globe have shown that military elites in government are no less corrupt then civilian government officials (see for detail, Kieh and Agbese, 2004). Recently, Rumsfled, the former secretary of defense in the US, raises evidence of government, military corruption. The secretary says (admits) that 'according to some estimates we cannot track $2.3 trillion in transactions'[3]. This is such a huge amount that if we divide it between all American citizens then the share for each (every) man, woman and child would be $8000. Similarly, the New York Times provides evidence of a vague monetary transaction in the defense department of USA, that is 'the defense department spent an estimated $100 million for airline tickets that were not used over a six-year period and failed to seek refunds even though the tickets were reimbursable.'[4]

This paper adds to the literature on the causes of corruption by addressing the following questions: (1) Does having the military in politics foster corruption across nations? (2) Does the role of military in politics cause have a different effect on corruption depending on the existing level of corruption? (3) What is the role of government in reducing the incidence of corruption? (4) What is the effect of inflation on corruption, and does the effect vary from the most clean to the most corrupt countries?

This study differs in several important aspects to previous work in this area. First we believe that this study is unique as it provides the first analysis of the military in politics, both theoretically and empirically, and therefore should provide a deeper understanding of the causes of corruption. Second, this study not only replicates earlier findings in the literature on corruption but also provides a better explanation of those causes of corruption which are inconclusive and have received least attention using recent data sets. Third, in contrasts to previous studies which generally focus one or two years of data, we use both cross sectional and panel data sets over a long period of time. Fourth this study contributes to the existing literature on the sources of corruption by analyzing the distribution of the dependent variable (corruption). Fifth, existing studies on the topic focus on either panels or cross sectional data bases which do not distinguish between developing and developed countries; in this study we make that distinction clear. Sixth, in

[3] CBS News, 1/29/02, U.S. Secretary of Defense raises evidence of government, military corruption

[4] New York Times, *6/9/04*

this study we use a variety of econometric techniques to account for time dynamics and to control for the problem of endogeneity.

The remainder of the paper is structured as follows. Section 2 provides a review of the relevant literature. Section 3 provides a comprehensive discussion of a theoretical model of military involvement in politics and its links with corruption. Section 4 provides a discussion of the data, while section 5 presents a model and estimation procedure. In section 6 we present our empirical findings. Section 7 is our concluding section.

2. Literature Review

This section has been subdivided into four sections. In section 3.1 we provide a comprehensive review of the literature related to military in politics and corruption, which we have gathered using academic articles, analyzing case studies, considering scholarly arguments and speeches from all over the world. In section 3.2 we discuses theoretical model of the causes of the military engagement in politics, while theories of civil-military relations are explained in section 3.3. Finally, we present a theory of the relationship between military in politics and corruption in section 3.4.

3.1 Theory: Military in Politics and Corruption

Ball (1981) analytically evaluates the political role of third-world militaries for two reasons. First, the military-dominated governments are least responsive to the needs and voices of the poor majority in developing world. In addition, in order to curb civilian demands and unrest, military-dominated governments use arms far more frequently than civilian-dominated governments. Second, as the role of the military in politics grows, so its control over scarce resources of the country increases and a greater amount of these scarce resources is channeled into the military sector or activities closely related to the military.

The author identifies four major societal groups that most likely benefit from the involvement of the military in the economic and political life of a country: domestic civilian groups, the military as an institution, the individuals within the military and foreign groups. Using examples and case evidences, the author outlines the reasons why each of theses groups may favor military intervention into the economic and political life

of a country. The author also discusses the ways in which the interests of these four groups coincide. One important reason, among others, for them to favor military intervention in politics, is the maximization of personal wealth through corrupt activities. In other words, corruption is an important element attached to military intervention in the political and the economic life of a country.

When the militaries seek to get involved in the political process of a country, allies are sought among bureaucrats, technocrats and politicians. In military-dominated government the collaboration of the civil service is vital because a country can not be administrated solely with military man power, not even one as entrenched as that in Brazil, Thailand and Indonesia. It is generally argued that the military and the civilian bureaucracy are best allies (Edward Feit, 1973).

Military leaders improve their personal financial condition by frequent involvement in the economic system. To do this, they seek close working relations with local and foreign businessmen. The military manages a secure business environment while businessmen provide capital and entrepreneurial skills. The engagement of the military in economic corruption is greatest when the military are involved in the political process. In other words, the opportunities for economic corruption for the military are greatest when its role in politics increases. The civilian leaders provide opportunities for senior army officials to increase their personal wealth in reward for their loyalty to the stability of the political regime. Politicians may approach the military for direct intervention in government, to limit the power of political opponents, or the politician may tacitly acquiesce to such involvement. For instance, the occurrence of a series of coups in Sierra Leone in 1967 was motivated by Albert Margai who wanted control of the government (Anton Bebler, 1973).

It is generally argued in the literature on the political role of the military in third-world countries that the armed forces defend the interests of the middle class or, more specifically, the interests of the third world elites. It is true, for example, in the case of Latin America where the elite seek military intervention in order to exclude the mass of the population from political and economic decision making. The elites want such exclusion because they have a fear that increased participation of the poor people in the economic and political system will alter the rules of game, which will not be favorable to

the elites. Third world elites not only defend themselves against the dissolution of a political and economic system, which enables them to accumulate personal wealth and power, but they also want to maintain their position within that system (Eboe Hutchful, 1979).

The military as an institution

As an institution the military has many justifications for seeking a political role. Four important reasons are discussed below[5]. First of all, the military wants to maintain an increase in the military's share of national resources. Case studies often note that one reason for a military take over a rise in military expenditures is evidenced, such as a rise in salaries, new military hardware are ordered, and new facilities are provided to the officers and their families. For instance, military expenditures rose by an average of 22% per year in Ghana over the period 1966-69, following a military coup against Nkrumah's government (Anton Bebler, 1973). This is in fact a reflection of the fact that prior to the coup Nkrumah had placed the army on an austerity budget.

A second reason for the role of military in politics is simply the maintenance and survival of the armed forces within a country and this is often seen when attempts are made to undermine military hierarchy. For example, in the case of Brazil, President Goulart tried to counter the power of top military officers and consequently was overthrown by the military in April 1964 (Eric A Nordlinger, 1977). The military also gets involved in political power if a politician, who was removed by the military in past, becomes active again. For example, it is one of the key reasons for the coups in Ecuador and Guatemala during 1963 (Martin Needler, 1964; Nordlinger, 1977).

A third reason for military involvement in politics is fear of national disintegration. For example, military officers often argue that their intervention in politics is necessary because civilian governments are inefficient, corrupt and incapable of governing a country and as a result the country is plagued by widespread political, economic and social disorders. In fact, a military intervention or take over becomes easy in the presence of weak, poorly elected civilian-dominated governments. These governments often fail to respond to the voices and needs of a large segment of society.

[5] See for example ball (1981) for more details.

As a result, military-dominated governments are initially welcomed because they promise to curb corruption and to respond to the needs of the poor people. However, in practice military governments do not follow through on these pledges. The evidence shows that the military-dominated governments appear as inefficient and corrupt as their civilian predecessors.

A fourth reason for military involvement is the extension of the concept of 'national security' to include internal securities. Militaries not only devise military techniques and doctrine for confronting domestic insurgency but they are also interested in the social and political reasons for insurgency. In countries where civilian-dominated governments are more unrepresentative, the military comes to power in an attempt to institutionalize their role, such as in Indonesia, Chile and Brazil. At present, most developing world militaries are mainly concerned with internal security that implies in future military officers throughout the world will be more interested in politics and government.

Individuals within the military

The enhancement of personal power and wealth is a key factor and a top priority for individuals within the military who seek a political role for the military. It is evident from case studies of military-dominated governments that the maximization of personal power and wealth is indeed a very high priority for a large number of coup leaders. There are a number of ways through which individuals within the military, especially officers, enhance their personal wealth. It is often the case that military expenditures increase because officers want high salaries, better housing, other privileges, such as medical and educational facilities, for their families.

More lucrative opportunities are associated with the involvement of military officers in the political process of the country. 'The best opportunities are, of course, in those counties where bribery, rake-offs and other forms of corruption flourish as a matter of course' (Nordlinger, 1977). In Sudan, for example, military officers acquired restricted public land for their own use, undertook public projects for their own benefits and demanded money for the provision of import licenses. Following the first coup in Ghana, for example, the salaries of the military officers rose substantially and foreign exchange

was used to buy luxury goods, like Mercedes Benz automobiles, for military officers (Nordlinger, 1977).

In general, personal wealth maximization is easy to achieve in cases where the military take over the government, but this is not a necessary condition, as the enhancement of personal wealth is also facilitated even in civilian-dominated governments where military officers are appointed to top bureaucratic posts, which provide them with ample opportunities for enriching themselves through corruption and kickbacks. These top bureaucratic positions allow them to get involved with private companies and divert government expenditures into investments that are mutually beneficial for military officers and private companies. Similarly, they may also divert economic development assistance to their own uses as well as for bribe seeking by favoring the interests of private companies. Indonesia and Thailand are the best examples of this type of arrangements. Bienen and Morell (1974) conclude for Thailand that: "Widespread participation in and tolerance of corruption play a crucial role in maintaining military cohesion, cutting across factional or personal cleavages to produce common requirements for mutual protection. Factional competitors on governmental issues may sit on the same corporate boards or participate jointly in the spoils from a participate contract. If no one at the top is 'clean', no one can betray his fellows".

Furthermore, Silcock (1967) for the case of Thailand, "lists 154 government enterprises which are capitalized at $490 million. Of these, forty-nine, are capitalized at $393 million, or 80 percent of the total, and are administered by the prime minister's office and the ministries of defense, interior, and communications, all of which are headed by army generals. Writing of fourteen major enterprises which are owned and managed by the Ministry of Defence, Silcock comments, '…they produce little which is of any military significance, and... bring little return to the government. Their chief function appears to be to provide livelihood and patronage."

Tangri and Mwenda (2003) provide an excellent documentation of corrupt military procurement in Uganda since the late 1990s. They point out that military corruption began to rise when the National Resistance Movement (NRM) government in power began acquiring more and larger military equipment, mainly through third parties. In the late 1990s, many tenders were entered into for aircraft, tanks, guns, food rations

and uniforms. These deals invariably created opportunities for bribes and kickbacks which benefited most to the army officers, middle man and top government officials. For instance, in the 1996 the NRM government decided to buy four MI-24 helicopter gunships from Russia. This decision motivated many interests to lobby the government to supply helicopters. Among them a Kampala, Emmanuel Katto, brother in law of the Ugandan Chief of Defense Staff General James Kazini, contacted his overseas partners and successfully lobbied to secure the contract for his overseas partner in a company Consolidated Sales Corporation (CSE). This deal produced a contract without any bidding taking place and the Ugandan government paid $12.2 million dollar to CSE for the helicopter gunships, but in reality these helicopters were purchased from a company in Belarus for only $4.7 million which means that $4.5 million was the cost of corruption. Furthermore, the helicopters were in such bad condition that they remained grounded at Enteblx air force base. So, in reality government lost $12 million on the deal.

Tangri and Mwenda (2003) also document illicit business activities of top military commanders of the Ugandan army engaged in military operation in the Democratic Republic of Congo (DRC). In August 1998, Ugandan soldiers were deployed to curb the rebels threatening the security of Uganda and destabilizing the stability of NRM government. Nevertheless, the Ugandan Peoples Defense Force (UPDF) crossed the border security and entered into the areas of Eastern Congo to plunder the natural resources.

In fact, Congo became a veritable treasure trove for top military commanders who became wealthy from stealing and resource plunder, together with their civilian partners. Specifically, officers have been engaged in smuggling resources - gold, diamonds, timber and coffee - from the DRC to Uganda. The in charge of operation, major-general Salim Saleh has been alleged of rewarding his own company a $400,000 monthly tender to supply UDPF with commodities in Gulu. Salim Saleh was also involved with Trinity Investment Limited (TIL). This company was alleged for not paying import duties to ruler while importing into DRC and for not paying taxes while exporting gold, timber and coffee into Uganda.

Tangri and Mwenda (2003) note weak and limited accountability on matters of military and civil servant corruption. They write ‘and not a single army officer, senior

civil servant or top government minister has found prosecution or punishment for their alleged misdeeds'. The authors also note that military intervention in government affairs is high because there were mutual interests like president Museveni wanted to keep his power and kept strong ties with top military officials to ensure their loyalty.

Money generated through corrupt procurement was awarded to top military officials for their loyalty and spent on NRM's political patronage system to ensure stability and strong power of the government. In fact, top military officers-Salim Saleh and James Kazinin-have been identified as being massively involved in many of the corruption deals. The military officers benefited from corrupt deals and substantial funds have been reserved for president's political projects. This is why when president Museveni's presidency was challenged in 2001, many commanders supported Museveni and campaigned against the presidency challengers. Many senior army officers were 'particularly sensitive to any threats to prosecute or follow them up for any commissions or omission under Museveno' (Aliro, 2002). Wakabi, (2000c) also notes that the above discussed military corruption is closely associated with Ugandan politics. For example, president Museneri was involved in military corruption and support of corrupt elements. The president refuted 'claim of corrupt business dealing and embezzlement by his top military commanders'.

Amuwo (1986) documents the role of military in politics and corruption for the state of Niger. The author notes that military involvement in politics is based on good factors-rigor, accountability, order, probity, discipline, etcetera- but actually these vaunted factors are of limited utility once military officers get in involved in the political process and governance. In fact, they are also involved in the internal dynamics of the civil society due to financial and economic advantages. The author says that military growing class badly spoils its own hands instead of implementing anti-corruption measures.

Recently, the Niger state governor, Bakongida Aliyu, blamed corrupt practices in the Niger to the involvement of military in the politics. He said the military rule has eroded service delivery in all sectors of the national economy. The governor argued that the incursion of the military into politics bred corruption because the military rule makes it difficult for people to resist poor service dealing. He said 'the military instituted

corruption and the old men who were supposed to talk were contented with little gifts'. He further said 'during the military regime, we had people who could not make one N1 million in 10 years making it in one day'.[6]

Ghosal (2009) evaluates the recent military intervention in the politics of Bangladesh. The main hypothesis of this study is that military involvement in politics is changing its pattern in countries like Pakistan and Bangladesh. The study labels this new pattern 'power with out responsibility' which would seem to bode ill for domestic development in both countries. Ghosal argues that in Bangladesh, as in Pakistan, the army does not necessarily directly come to power but controls the establishment in the background and destabilizes politicians. If this type of military intervention benefits the country then the military takes the credit, but if it does not benefit the country the blame is passed to the establishment. Ghosal concludes that 'a new model of military intervention in politics—rule without responsibility and accountability—has emerged in Pakistan and Bangladesh, which obviously has both long- and short-term implications for political developments in third world countries and, thus, requires closer scrutiny and analysis'.

Moudud Ahamn, criticizes military involvement in government and blame massive corruption in Bangladesh to military's involvement in government. Specifically, he criticizes the military take over of Bangladesh in 2001. He gives the reference of International Transparency (2008) which shows that corruption has increased since the military take over in January 2007. He argues that the problem with military intervention is that people are deprived of the choice 'to have any voice or control at all over those aspects of their destiny and daily life which interfere with the state'. He says that 'a military dictator decides on his own. He becomes, in effect, an unelected King answerable to no one'. He further argues that Bangladesh is facing state plundering by military rulers just like Pakistan and Indonesia. The people of Bangladesh are being deprived of their liberty and the military intervention is causing economic and social disorder.[7]

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[6] (Source:http://thenationonlineng.net/web2/articles/24167/1/Military-institutionalised-corruption-says-Aliyu/Page1.html)

[7] http://moududahmed.com/3.html

Bhakti et al. (2009) document the history of the military in Indonesia, its role in politics and its role in perpetrating violence. The role of the military in politics had been defined during the Sukarno (1945-1965) and Suharto eras (1966-1998). However, following military reform era (beginning mid-1998), the role of the military has been reduced. Despite various stages of military reform, the military involvement in politics in different forms still exists. The authors argue that given the historical dual role of the military, the military 'has been able to set agendas and perpetrate violence without civilian oversight'. For instance, this has led to different acts of violence in Papua, perpetrated by the police and military.

The case evidence, at least from Thailand and Indonesia, suggests that corrupt patron-client networks are mainly controlled by political elites in the government, the military, and the bureaucracy (Rock, 2000; Rock and Bonnett, 2004). Rock (2000) argues, with reference to Thailand's bureaucratic polity, that a centralized patron-client corruption network between political elites, senior bureaucrats and top military officers developed in the presence of the military in politics and in the absence of a democratic process. 'In this centralized patron-client network, senior government officials provided protectionist rents to a small number of Sino-Thai entrepreneurs in exchange for kickbacks. As in Indonesia, the government protected private property and extracted rents at a low enough tax rate to entice entrepreneurs to invest, which they did'.

In the case of Indonesia, Mcleod (2005) argues that the president managed a franchise system during Soeharto's New Order government. This franchise system provided strong incentives for public officials to pursue growth oriented policies and enrich themselves through corrupt activities. 'In this model, rents were collected by simple extortion and by public sector policies that enabled the regime's cronies to amass protectionist rents. Government officials – in political parties, the judiciary, the bureaucracy, the military – and Soeharto's family participated in this franchise system through kickbacks, awards of government contracts, and through the granting of monopolies to cronies. Soeharto's franchise system protected both private property and taxed economic activities at a low enough rate to encourage private sector actors to invest in productive activity'.

Tangri and Mwenda (2009) conduct a case study on Uganda and point out that Uganda state elites - government officials, bureaucrats, army - have maximized personal wealth by seeking kickbacks and corruption. Apart from corrupt activities, other motives have been political consolidation for the elites. They note that top political administrators and military officials were allowed to exploit their positions for personal gain and they were also obliged to use their funds to support the stability of the political regime. In fact, resources from high levels of corruption have been used for both political mobilization and personal wealth maximization. 'They argue that state elites – cabinet ministers, senior civil servants, and army officers – have abused their positions for personal gain'.

Kieh and Agbese (2004) argue that in the African experience of the military and politics is one in which the main motivation in nearly every military coup is an anti corruption stance. However, in practice, once they are in office, the military do not show a lesser tendency towards corruption compared to civilian politicians. In reality, facts and figures about systematic plundering of the public treasury in Ghana, Nigeria, Zaire, and many other countries show that military elites are even more corrupt than civilian politicians. For example, Gen. Mobutu Sese Seko of Zaire and Gen. Sani Abacha of Nigeria have been alleged to have been involved in corrupt enrichment through the transfer of the state's budget into the private coffers of the head of state.

McNulty (1999) contends that Mobutu's fortune estimated at 'between $6 billion and $10 billion in 1997…was accrued at the expense of his country's economy and natural resources, through creation of the quintessential vampire state' William Reno (1998) has shown how Mobutu systemically privatized the public coffer by allocating the bulk of government revenues to the presidency. Ude (1999) provides an analysis of the scope of corruption under the Abacha regime, in which Abacha and his family members looted huge sums of money from state coffers. Following the sudden death of Abacha in June 1998, his family left the official residence in haste and many of their belongings were not removed. The items left behind were 52 luxury cars and a stock of local and foreign currency in huge industrial crates, among other items. Abacha's successor, appropriated the embezzled money from the family and, under intensive pressure, made the family return over 220 billion Naira to the government.

In addition, Kieh and Agbese (2004) note that in cases where military officers are not massively engaged in looting of the state treasury, they tend to increase substantially defense budget and this bodes ill for the country's economic welfare. In virtually every African country during a military regime, expenditures on defense and security massively increase while expenditures on education, health and social services decline. For example, following a military coup in Liberia, defense and security expenditures increased dramatically from $17.8 million to $44.6 million over the period 1978-81 (Elwood Dunn and Byron Tarr, 1988).

Obasanjo (1999) also contends for Nigeria that military involvement in politics fosters corruption. He asserts that 'no matter how noble the intentions of the pioneer coup-makers may have been, the prolonged involvement of the military in the administration and management of the state had aggravated the problems of political instability and deepened corruption within our society'. Soldiers in Ethiopia came to power promising to bring justice, administrative efficiency and a corruption free society but Apter and Rosberg (1994) note that military rulers control over politics and the economy in fact increased corruption and ruined the economy.

Dr. Ayesha Siddiqa-Agha[8], in an online interview conducted by despardes.com's Editor-in-Chief Irshad Salim, reveals that military generals in Pakistan are worth Rs 500 million (US $9.8 million) each. She explains the way in which the military establishment of Pakistan has systemically looted the country and points out that the military generals are no more than thieves.

In Siddiqa-Agha (2007) it is revealed that the military is entrenched in the corporate sector of the country and Pakistan's companies are in the hands of senior army officials. The private business empire of Pakistan's military is worth approximately £10 billion. Both in-service and retired army officials control secretive industrial conglomerates, which manufacture everything from cement to cornflakes and the military also owns 12m acres of public land. Her findings suggest that the Pakistan army, through predatory engagement in the political and economic process, has amassed great wealth. She also points out that the military elites foster economic corruption in partnership with

[8] She is an ex civil servant a scholar of Pakistan's military and security affairs and a regular contributor to several Pakistani and internationally renowned opinion journals.

other civilian elites, such as the civil bureaucracy and entrepreneurial class. It is worth noting that Siddiqa-Agha's book has been banned in Pakistan.

Recently, Thailand's military-backed government has been alleged to have been involved in corruption cases involving illegal campaign donations. In April and May 2010, Red Shirt protestors in Thailand created chaos and may cause a collapse of the military-backed government for its corrupt activities and uneasy political paradigm.[9]

3.2 Theoretical models of causes of military engagement in politics

In this section we present theoretical models of the causes of military engagement in politics. The literature provides many theoretical models as explanatory framework for military involvement in politics. These theoretical models can be classified as follows: the personalist, corporatist, manifest destiny, Marxist and integrative theoretical models. We now briefly discuss each of these models.

The personalist model

According to this model the military intervene in the political arena of a country for three reasons. First, the military rulers seek intervention in politics for personal power enhancement. Second, poor socioeconomic conditions of the country are justified for staging a coup, but the essential motive behind such coups is the personal agenda of military rulers for raw power and self-aggrandizement. Third, usually, it is the military leader himself who is the principal agent for the execution of the coup plot, with the support of his likeminded fellows and assistants.

The corporatist model

According to this model the military is a corporate entity meaning that individuals within the army have certain collective tendencies 'that make them develop a singleness of purpose' (Welch, 1987). Basically, the armed forces consider themselves a separate corporate body and all civilian groups as another corporate body. The armed forces consider themselves remarkably different from civilians. Certainly, such a perception on the part of the military represents 'the conduct of civil-military relation as a zero sum game'.

[9] http://www.asiasentinel.com/index.php?option=com_content&task=view&id=2599&Itemid=387

A further element of the model is that the armed forces share a collective interest, such as the maintenance of high military budget, the protection of military status, the protection of military rules, procedures, and norms and so on. The military intervention in politics is inevitable if civilian regimes attempt to undermine the collective interests of the army.

The manifest destiny model

The term manifest destiny model was coined by Finer (1988). This model is based on the concept that military officials are arrogant and they consider themselves superior to civilians and consider they are the only savior of the interests of the nation.

According to this model the military justifies its intervention on the bases that civilian regimes suffering from mal-administration and chaos and it is the military that can effectively protect and defend the national interest.

Marxist model

The Marxist model is based on following main arguments. First, the model links the military in politics with the issues embodied in the general crises of underdevelopment and predatory effects of the capitalist system. It treats the problem of military in politics as part of crises of underdevelopment while the crises of underdevelopment have their genesis in globalization of the capitalist system and the imposition of colonialism. Second, the capitalist system has created two general classes, the propertied and the non-propertied. According to the model state officials tend to protect and promote narrow particularistic interests of the propertied class. Third, the inequality of resource distribution causes class confliction, resentment, and struggles. These struggles are likely to destabilize incumbent civilian regimes. Fourth, in such a state of affairs, the military find an opportunity to step in political sphere of the nation. However, historically, the military protects interests of the few elites (ruling class). Thereby it is not ‘capable of prosecuting a systematic transformation of neo-classical nation’.

The integrative model

This model is based on the idea that military intervention is not motivated by a single factor but by a confluence (host) of factors. These factors can be categorized as personal, corporatist, the messianic complex, social, political and economic. The economic, political and social problems under civilian regimes, in combination of other motives of the armed soldiers, are usually justified for the military coups or engagement in politics.

3.3 Theories of civil-military relations

The literature provides three major theoretical models of civil-military relations: the Classic (or Western), Communist (or subjective control) and the Praetorian models (for further details see: Welch, 1976; Herspring and Volges, 1978; Perlmutter and Plave, 1980; Adekson, 1981; Kolkowicz and Korbonsk, 1982; Crouch and Haji, 1985; Kieh and Agbese, 2004).

The classic model

The classic model of civil-military relation is supposed to prevail in the developed market economies. The essential proposition of the model is submission and subordination of the military to civilian control and supremacy. According to the western model, the military neither participates in politics nor questions the political supremacy of elected politicians. In fact, elected politicians and the military have a clear and unambiguous separation of power where the military respects supremacy of the politicians. In this context, Kemp and Hurdlin (1994) claim that it is a moral obligation of soldiers to respect civilian control. In the same way, Finer (1975) emphasizes that the respect for civilian supremacy by the military in fact holds back political intervention. Under the classic model, the role and responsibilities of the military are set up by civilian authorities and the military cannot surpass the parameters of the rule and responsibilities established by the civilian authorities. In these societies citizens have a right to evaluate national security policies. A major advantage of the civilian control is that it promotes professionalism within the armed forces. As Huntington (1957) notes that essential objective of civilian control and supremacy over the military is maximization of autonomous military professionalism.

The communist model

The communist model of civil-military relations does not assume political independence of the military. According to this model the military engages in politics through the ruling political party and follow the ideology of the party. The purpose of participation is to guard and maintain the hegemony (supremacy) of the ruling political party over state and society. As Perlmutter (1982) notes, other than guarding the heroic party the military ‘identifies its value with that of the party’. In brief, under this model, the military is not free from politics and its political role depends on the ruling political party.

The praetorian model

In the praetorian model, civil-military relations are not stable as in the classic model and the military elites are among the top contenders (candidates) for political power. This model prevails in those countries where political institutions are weak and fragile, in combination with the issues and crises of underdevelopment, Politicians lake the ability to hold civilian supremacy over armed forces. Huntington (1968) contends that 'in a praetorian system there is the absence of effective political institutions capable of mediating, refining and moderating group political actions. Social forces confront each other nakedly: no political institutions, no corps of professional political leaders are recognized and accepted as legitimate intermediaries to moderate group conflicts. Each group employs means which, reflect its peculiar nature and capabilities to decide upon office and policy…. The techniques of military intervention are simply more dramatic and effective than the others'.

3.4 Theory: military in politics and corruption

This study asks whether the involvement of the military in politics fosters corruption. Although historical facts, case evidence, recent emerging corruption scandals all over the world, as well as scholarly argument suggest a relationship between the military, politics and government surprisingly, no one to our knowledge has systematically developed theoretical links of the relationship and, equally, no one has tested this relationship.

The available evidence on the relationship between the military in politics and corruption is largely based on country level descriptive studies and focuses on information culled from scandals, allegations, speeches and reports. Although such studies do indeed suggest there is a relationship, they do not provide any firm econometric or statistical analyses. This is the novelty of our study in that we compile evidence on the relationship between the military in politics and corruption from around the world and analyze it using econometric methods for a large set of countries over a long period of time.

The purpose of this section is to develop a systematic and logical theory (the links or channels) of the relationship between military in politics and corruption. It is important to mention that the involvement of military in politics is caused by a host of factors and

generates a range of consequences. In this study, however, we just focus on a particular aspect of the consequences, namely corruption, and leave the analysis of other consequences such as the impact on inequalities and poverty for future research.

Why and how does having the military in government foster corruption? In order to answer these important questions, we will develop theoretical channels/links that consider the importance of the military budget, power and wealth, collusion amongst the elite in a country, control of top administrative positions, natural resources and foreign groups in shaping the link.

Military spending

The role of military spending is critical in shaping the relationship between the military, government and corruption because it is *the* factor that motivates top military officials to intervene in government for maintenances or increase of the share of military in national resources. Most often, military coups occur when democratic governments attempt to keep the military on an austerity budget. Once military commanders hold positions in part of the government machinery, or in extreme cases when democratic governments are replaced by a military regime, then increase in military spending is inevitable. Of course the opportunity cost of the rising military spending is seen in reduced public spending elsewhere in the economy, such as education, health and welfare subsidies, among others and this has knock on consequences for human capital formation (in terms of lower finance available for education and health), among others, and weakens the strength of anti-corruption measures.

Secondly, when militaries have a greater share in the national resources of a country then procurement of military hardware and arm trades are the inevitable out comes. Both historical evidence and current patterns show that the military procurement is highly susceptible to corruption because of limited scrutiny, audit and massive over payments. Another reason for corruption in the case of military procurement is the lack of competition. For example, Wilson et al. (2006) provide evidence that governments tender out 50 percent or more of their defense procurement requirements to a single supplier. Similarly, according to a survey by Control Risks (2006), one third of international defense companies realized that they had lost out on a contract in the last year because of corruption by a competitor.

Military operations other than war (MOOTW) principles are an extension of war fighting doctrine. Embodied in these principles is the dominance of political objectives at all levels of MOOTW[10]. In the literature on military operations there is distinction between war and other operations. For example, Story and Gottlieb (1995) provide a military operational frame work in which they divide military operations into combat, noncombat and simultaneous operations. The combat operations include war, operations to restore order and retaliatory actions while noncombat operations include show of force, truce-keeping, support and assistance operations. Some military operations could involve combat and non combat at the same time and these operations are considered as simultaneous operations. The simultaneous operations are combating terrorism, exclusion zone operations, ensuring freedom of navigation, non combatant evacuation operations and recovery operations.

In the presence of the military operations (either combat or non combat operations) one direct effect is a rise in the military budget. The military officials find further discretion (flexibility) over manipulation of the military budget for private gains. For example, according to Transparency International (2007) defense institutions (ministries and armed forces) are "profiteering from soldiers' payroll (e. g. extracting percentages from total cash; ghost soldiers; adding cronies on secret pay rolls)". A range of the military operations increase military control over security posts. According to Transparency International (2007) defense officials extract money to pass security and other check points.

The military operations could be corruption prone because monitoring of field commanders is not strong as the evidence suggest from African countries. Specifically, when troops are deployed in a large and complex terrain then checks on fields' commanders are limited.

Fourthly, military leaders often manipulate tenders for personal gain. The tenders for even routine items like uniforms and food are often severely manipulated and usually awarded to companies which are non competitive in order to create payoffs for military officials. Finally, top military officials manipulate the military budget for personal and family reasons, such as salaries, medical support, education, foreign visits and so on.

[10] http://smallwarsjournal.com/documents/jp3-07.pdf

Having discussed these arguments, we can say that an unjustified rise in military spending with out tight monitoring and accountability leaves the margin for kickbacks and corrupt activities.

Personal power-wealth maximization and regime stability

In this case, civilian governments seek military engagement to mobilize the military support for regime stability. The civilian leaders provide opportunities for senior army officials to increase their wealth as a reward for their loyalty in ensuring the stability of the political regime and, in turn, the military officials also spend part of their time accumulating wealth (through corruption and kickbacks) for political patronage and to ensure the stability and strong power of the government. Both top officials in the military and civilian leaders want to maximize their vested interests, where political leaders want regime stability and the military want personal gains without sacrificing their status within the military hierarchy. The joint motive of power-wealth maximization and regime stability is best served through pay-offs.

Top bureaucratic and administrative positions

According to the manifest destiny theoretical model (Finer, 1988), military commanders are arrogant and consider themselves superior to the civilian rulers and seek to hold top bureaucratic and administrative posts. However, they lack a professional approach and attempt to control things with power and by satisfying the interests of few and it is often the case that they exploit their power in administrative and bureaucratic posts for private gain. In doing so, they award government contracts to private companies in reward for money.

Elites' collusion

Military elites have a tendency to collude with political, administrative and bureaucratic elites in society. The basic motive behind collusion of all of these elites is the exclusion of the mass of the population from economic and political decision making processes. The elite want such exclusivity because they fear that increased participation of the poor people in economic and political system will alter the rules of the game which will not be favorable for the elite. The elites not only defend against the dissolution of the political and economic system, which enables them to accumulate personal wealth and power, but they also want to maintain their positions within that system.

The elites also control corrupt patron-client networks. The centralized corrupt patron-client networks usually evolve with the involvement of the military into politics and are likely to vanish in the presence of democratic process. The basic purpose of centralized patron-client networks by the elites is to provide protection rents to entrepreneurs in exchange for kickbacks. The elite collusion rewards few at the cost of the mass of the population, thereby generating important income inequalities in economies where these factors exist.

Kickbacks and corruption are the key elements, among others, that keep the elites united and protect mutual interests. Exclusion of the mass of the population from economic and political decision making inhibit (limit) their abilities to monitor corruption or, most importantly, even if it is generally known that corruption deals take place, the public can not force or devise punishment because their voice is low and usually curbed.

The institutions like judiciary, law and order all are weekend in the presence of strong ties of the elites and the system cannot itself make break the unison of the elites. In order to protect their mutual interests, and in view of a possible conflict amongst the elite, they develop family ties through institutions such as marriage, to reinforce their interests.

Dissolution of the elites is unlikely because if any one class of elites disagrees with others and isolates itself from the group, then the cost of isolation is much higher than the gain. The major cost of isolation is possible legal prosecution (action) against past misdeeds. This is analogous to the prisoner's dilemma where benefits are maximized if no one betrays the others.

Because armed soldiers have the power to rebel against the state or create a coup, their independence from politics serves as an ever present threat to the body politic if they are tempted to become corrupt. Conversely, if the military itself departs from its professionalism and joins the civilian elite then there is no further threat to corruption unless some form of mass revolt from the general public occurs, which is indeed a rare case.

Natural resources and rent seeking

There is a vast body of literature that provides theoretical models and empirical evidence on the relationship between natural resources and rent seeking activities. Many studies find that natural resources generate rent seeking activities (see for example Leite and

Weidmann, 2002). In a very recent study, Bhattacharyya and Holder (2010) predict in their game-theoretic model that (only) economies where the quality of democratic institutions is poor, natural resources cause corruption. They also provide empirical support for their theoretical prediction by testing the proposition for 124 economies over the period 1980-2004.

We apply and extend the theory of natural resources, rent seeking and corruption to the relationship between military, government and corruption. In the context of classic models of the role of military (Huntington, 1957; Hurdlin, 1994), soldiers cannot manipulate economic resources for private gain; however, in the case of so-called praetorian models (Huntington, 1968) they have control over economic and natural resources. The basic point is that the military have control over natural resources once they get involved in the political and economic sphere of a country and, additionally checks and balances on military official are limited. In this context they will plunder natural resources for themselves, and divert natural resources to the military and associated sectors. On the other hand, for countries which are resource abundant but have strong democratic institutions, the classic models of military's role in politics suggest that their rent seeking activities are checked by the accountability of democratic governments to their the people.

During military regimes, or military backed government, the distribution of public lands is often skewed towards armed forces and commercial housing schemes come under the control of top military officials and the control of such housing schemes also generate kickbacks and corruption opportunities for the military commanders.

Foreign elites (groups)

Foreign governments, specifically from developed countries, may support military engagement in politics, as a means of advancing their own political-strategic and economic interests. It is relatively easy to manipulate the policies of developing countries through military backed governments, rather than through civilian governments. This is a vast topic and there are a number of issues that are important in shaping the role of foreign groups; however, we shall focus on the link of foreign elites in the presence of military in governments and its effect on increasing corruption.

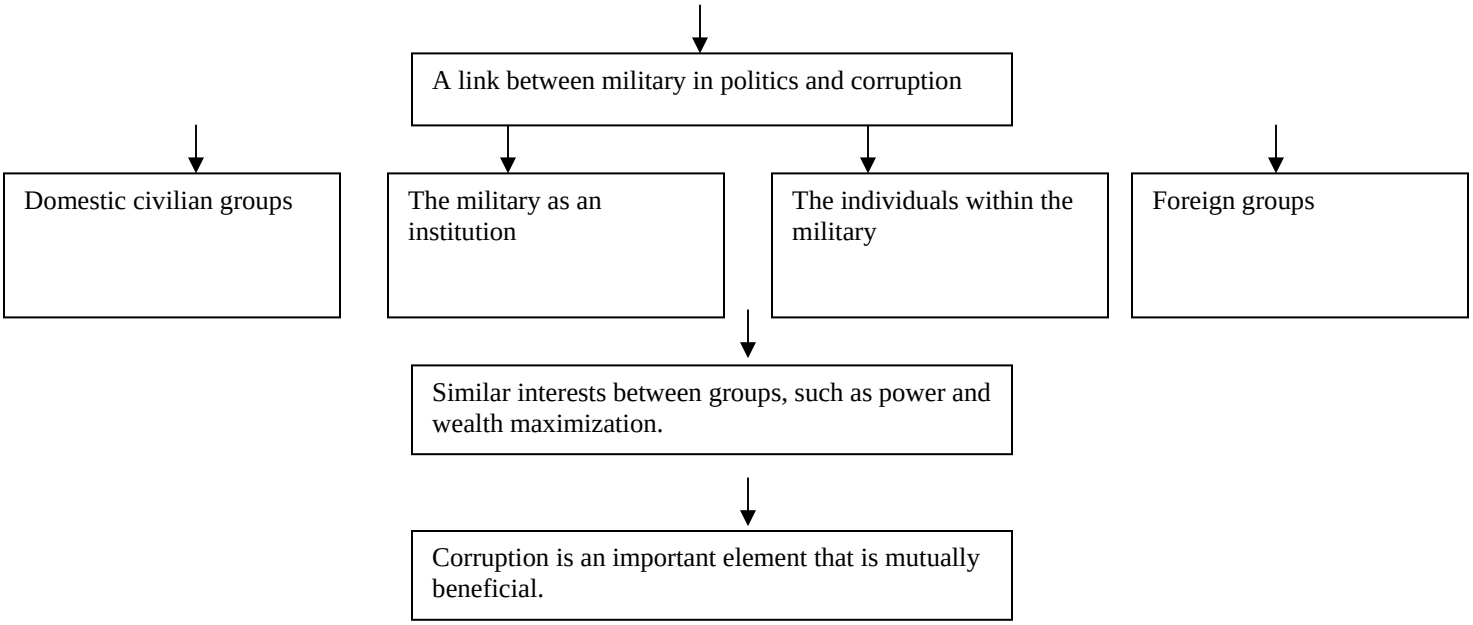
Foreign businessmen (elites) look for countries where a secure business environment is available especially if it is available in a military regime or military-dominated government. The military provides a safe and secure environment. This is not on a voluntary basis, but military officials look for their private gains and wealth enhancement via kickbacks and corruption. Furthermore, militaries can easily manipulate national polices because they are not accountable to the general public and policies may be manipulated to favor the interest of foreign elites in reward for money.

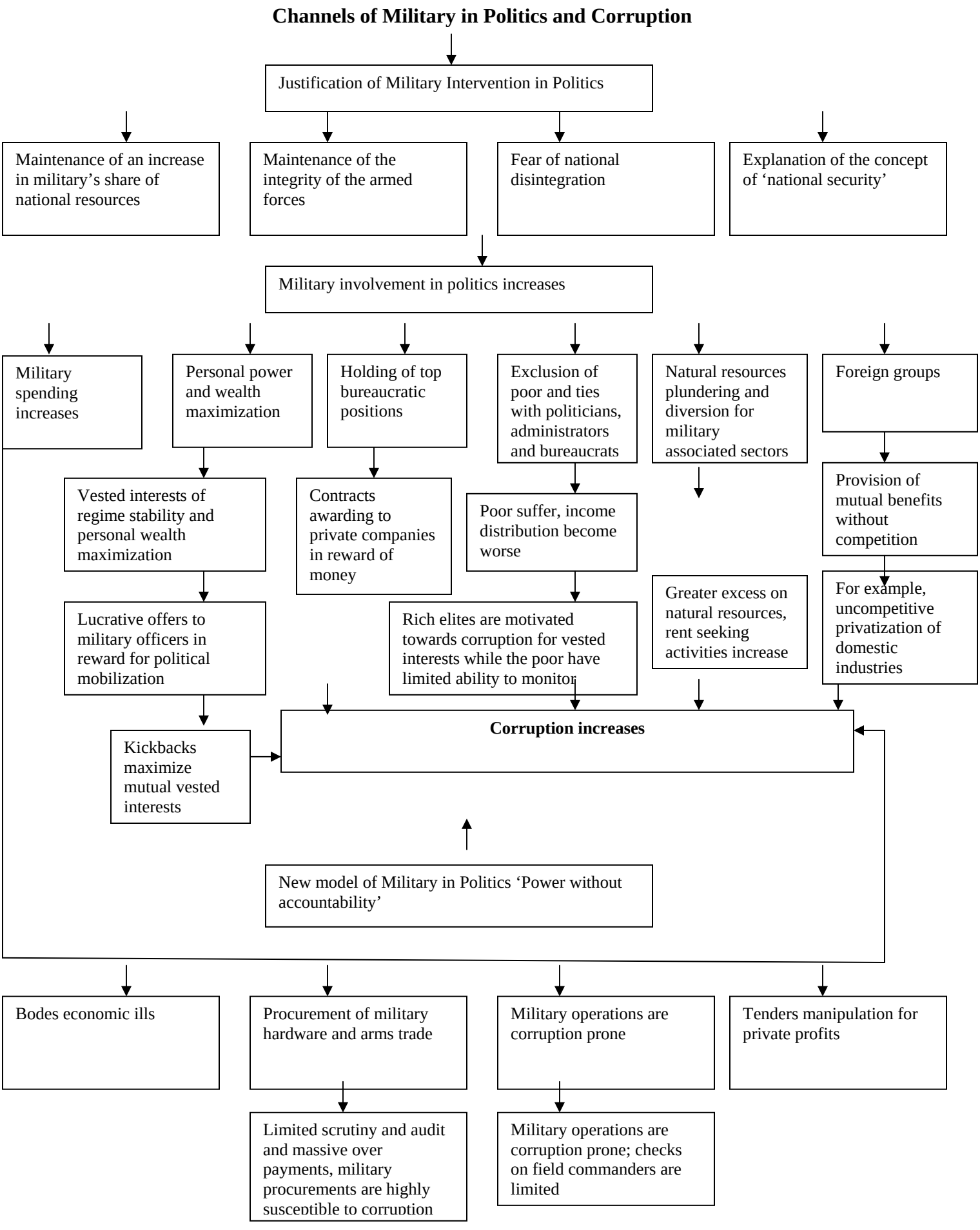
Military governments spend a lot of money on infrastructure projects such as roads, bridges and so on and their spending generally satisfies the requirements of foreign elites plus tenders of the projects to generate kickbacks opportunities. Similarly, arm trades also flourish during the regimes of military-backed governments and these trades require massive spending of money and are subject to limited scrutiny and accountability.

The MNCs flourish in military dominated governments, and these firms consider bribes as just as a cost of production and transfer this amount in the price of their goods and enjoy many privileges under military regimes. The military dominated governments also privatize public entities on non competitive bases to foreign stake holders and enrich themselves with the commission. For example, according to Transparency International (2007) defense institutions (ministries and armed forces) are “profiteering from income from state-owned assets (e.g. below-price sales of property portfolios; selling of surplus equipment; below price privatizations)”.

In general, military officers enrich themselves by receiving pay-offs in return for facilitating the interests of particular companies. “An open-door policy to foreign capital may also facilitate the acquisition of substantial support from multilateral and bilateral agencies. Well-placed military officers will be able to divert some of these funds to their own uses” (Ball, 1981). Finally, we develop two flow charts to provide a summary of the links between the military in politics and corruption. Following the above discussion, we isolate those links of the military and corruption that are relatively more conducive to explaining the relationship between the military in politics and corruption. The first chart shows that corruption is beneficial between groups in the presence of the military in politics while second chart provides a quick snapshot of the positive relationship between the military in politics and corruption.

Who benefits from the military involvement into the political and economic life of a country?




Channels of Military in Politics and Corruption
Justification of Military Intervention in Politics
Maintenance of an increase in military's share of national resources
Maintenance of the integrity of the armed forces
Fear of national disintegration
Explanation of the concept of 'national security'
Military involvement in politics increases
Military spending increases
Personal power and wealth maximization
Holding of top bureaucratic positions
Exclusion of poor and ties with politicians, administrators and bureaucrats
Natural resources plundering and diversion for military associated sectors
Foreign groups
Vested interests of regime stability and personal wealth maximization
Contracts awarding to private companies in reward of money
Poor suffer, income distribution become worse
Provision of mutual benefits without competition
Lucrative offers to military officers in reward for political mobilization
Rich elites are motivated towards corruption for vested interests while the poor have limited ability to monitor
Greater excess on natural resources, rent seeking activities increase
For example, uncompetitive privatization of domestic industries
Kickbacks maximize mutual vested interests
Corruption increases
New model of Military in Politics 'Power without accountability'
Bodes economic ills
Procurement of military hardware and arms trade
Military operations are corruption prone
Tenders manipulation for private profits
Limited scrutiny and audit and massive over payments, military procurements are highly susceptible to corruption
Military operations are corruption prone; checks on field commanders are limited

4. Data Description

The ICRG (International Country Risk Guide) corruption index and corruption perception index (CPI) by Transparency International index are both are used in corruption studies. We prefer ICRG because most previous studies use it and the index covers a large number of countries and a long period of time. The comprehensive nature of the ICRG index gives it an edge over other available indices. The ICRG also has a high correlation with other indices that have been used in literature, such as the Transparency International and Business International (see Treisman, 2000 for more details) indices. We also carry out a simple correlation matrix for three alterative corruption indices over the period 1996-2207. The correlation matrix indicates that the correlation between the International Country Risk Guide (ICRG) corruption index and the Transparency International (TI) corruption Index is 0.87 while the correlation between ICRG and World Bank (WB) corruption Index is 0.88. The correlation between TI and WB is 0.98 and it implies that these indices are consistent, even although they are based on a subjective rating.

The other variables used in this study are reported in Table 1. We average the data over a 5-year non-overlapping period, 1984-2007. In this way we have five observations, in most instances, for all of the countries in our sample. The 5 year average periods are: 1984-88, 1989-93, 1994-98, 1999-03, 2004-07. In Table 2 we present some descriptive statistics of the data and Figure 1 shows the relationship between the military in politics and corruption for cross sectional and panel observations. In the first row of the figure the last two scatter plots contain panel observation while all other scatter plots contain cross-sectional observations. This scatter plotting of the data confirm a positive relationship between the military in politics and corruption. There are outliers at a low level of military in politics while at higher levels military in politics outliers are absent (we address this issue in separate estimates for outliers and find a robust and positive relationship). Figure 2 simply also includes developing countries and this demonstrates a positive relationship as well.

Figure 3 demonstrates the relationship between the military in politics and corruption over the period 1996-2007 for a large cross section of countries. This figure has been constructed to view the relationship between the military in politics and

corruption using three alternative corruption indices that are extracted from the International Country Risk Guide, Transparency International and World Bank, respectively. It is evident from all sub parts of the figure that the relationship between the military in politics and corruption is positive irrespective of which corruption index is being used.

Figure 4 shows a comparison of the military in politics and corruption across regions over the period 1984-2007. Two things are evident from this figure. First, both variables are positively associated. Second, in the case of Sub-Saharan Africa (SSA), East Asia & Pacific (EAP), Lat America & Caribbean (LAC), Middle East & North Africa (MNA) and South Asia (SA) this relationship is strongest. However, in the case of Europe & Central Asia (ECA) and Europe (EU) this relationship is not as strong and is weakened by the presence of outliers (it is also clear in the subsequent regional figures).

Figure 5 contains a comparison of the military in politics and corruption across countries and within a region of East Asia & Pacific (EAP) and demonstrates a strong positive relationship. Figure 6 replicates the above comparison for Europe & Central Asia (ECA) and shows that the relationship between the military in politics and corruption is positive. However, in this region some outliers exist and these are Kazakhstan, Ukraine and Turkey. Figure 7 replicates the same comparison for Latin America & Caribbean (LAC) and depicts a positive relationship as well.

Overall we conclude that the relationship between the military in politics and corruption is strongly positive across the countries, regions and within the region. This relationship also holds in sub samples, alternative corruption indices and different time periods. Although there are a few outliers, these outliers are too few to weaken the main results.

5. The Model and Estimation Technique

In this section we specify the estimating equation we use to capture the military – corruption links. The equation is based on the theoretical and empirical literatures on the causes of corruption.

5.1 The Model

In order to specify a corruption model, we follow the existing theoretical and empirical literatures on this topic. The recent growing literature on the sources of corruption builds on two bench mark studies by Treisman (2000) and La Porta et al. (1999). In developing a corruption model, the first step entails specifying the important control variables. The key control variable used in extant corruption models is economic development, generally measured by per capita income (PCY). There is consensus in the literature that nations at the top of the economic development ladder have a tendency to be the most clean (least corrupt), whilst nations at the bottom of ladder of economic development tend to be most corrupt. This suggests that the expected sign for PCY is negative. In the third step, the studies introduce few selective control variables that capture institutional, political and cultural dimensions of the corruption. We then introduce a set of other control variables which have now become standard, such as those that capture institutional, political and cultural dimensions of the corruption. The third step in our strategy is the introduce what we regard as a new source of corruption, that has not so far been quantified in corruptions studies, namely the role of military in politics. In particular we ask whether the involvement of the military in the political life of a country fosters corruption. In doing so, we collect case evidence from all over the world and provide a systematic documentation of the evidence of the military in politics and corruption. Having compiled our case evidence, we then systematically develop theoretical channels (links or considerations) to develop a base for empirical testing. Thus, the novelty of this study is not only the introduction of a hitherto missing source of corruption but also to systematically develop a theory linking military in politics and corruption by compiling evidence from around the world and scholarly arguments. In addition, while performing robustness analysis, we use a large number of control variables that have hitherto not been analyzed directly in literature. For instance, we use a variety of military related variables, such as military expenditure, military size, and arms trade. Similarly, we analyze institutional variables, such as religion in politics, investment profiles, internal conflict and external conflict. Given the above, our estimation equation is:

$$C_{it} = \alpha_{it} + \beta_1 MP_{it} + \beta_2 Y_{it} + \beta_3 X_{it} + u_{it} + v_t + \varepsilon_{it},$$
$$i = 1.....N; \;\; t = 1.....T,$$

where C_{it} denotes corruption, MP_{it} is an index for military involvement in politics and has a range between 0 to 6, X_{it} represents a set of control variables drawn from the existing corruption literature, Y is per capita income proxy for economic development/prosperity, u_{it} is a country specific unobservable effect, v_t is a time specific factor and ε_{it} is an *i.i.d.* disturbance term. The expected sign for our key variable of interest β_1 is positive.

5.2 Estimation Technique

We now discuss the estimation procedure used for our different corruption specifications. In order to maximize the sample size and produce efficient parameter estimates, we follow the norm in the corruption literature we use a panel data base, that is our data base has both time-series and cross-sectional dimensions. As is now well known, in the context of the corruption literature Ordinary Least Squares (OLS) is not an appropriate estimator since it suffers from the problem of omitted variable bias. For example, if a region, country or some group-specific factors affect corruption, the explanatory variables would capture the effects of these factors and estimates would not represent the true effect of the explanatory variables. To avoid this problem, Baltagi (2001) has proposed using fixed effect econometric techniques. However, in the presence of a lagged independent variable this technique also produces biased parameter estimates a Two Stage Least Square (2SLS) estimator is required which addresses both endogeniety and also the problem of omitted variables bias. In addition to the 2SLS estimator we also use alternative econometric techniques, such as Limited Information Maximum Likelihood (LIML), Generalized Methods of Moments (GMM) and System-GMM.

In this study, we rely mainly on the generalized method of Moments (GMM) estimation technique that has been developed for dynamic panel data analysis by Holtz-Eakin et al. (1990), Arellano and Bond (1991), Arellano and Bover (1995), and Blundell and Bond (1997). GMM controls for endogeneity of all the explanatory variables, allows for the inclusion of lagged dependent variables as regressors and accounts for unobserved country-specific effects. GMM estimation requires a sufficient instrument list and following the standard convention in the literature, the equations are estimated using lagged first differences as instruments.

6. Results and Discussions

In this study, our estimation proceeds in the following steps: First, we present estimates where we condition only on our key variable of interest, namely the military in politics. Second, in addition to using a panel data set we also present purely cross sectional estimates based on our total sample of countries. We also use the purely cross sectional data because: for comparability purposes, since most of the existing literature is based on cross sectional studies; the variation in corruption is in fact dominant across countries rather than over time; it facilitates and extra robustness check of our results. Third, following the approach in other studies, and despite its deficiencies noted above, we also present results obtained using OLS econometric methods, before moving on to different econometric techniques which serve as robustness check and address the possible problem of endegeneity. Fourth, we introduce quantile regression analysis for military in politics in order to capture the distributional profile of the dependent variable, that is the corruption perception index.

Fifth, in order to address the problem of endogeneity, we employ different instruments, such as distance from the equator, legal origin and own lags of variables. Sixth, our overall data sample contains all available countries contained in the ICRG data set, which is 146, but this size is reduced to 129 because the economic freedom and per capita income terms are not available for all countries. We split the sample into developed and developing countries and conduct a separate analysis for developing countries. Seventh, we divide the world into seven regions: East Asia & Pacific, Europe & Central Asia, Latin America & Caribbean, Middle East & North Africa, South Asia, Sub-Saharan Africa, Europe and Others. We prefer regional fixed effects over country fixed effects because variation in corruption comes across the regions for cultural and spacious reasons.

Eighth, we introduce an extensive list of corruption determinants while performing sensitivity analysis. During such sensitivity analysis we focus on two things. First, we use existing determinants of corruption that have been widely analyzed in the literature. Second, we focus on those determinants of corruption which are controversial in the literature or which have received least attention in other empirical studies. Ninth,

although corruption does not have a widely accepted functional form (in the same way that, say, consumption is a function of income, almost every study employ PCY as determinate of corruption. Further more the recent literature on the robust determinants of corruption (see, for example, Serra, 2006) has shown that the level of economic development/prosperity is a robust determinate of corruption. We also therefore employ the level of development as a determinant. Tenth, in order to control for the time factor, we also introduce five time dummies that are based on five year averages 1988 (1984-88), 1993 (1989-93), 1998 (1994-98), 2003 (1999-03) and 2007.

Eleventh, we systematically replicate our findings while controlling for outliers: (1) we exclude those countries which have full scale military involvement in politics; (2) Similarly we exclude those countries which have minimum scale military involvement in politics; (3) We exclude those countries which are the most corrupt nations; (4) Finally we exclude those nations which are the least corrupt. Our main finding of the positive relationship between the military in politics and corruption remains robust (these results are not reported here but are available from the authors on request). Twelfth and finally, we replicate our findings using two alternative corruption indices, the Transparency International corruption index and World Bank corruption index. Our main findings are robust to the use of the alternative corruption indices as well; however, we do not report these results.

Table 3 reports the cross sectional estimation results for corruption and military in politics for 130 countries, over the period 1984-2007, for a range of specifications. The parameter estimates for the military in politics is significant with the correct sign across the different specifications. The coefficient on military in politics ranges from approximately 0.24 to 0.13 in last two columns of the table. So on the basis of the largest estimate, a one unit increase in the standard deviation of military in politics produces a 0.24 unit increase in the corruption index. It is noteworthy that this represents a much larger effect on corruption than any of the other variables. The value of the R^2 is reasonably high and the p-value of the F-Stat is significant in all regressions. The level of economic development is consistently significant at the 1% level and that is consistent with earlier studies on corruption.

The economic freedom term also produces a significant coefficient at the 1% level of significance in all regressions, indicating that a higher degree of economic freedom reduce corruption, and this finding is consistent with a number of empirical studies, such as Treisman, 2000; Graeff and Mehlkop, 2003.

An important element that determines pervasiveness of corruption in the public sector of a country is 'public morale'; that is, faith in country managers (authorities, policy makers). In nations where policies fail, or policy makers renege on their commitments and promises, the economy generates economic chaos that adversely affects economic morale. In this study we proxy this economic chaos with high inflation rates, since high inflation indicates macroeconomic imbalances. Furthermore, an important outcome of a high inflation rates is the redistribution of national wealth that may cause a further drop in the public morale. The significantly positive coefficient on inflation would seem to support this hypothesis and our result here is consistent with Paldam (2002), and Braun-Di Tella (2004).

As a sensitivity analysis and a robustness check on the main findings in Table 1, we report in Tables 4 and 5 the results from conditioning on additional factors, common law, remittances, a colonial term and the share of Protestants in the population. For example, in table 4 we replicate the results of table 3 by only including developing countries. As can be seen the findings for the sample of developing countries are similar to the full sample of developed and developing countries.

The coefficient of military in politics remains in the range of 0.12 to 0.20 in our sensitivity analysis. Interestingly the highest value arises in the regression in which we control for the legal factor, common law, and the factor share of Protestants in the population. Of the additional conditioning variables all are correctly signed although the common law and colonial terms are not statistically significant.

How may the significantly negative coefficient on the religion term be explained? Religion is seen to affect the pervasiveness of corruption in a country since it influences the social and cultural characteristics of a society. In principle, religion is thought to discourage corruption. However, its influence may vary between hierarchal religious systems (such as, Catholicism, Eastern Orthodoxy and Islam), and egalitarian religions. In countries where equalitarian religions are prominent there is evidence that they tend

challenge the status quo more frequently. For example, protestant churches have traditionally been apart from government and inclined to monitor abuses of the government (Treisman, 2000). Furthermore, La Porta et al. (1999) argue that religion may influence the quality of legal system that in turn affects the extent of corruption.

The sensitivity analyses reported in table 4 indicates that our main findings are robust with the only change being that government spending loses its level of significance when we control for either common law or protestant. The R^2 statistic is also reasonably high in all regressions and the F-Stat is also significant in all regressions.

In Tables 6 to 8 we reexamine the basic specifications of Table 1 using both OLS and quantile regressions and different specification of the corruption model. Tables 6 to 8 include three variables as benchmark: military in politics, PCY and economic freedom. The specification in Table 6 includes inflation excluding government spending while the specification in Table 8 includes both inflation and government spending. We use a quantile regression analysis here as an additional robustness check. The quantile regression analysis was been initially introduced by Koenker and Bassett (1978) and provides parameter estimates at multiple points in the conditional distribution of a dependent variable. Our quantile regression results are based upon 100 bootstrapping repetitions. In our estimations lower quantiles (e.g., Q 0.1) indicate least corrupt countries while higher quantiles (e.g., Q0.9) indicate most corrupt countries.

The estimates for OLS yield a base line of mean effects while quantile estimates provide conditional distribution of dependent of variable that is corruption. In both the OLS and quantile regressions, greater economic prosperity in a country is seen to lower corruption, which is consistent with the findings of several studies on the causes of corruption (see Serra, 2006). The results show that both political freedom and economic freedom help in reducing corruption. A larger government may devote more resources to strengthen the checks and balances and as a result reduce corruption. In the same way, a high quality bureaucracy is also helpful in reducing corruption.

The effect of the military in politics on corruption is always positive, generating high corruption indexes; it means military in politics is correlated with more corruption. The military in politics substantially fosters corruption. This effect is more pronounced in the half of the conditional distribution; i.e., among the mean/median corrupt countries.

The analysis of conditional distribution of our dependent variable (corruption) supports our main finding in two ways. First, main results of the study are not weakened by the observations lying in both tails of the distribution. Second, existing levels of corruption are not as important as military in politics matters in increasing existing levels of corruption.

The effect of economic freedom is nearly always negative, causing lower indexes; i.e., economic freedom is correlated with less corruption. However, the effect of inflation is more significant at lower quantiles as compared to higher quintiles, and this finding remains consistent even after controlling for government spending.

OLS estimates suggest inflation matters a lot in increasing corruption, but the quantile regression results do not uniformly confirm this. Specifically, controlling for government consumption, inflation substantially increases corruption, but only in the bottom bottom-half of the conditional distribution (among the less/least corrupt). As inflation increase in the less/least corrupt nations, ceteris paribus, they experience an increase in corruption.

Though inflation is the potential source of corruption in the OLS regression, its effect is not consistent in the quantile regression. Its effect is more significant in the lower part of the distribution; that is inflation promotes corruption in less and least corrupt nations while its s effect is positive in top part of distribution but not significant.

The effect of government consumption is strongest at the median/mean of the conditional distribution. While comparing the tails of the distribution, this effect is significant in the upper most quantile, suggesting that increasing the size of government in most corrupt nations may reduce corruption.

In Table 9 we present the results for military in politics and corruption after controlling for regional effects. In the literature, corruption is considered as a regional phenomenon meaning that corruption varies more across regions (for cultural reasons) compared to variations within a region (see Paldam, 2002). In order to capture regional variations (heterogeneity) we introduce regional dummy variables to assess whether our main findings are robust to inclusion of regional specific dummy variables. The estimated coefficients of the dummy variables for Europe & Central Asia (ECA) and Latin America & Caribbean (LAC) are each positive and statistically highly significant. The results

indicate that ECA and LAC regions are 0.7 and 0.6 points, respectively, more corrupt than the average for all countries. The dummy variables for all other regions are insignificant with positive signs, except East Asia and Pacific which is negatively signed. Our results are robust to inclusion of regional controls. The coefficient on military in politics fluctuates between 0.12 and 0.15 and it is highly significant with the correct sign in all columns of the table. The effect of government spending is negative and significant but it is not robust. The results show that the positive effect of inflation on corruption is robustly significant.

Table 10 replicates the finding of Table 9 for a restricted sample of developing countries. The coefficient on military in politics slightly increases and fluctuates between 0.13 and 0.17. However, the direction of the link and level of significance are robust in the restricted sample as well. The effect of government spending is consistently negative and significant in the case of developing world which has been also confirmed from the quantile analysis that the role of government in fighting against corruption in more corrupt countries is pronounced. In the case of inflation results are opposite between sample. In case of whole sample, the positive effect of the inflation on corruption is robust while in the case of restricted sample level of significance slightly drops while the direction of link remains the same.

7. Conclusion

In recent years attention has focused on the importance of the elimination of global corruption. For example, international organizations such as the United Nations and World Bank have been advocating anti-corruption measure, such as greater transparency in government deals and contracts. Additionally, individual governments have been improving and strengthening the rule of law to monitor and punish corrupt officials. Despite these initiatives, policy makers often face the challenge of isolating the various avenues of corruption because of a lack of understanding of the various causes of corruption. This is because some institutional, political and cultural effects on corruption are very subtle and hard to quantify. This study contributes to our understanding of the causes of corruption by identifying a novel avenue of corruption, namely military participation in politics. This source of corruption is extremely important for both

academic researchers and policy makers as it stems from the institutional, cultural and political settings of a society which are usually hard to quantify.

We use both cross sectional and panel data for a large set of countries over a relatively long time period. To identify a relationship between military involvement in politics and corruption, we draw extensively on existing case studies, scholarly arguments, and historical evidence from around the world. Having done this, we systematically develop a theory which links the military, government and corruption and we test this empirically. The theoretical and empirical analysis of this study is unique because it analyzes the relationship between the military in politics and corruption and this has not hitherto been addressed in the literature. The analysis shows that the presence of the military in politics significantly adds to corruption in a society. In particular, the results reveal that a one standard deviation increase in the presence of military in politics leads to a 0.22 unit increase in corruption index. This effect arises because the presence of the military in politics expands the role of military officials in government and they usually hold the key to bureaucratic and administrative positions in the government machinery, controlling the scarce resources of the military sector, sectors related to military and other non productive activities. These sectors are least accountable to the public and so public resources can be exploited for private gain, in the control of elections, the distortion of market systems, and these can all cause a rise in corruption. Although even when the military are involved in the political process, resources are devoted to infrastructure and other development projects, the hidden motive behind such projects is the maximization of rent, for example, with MNCs competing for business contracts through bribes instead of fair market competition.

Our study is also novel because it evaluates the conditional distribution of the military in politics and corruption using a quantile regression analysis. The results reveal that the effect of military in politics on corruption is always positive, causing high corruption indexes: the military in politics substantially fosters corruption. This effect is more pronounced in the half of the conditional distribution; i.e., among the mean/median corrupt countries. The analysis of the conditional distribution of our dependent variable (corruption) supports our main finding in two ways. First, the main results of the study are not weakened by the observations in both tails of the distribution. Second, existing

levels of corruption are not as important as military in politics for increasing existing levels of corruption: the positive relationship between the military in politics is consistent through out the scale of corruption.

Another important feature of our analysis of the causes of corruption is that while considering a wide set of corruption sources we particularly focus on a key set of determinants of corruption, such as government spending and inflation. The results show that the effect of government spending is significantly and robustly negative. However, in quantile regressions, the effect of government consumption is strongest at the median/mean of the conditional distribution. While comparing tails of the distribution, this effect is significant in the upper most quantile, suggesting that increasing the size of government in the most corrupt nations may reduce corruption. In the case of inflation, OLS estimates suggest inflation matters a lot in increasing corruption, but quantile regression results do not uniformly confirm this. Specifically, controlling for government consumption, inflation substantially increases corruption, but only in the bottom bottom-half of the conditional distribution (among the less/least corrupt). As inflation increase in the less/least corrupt nations, ceteris paribus, they experience an increase in corruption.

Table 1: Description of Variables

Variable	Definitions	Sources
Per capita real GDP	GDP per capita (constant 2000 US$).	World Bank database World Bank (2008)
Trade Liberalization	It is the sum of exports and imports as a share of real GDP. Data on exports, imports and real GDP are in the form of annual averages between survey years.	World Bank database World Bank (2008)
Corruption	ICRG corruption index rescaled from 0 (absence of corruption) to 6 (highest corruption).	International Country Risk Guide, PRS group.
Corruption	Transparency International corruption index rescaled from 0 (absence of corruption) to 10 (highest corruption).	Transparency International
Corruption	World Bank corruption index rescaled from -2.5 (absence of corruption) to 2.5 (highest corruption).	World Bank
Democracy	ICRG index 0-6 scale; where 6 indicate high degree of democracy.	International Country Risk Guide, PRS group.
Military in Politics	ICRG index rescaled 0-6; higher risk ratings (6) indicate a greater degree of military participation in politics and a higher level of political risk.	International Country Risk Guide, PRS group.
Religion in Politics	ICRG index 0-6 scale: higher ratings are given to countries where religious tensions are minimal.	International Country Risk Guide, PRS group.
Ethnic Tensions	ICRG index 0-6 scale; higher ratings are given to countries where tensions are minimal.	International Country Risk Guide, PRS group.
Rule of Law	ICRG index 0-6 scale; where 6 indicate high degree of law and order.	International Country Risk Guide, PRS group.
Bureaucracy Quality	ICRG index 0-4 scale; where 4 indicate high degree of law and order.	International Country Risk Guide, PRS group.
Government Stability	ICRG index 0-12 scale; where 0 indicates very high risk and 12 indicates very low risk.	International Country Risk Guide, PRS group.
Socioeconomic Conditions	ICRG index 0-12 scale; where 0 indicates very high risk and 12 indicates very low risk.	International Country Risk Guide, PRS group.
Investment Profiles	ICRG index 0-12 scale; where 0 indicates very high risk and 12 indicates very low risk.	International Country Risk Guide, PRS group.
Internal Conflict	ICRG index 0-12 scale; where 0 indicates very high risk and 12 indicates very low risk.	International Country Risk Guide, PRS group.
External Conflict	ICRG index 0-12 scale; where 0 indicates very high risk and 12 indicates very low risk.	International Country Risk Guide, PRS group.
Economic Freedom	Freedom House data. Index rescaled 0 (low economic freedom)-7 (high economic freedom)	Fraser Institute.
Inflation	Inflation, consumer prices (annual %)	World Bank database World Bank (2008)
Government Spending	General government final consumption expenditure (% of GDP)	World Bank database World Bank (2008)
Remittances	Workers' remittances and compensation of employees, received (% of GDP)	World Bank database World Bank (2008)
Military Spending	Military expenditure (% of GDP)	World Bank database World Bank (2008)
Arm Trade	Arms exports plus arms imports (constant 1990 US$)	World Bank database World Bank (2008)
Urbanization	Urban Population	World Bank database World Bank (2008)
British Colony	A dummy variable that is 1 for British Colony	http://flagspot.net/flags/gb-colon.html
Common Law	Binary variable which equals 1if the country's company law or commercial code is English common law, equals 0 otherwise	Treisman (2000)
Protestant	Share of Protestants in 1980	Treisman (2000)
British	British legal origin	La Porta et al. (1997)

French	French legal origin	La Porta et al. (1997)
Scandinavian	Scandinavian legal origin	La Porta et al. (1997)
Socialist	Socialist legal origin	La Porta et al. (1997)
Germany	Germany legal origin	La Porta et al. (1997)
Equator	Distance from equator	La Porta et al. (1997)

Table 2: Summary Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
Corruption	675	2.932585	1.322528	-.0333328	6
Per Capita Income	653	6949.03	9566.997	84.89059	53800.33
Remittances	523	2.847373	4.769296	.0018351	42.54366
Openness	644	78.72449	47.99039	2.566213	442.2996
Government	635	16.04497	6.173756	4.05478	46.35652
Democracy	675	3.6823	1.607773	0	6
Economic Freedom	673	4.403913	1.942066	1	7
Urbanization	693	1.81e+07	4.72e+07	91250.07	5.34e+08
Military in Politics	675	3.715646	1.785895	0	6.033333
Bureaucracy Quality	675	2.139725	1.171961	0	4
Socio Economic	675	5.68345	2.131201	.0208333	10.775
Government Stability	675	7.566057	2.006066	1.466667	11.5
Internal conflict	675	8.765272	2.564226	.0333333	12
External conflict	675	9.604507	2.118613	0	12
Investment Profiles	675	7.057228	2.339163	.8000001	12
Religion in Politics	675	4.591332	1.320474	0	6
Rule of Law	675	3.667232	1.45727	.55	6
Ethno linguistic	675	3.932934	1.427448	0	6
Consumer P Index	621	41152.82	1023276	7.20e-10	2.55e+07
Inflation	615	74.31995	434.1466	-4.207125	6523.051
Net Users	554	9.167496	16.75737	0	82.23592
Military Sp/Government	296	10.34746	9.270922	0	53.5601
Military Sp/GDP	583	2.785165	3.350683	0	43.7737
Arm exports	276	4.20e+08	1.52e+09	0	1.27e+10
Aram imports	573	2.06e+08	4.05e+08	0	3.70e+09
Arm Trade	259	7.99e+08	1.63e+09	8666667	1.33e+10

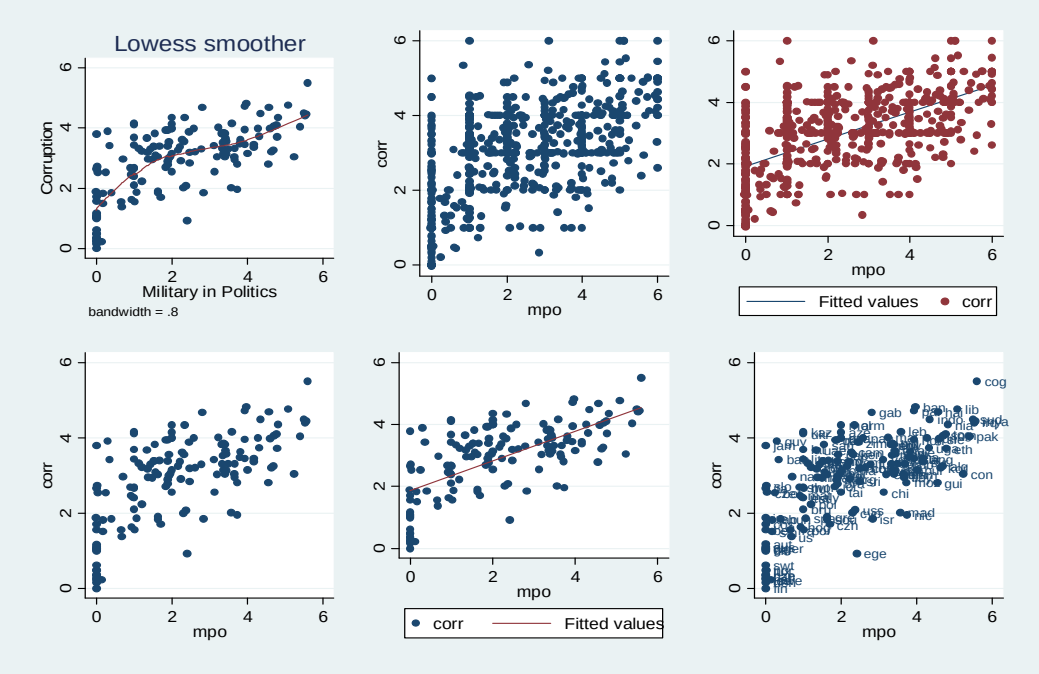


Figure 1

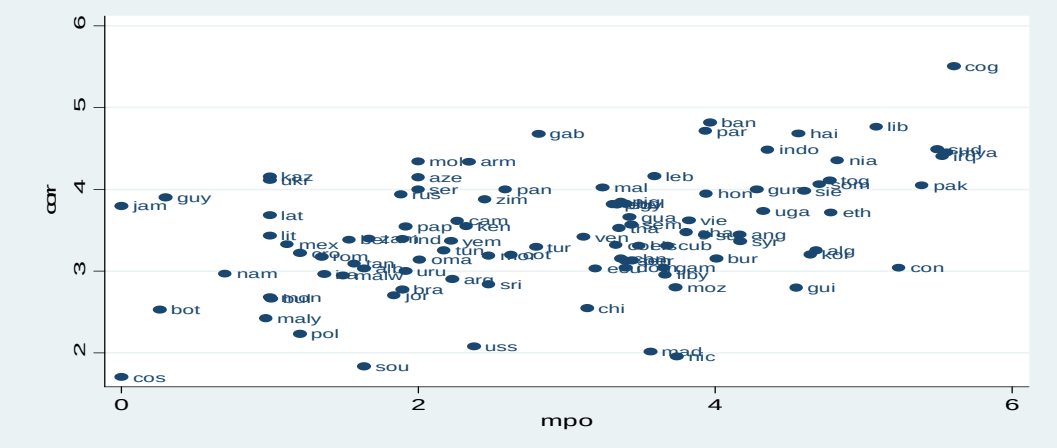


Figure 2

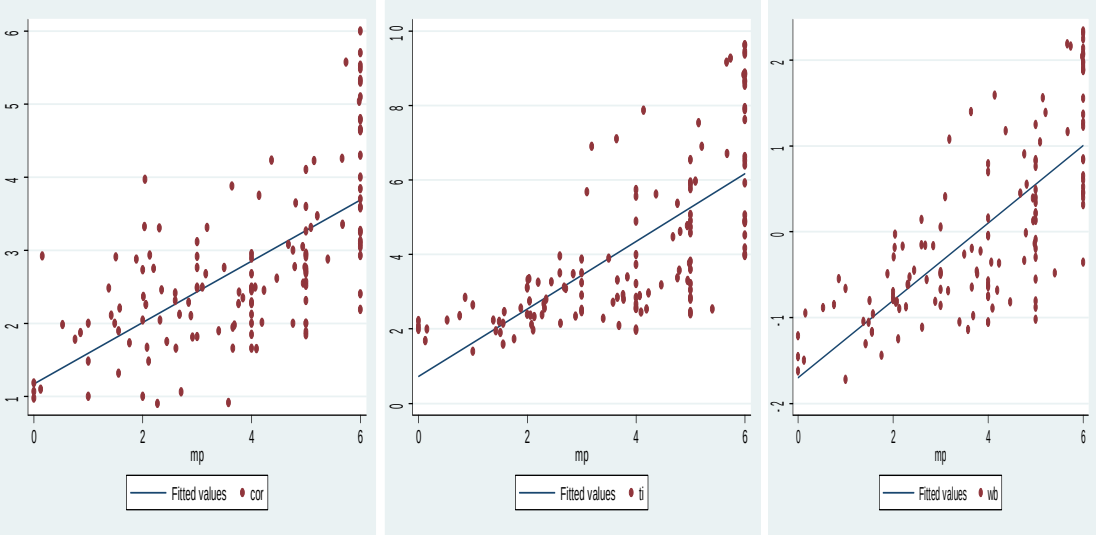


Figure 3: Figure 3 a **Figure 3b** **Figure 3c**

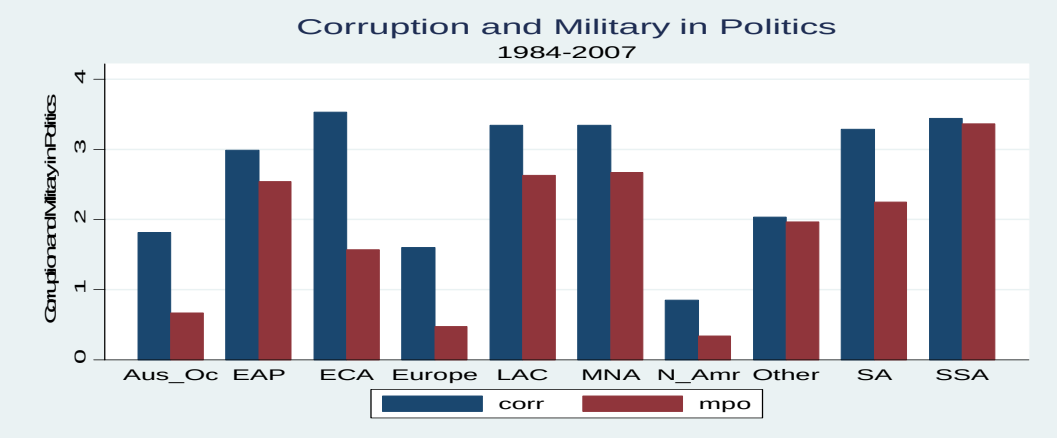


Figure 4

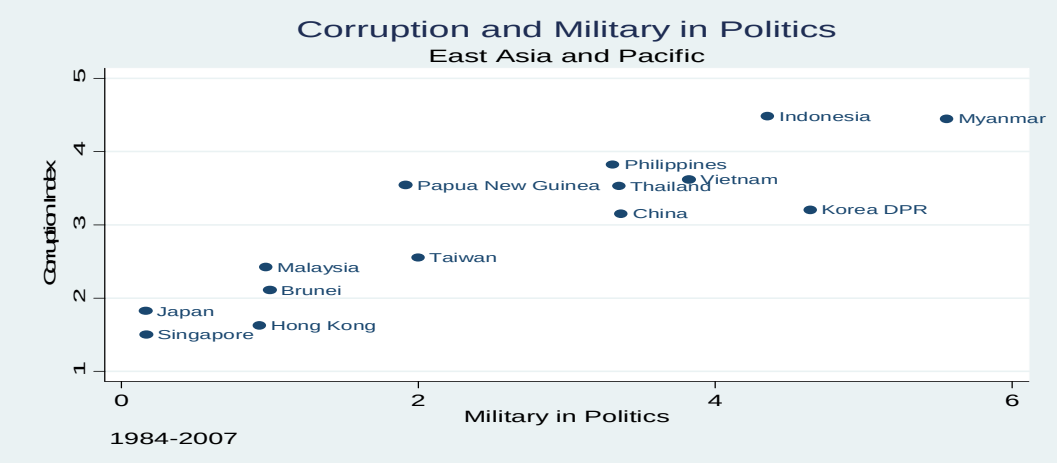


Figure 5

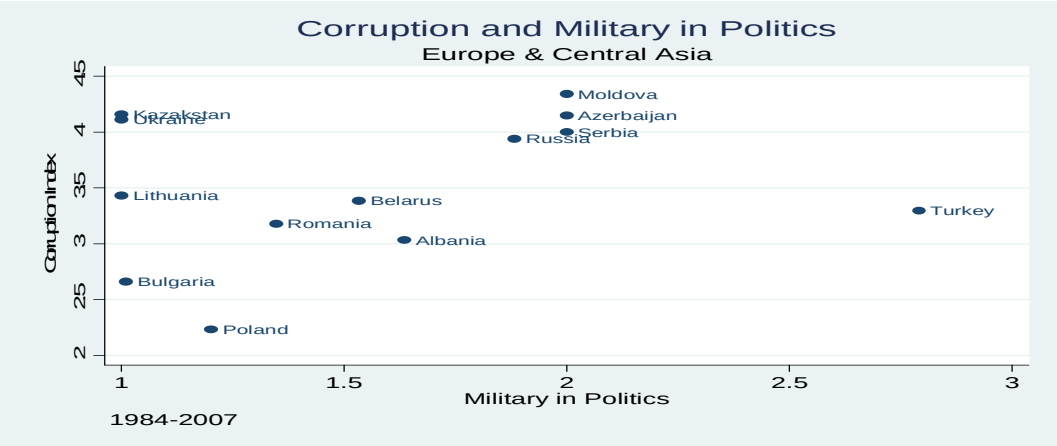

Corruption and Military in Politics
Europe & Central Asia
Moldova
Azerbaijan
Serbia
Russia
Kazakstan
Ukraine
Lithuania
Belarus
Romania
Albania
Turkey
Bulgaria
Poland
2
25
3
35
4
45
1
1.5
2
2.5
3
Military in Politics
1984-2007

Figure 6

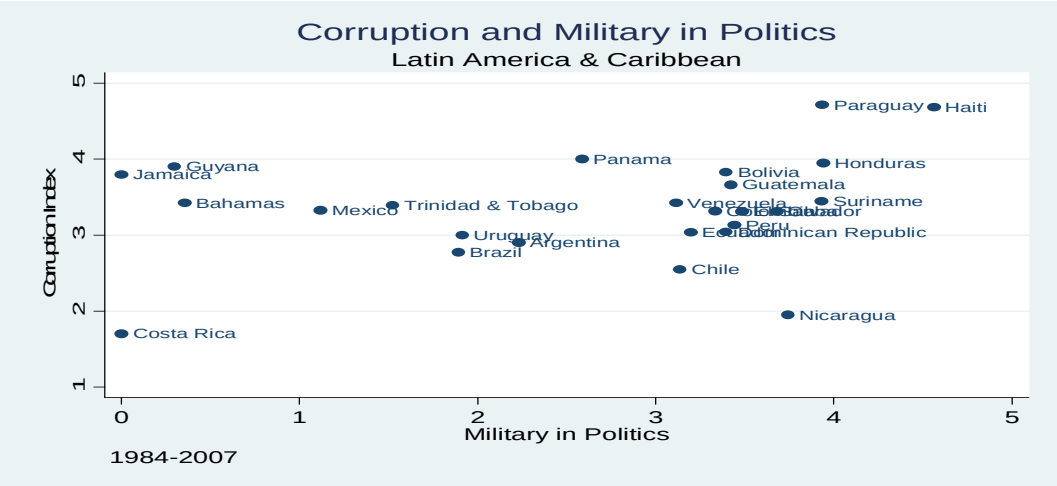


Figure 7

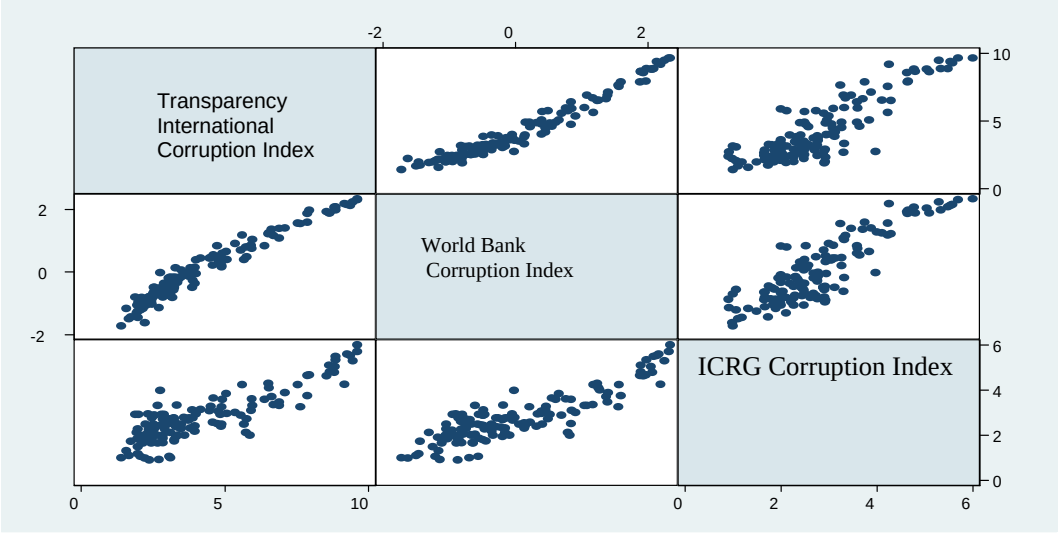


Figure 8

Table 3: Corruption and Military in Politics: Cross Sectional (CS) Estimation (I)

Variables	Dependent Variable: Corruption				
Military in Politics	0.48 (10.74)*	0.26 (5.13)*	0.15 (2.70)*	0.12 (1.96)*	0.12 (2.09)**
PCY		-0.000 (-7.09)*	-0.000 (-6.40)*	-0.000 (-5.99)*	-0.000 (-6.20)*
Economic Freedom			-0.19 (-4.18)*	-0.21 (-4.88)*	-0.18 (-3.97)*
Government Spending				-0.02 (-1.62)***	-0.02 (-1.88)***
Inflation					0.000 (2.18)**
R	0.45	0.60	0.65	0.65	0.68
Adj. R	0.44	0.59	0.64	0.64	0.67
F	115.25 (0.000)	98.57 (0.000)	80.06 (0.000)	58.54 (0.000)	52.28 (0.000)
Observations	146	135	132	130	128

*, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 4: Corruption and Military in Politics: CS Estimation (II) for Developing Countries

Variables	Dependent Variable: Corruption				
Military in Politics	0.21 (4.65)*	0.24 (5. 41)*	0.18 (3.60)*	0.134 (2.47)*	0.133 (2.47)*
Economic Prosperity		-0.114 (-3.52)*	-0.117 (-3.50)*	-0.127 (-3.83)*	-0.108 (-3.16)*
Economic Freedom			-0.086 (-1.76)*	-0.10 (-1.98)*	-0.104 (-2.01)**
Government Spending				-0.024 (-1.98)***	-0.027 (-2.27)***
Inflation					0.0005 (1.73)***
R	0.18	0.29	0.30	0.32	0.36
Adj. R	0.17	0.27	0.27	0.29	0.32
F	21.64 (0.000)	18.65 (0.000)	12.67 (0.000)	10.10 (0.000)	9.34 (0.000)
Observations	99	96	94	92	89

*, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 5: Corruption and Military in Politics: CS Estimation (III): Sensitivity Analysis

Variables	Dependent Variable: Corruption					
Military in Politics	0.12 (1.96)*	0.12 (2.09)**	0.11 (2.03)**	0.12 (1.94)**	0.21 (3.25)*	0.20 (3.10)*
PCY	-0.000 (-5.99)*	-0.000 (-6.20)*	-0.000 (-7.46)*	-0.000 (-5.80)*	-0.000 (-5.95)*	-0.000 (-5.63)*
Economic Freedom	-0.21 (-4.88)*	-0.18 (-3.97)*	-0.096 (-1.84)***	-0.22 (-4.54)*	-0.15 (-2.72)*	-0.14 (-2.59)*
Government Spending	-0.02 (-1.62)***	-0.02 (-1.88)***	-0.03 (-2.06)**	-0.02 (-1.65)***	-0.02 (-1.56)	-0.01 (-1.08)
Inflation		0.000 (2.18)**				
Remittances			0.02 (1.60)***			
British Colony				0.025 (0.18)		
Common law					0.01 (0.09)	
Protestant						-0.007 (-2.16)**
R	0.65	0.68	0.71	0.71	0.75	0.77
Adj. R	0.64	0.67	0.70	0.70	0.74	0.76
F	58.54 (0.000)	52.28 (0.000)	55.11 (0.000)	55.11 (0.000)	52.64 (0.000)	56.46 (0.000)
Observations	130	128	119	119	91	91

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 6: Corruption and Military in Politics: OLS vs. Quintile Regression: specification 1

Variables	OLS	Q0.1	Q0.25	Q0.50	Q0.75	Q0.9
Military in Politics	0.16 (2.89)*	0.064 (0.76)	0.20 (2.78)*	0.20 (2.88)*	0.09 (1.08)	0.13 (1.12)
PCY	-0.000 (-6.65)*	-0.000 (-4.97)*	-0.000 (-4.59)*	-0.000 (-4.38)*	-0.000 (-3.34)*	-0.000 (-2.66)*
Economic Freedom	-0.17 (-3.68)*	-0.29 (-3.31)*	-0.29 (-2.30)*	-0.14 (-2.42)*	-0.20 (-2.48)*	-0.14 (-1.20)*
Inflation	0.0006 (-1.99)*	0.0009 (2.16)*	0.0007 (1.96)**	0.0008 (1.54)	0.0006 (1.15)	0.0004 (0.90)
R	0.68	0.56	0.53	0.41	0.32	0.29
Adj. R	0.67					
F	65.29 (0.000)	42.69 (0.000)	26.00 (0.000)	43.03 (0.000)	17.96 (0.000)	6.97 (0.000)
Observations	129	129	129	129	129	129

Notes: Dependent Variable is corruption perception index from ICRG
Regressions include 120-122 observations of country level data.
Quantile regression results are based upon 100 bootstrapping repetitions.
Lower quantiles (e.g., Q 0.1) signify less corrupt nations.
All regressions include an intercept term but the results are not reported.
F-statistics and associated p-values are reported for the test of all slope parameters jointly equal to zero.
The t-statistics are given in parentheses (*), (**), and (***) indicate statistical significance at 1%, 5% and 10% levels respectively

Table 7: Corruption and Military in Politics (CS): OLS vs. Quintile Regression: Specification 2

Variables	OLS	Q0.1	Q0.25	Q0.50	Q0.75	Q0.9
Military in Politics	0.15 (2.70)*	0.061 (0.67)	0.19 (2.78)*	0.20 (3.83)*	0.16 (1.74)***	0.04 (0.40)
PCY	-0.000 (-6.40)*	-0.000 (-4.63)*	-0.000 (-5.00)*	-0.000 (-5.78)*	-0.000 (-2.48)*	-0.000 (-2.52)*
Economic Freedom	-0.39 (-4.18)	-0.24 (-2.65)	-0.12 (-2.36)	-0.15 (-2.71)	-0.19 (-2.13)	-0.29 (-2.86)
R	0.65	0.54	0.50	0.39	0.29	0.27
Adj. R	0.64					
F	80.06	48.69 (0.000)	38.28 (0.000)	77.81 (0.000)	15.97 (0.000)	1014 (0.000)
Observations	132	132	132	132	132	132

Notes: Dependent Variable is corruption perception index from ICRG
Regressions include 120-122 observations of country level data.
Quantile regression results are based upon 100 bootstrapping repetitions.
Lower quantiles (e.g., Q 0.1) signify less corrupt nations.
All regressions include an intercept term but the results are not reported.
F-statistics and associated p-values are reported for the test of all slope parameters jointly equal to zero.
The t-statistics are given in parentheses (*), (**), and (***) indicate statistical significance at 1%, 5% and 10% levels respectively

Table 8: Corruption and Military in Politics (CS): OLS vs. Quintile Regression: Specification 3

Variables	OLS	Q0.1	Q0.25	Q0.50	Q0.75	Q0.9
Military in Politics	0.12 (2.09)*	0.11 (1.09)	0.14 (2.17)**	0.20 (2.71)**	0.13 (1.26)	0.002 (0.02)
PCY	-0.000 (-6.20)*	-0.000 (-2.97)*	-0.000 (-5.88)*	-0.000 (-4.41)*	-0.000 (-3.05)*	-0.000 (-2.00)**
Economic Freedom	-0.18 (-3.97)*	-0.21 (-2.58)*	-0.21 (-1.71)***	-0.14 (-1.83)***	-0.14 (-2.15)**	-0.27 (-2.59)**
Inflation	0.0007 (2.18)**	0.0009 (3.07)*	0.0008 (2.48)*	0.0008 (1.39)	0.0005 (0.91)	0.0002 (0.43)
Government Spending	-0.022 (-1.88)***	-0.025 (-0.58)	-0.023 (-1.60)	-0.01 (-0.89)	-0.023 (-1.26)	-0.04 (-1.72)***
R	0.68	0.60	0.54	0.52	0.32	0.31
Adj. R	0.67					
F	52.88 (0.000)	42.05 (0.000)	45.50 (0.000)	30.32 (0.000)	13.83 (0.000)	6.91 (0.000)
Observations	128	128	128	128	128	128

Notes: Dependent Variable is corruption perception index from ICRG
Regressions include 120-122 observations of country level data.
Quantile regression results are based upon 100 bootstrapping repetitions.
Lower quantiles (e.g., Q 0.1) signify less corrupt nations.
All regressions include an intercept term but the results are not reported.
F-statistics and associated p-values are reported for the test of all slope parameters jointly equal to zero.
The t-statistics are given in parentheses (*), (**), and (***) indicate statistical significance at 1%, 5% and 10% levels respectively

Table 9: Corruption and Military in Politics: CS Estimation (IV): Regional Effects

Variables	Dependent Variable: Corruption						
Military in Politics	0.12	0.12	0.163	0.148	0.156	0.143	0.131
	(2.09)**	(2.03)**	(2.69)*	(2.50)*	(2.62)*	(2.41)*	(2.17)**
PCY	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(-6.20)*	(-6.11)*	(-5.43)*	(-4.79)*	(-4.93)*	(-4.81)*	(-4.49)*
Economic Freedom	-0.18	-0.19	-0.17	-0.22	-0.18	-0.20	-0.20
	(-3.97)*	(-3.94)*	(-3.62)*	(-4.40)*	(-3.28)*	(-3.62)*	(-3.27)*
Government Spending	-0.02	-0.02	-0.02	-0.014	-0.017	-0.019	-0.019
	(-1.88)***	(-1.90)***	(-1.68)***	(-1.28)	(-1.42)	(-1.6)***	(-1.6)***
Inflation	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(2.18)**	(2.13)**	(1.84)***	(1.62)***	(1.83)***	(1.74)***	(1.65)***
East Asia & Pacific		-0.08	-0.014	0.062	0.13		
		(-0.035)	(-0.06)	(0.29)	(0.57)		
Europe & Central Asia			0.438	0.555	0.60	0.59	0.72
			(2.13)**	(2.70)**	(2.87)**	(2.91)**	(2.94)**
Lat America & Caribbean				0.452	0.451	0.468	0.60
				(2.68)*	(2.68)*	(2.76)*	(2.60)*
Middle East & North Africa					0.27	0.26	0.39
					(1.23)	(1.21)	(1.54)
South Asia						0.30	0.45
						(0.97)	(1.30)
Sub-Saharan Africa							0.21
							(1.00)
Europe							0.083
							(1.37)
R	0.68	0.68	0.70	0.71	0.72	0.72	0.72
Adj. R	0.67	0.67	0.68	0.69	0.70	0.70	0.70
F	52.28	43.77	39.26	37.02	33.22	33.46	27.23
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	128	128	128	128	128	128	128

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 10: Corruption and Military in Politics: CS Estimation (V): Regional Effects in Developing Countries

Variables	Dependent Variable: Corruption						
Military in Politics	0.133	0.137	0.171	0.171	0.159	0.160	0.153
	(2.47)*	(2.53)*	(2.91)*	(2.82)*	(2.62)*	(2.70)*	(2.51)*
Economic Prosperity	-0.108	-0.119	-0.105	-0.105	-0.125	-0.122	-0.124
	(-3.16)*	(-3.27)*	(-2.81)*	(-2.77)*	(-3.12)*	(-3.10)*	(-3.09)*
Economic Freedom	-0.104	-0.101	-0.092	-0.09	-0.101	-0.105	-0.142
	(-2.01)**	(-1.95)**	(-1.77)***	(-1.62)***	(-1.6)***	(-2.01)**	(-2.00)**
Government Spending	0.027	-0.026	-0.03	-0.03	-0.025	-0.027	-0.0228
	(2.27)***	(-2.15)**	(-2.00)**	(-1.97)**	(-2.06)**	(-2.19)**	(-1.77)***
Inflation	0.0005	0.0005	0.0005	0.000	0.0004	0.0004	0.0004
	(1.73)***	(1.73)***	(1.7)***	(1.63)***	(1.46)	(1.5)	(1.32)
East Asia & Pacific		0.204	0.223	0.221	0.27	0.28	0.87
		(0.89)	(0.98)	(0.94)	(1.02)	(1.22)	(1.57)
Europe & Central Asia			0.276	0.274	0.257	0.25	0.68
			(1.43)	(1.39)	(1.17)	(1.12)	(1.22)
Lat America & Caribbean				0.000			0.68
				(0.000)			(1.22)
Middle East & North Africa				-0.009	0.013		0.555
				(-0.04)	(0.05)		(1.08)
South Asia					0.42	0.43	1.03
					(1.38)	(1.56)	(1.78)***
Sub-Saharan Africa					-0.036		0.552
					(-0.20)		(1.08)
Europe						0.375	0.71
						(0.89)	(1.40)
R	0.36	0.37	0.38	0.38	0.40	0.41	0.42
Adj. R	0.32	0.32	0.33	0.32	0.33	0.34	0.33
F	9.34	7.90	7.15	6.18	5.21	6.00	4.55
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	89	89	89	89	89	89	89

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 11: Corruption and Military in Politics: Panel Estimation

Variables	Dependent Variable: Corruption					
Military in Politics	0.44 (19.08)*	0.27 (9.93)*	0.18 (6.03)*	0.098 (3.21)*	0.074 (2.34)**	0.15 (-4.73)**
PCY		-0.000 (-11.00)*	-0.000 (-9.92)*	-0.000 (-5.11)*	-0.000 (-4.95)*	-0.000 (-9.21)*
Democracy			-0.21 (-6.75)*	-0.21 (-4.26)*	-0.14 (-4.51)*	-0.22 (-6.88)*
Bureaucracy Quality				-0.41 (-7.58)*	-0.39 (-6.92)*	-
Government Spending					-0.02 (-2.94)*	-0.03 (-3.78)*
R	0.35	0.46	0.50	0.54	0.54	0.54
Adj. R	0.35	0.46	0.49	0.53	0.53	0.53
F	364.11 (0.000)	263.47 (0.000)	203.48 (0.000)	180.88 (0.000)	137.58 (0.000)	148.34 (0.000)
Observations	675	675	622	622	602	602

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 12: Corruption and Military in Politics: Panel Estimation: Sensitivity Analysis (I)

Variables	Dependent Variable: Corruption							
Military in Politics	0.26	0.16	0.27	0.21	0.23	0.31	0.16	0.22
	(8.93)*	(5.06)*	(9.22)*	(6.23)*	(7.24)*	(10.39)*	(5.18)*	(7.33)*
PCY	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(-10.98)*	(-9.60)*	(-11.29)*	(-10.50)*	(-10.98)*	(-12.43)*	(-7.03)*	(-10.78)*
Government Spending	-0.03	-0.03	-0.03	-0.03	-0.03	-0.02	-0.02	-0.03
	(-3.90)*	(-4.33)*	(-3.71)*	(-4.14)*	(-4.33)*	(-3.48)*	(-3.47)*	(-4.20)*
Openness	0.004	0.003	0.003	0.004	0.004	0.003	0.004	0.004
	(4.36)*	(3.13)	(3.83)*	(4.75)*	(4.52)*	(3.26)*	(4.47)*	(4.35)*
Democracy		-0.20						
		(-6.31)*						
Government Stability			0.06					
			(2.58)*					
Internal Conflict				-0.06				
				(-2.71)*				
External Conflict					-0.06			
					(-2.67)*			
Investment Profiles						0.12		
						(5.58)*		
Rule of Law							-0.28	
							(-7.19)*	
Religion in Politics								-0.13
								(-3.84)*
R	0.48	0.51	0.48	0.48	0.48	0.52	0.50	0.49
Adj. R	0.47	0.51	0.48	0.48	0.48	0.51	0.50	0.49
F	135.45	123.41	110.72	110.98	110.90	127.98	120.07	113.82
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	602	598	598	598	598	598	598	598

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 13: Corruption and Military in Politics: Panel Estimation: Sensitivity Analysis (II)

Variables	Dependent Variable: Corruption							
Military in Politics	0.26	0.23	0.15	0.26	0.20	0.37	0.26	0.26
	(8.93)*	(7.68)*	(3.44)*	(9.03)*	(6.96)*	(6.50)*	(8.91)*	(9.82)*
PCY	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(-10.98)*	(-10.5)*	(-10.11)*	(-11.13)*	(-11.82)*	(-6.48)*	(-11.70)*	(-12.75)*
Government Spending	-0.03	-0.03	-0.03	-0.03	-0.04	-0.04	-0.03	-0.02
	(-3.90)*	(-4.11)*	(-3.09)*	(-3.74)*	(-5.08)*	(-3.11)*	(-3.38)*	(-2.98)*
Openness	0.004	0.004	0.003	0.004	0.004	0.005	0.003	0.002
	(4.36)*	(4.33)*	(2.32)*	(4.70)*	(4.06)*	(3.34)*	(3.89)*	(2.44)*
Ethnic Tensions		-0.08						
		(-2.61)*						
Military Spending			0.012					
			(1.94)**					
Urbanization				0.000				
				(1.86)***				
Remittances					0.021			
					(2.45)*			
Arm Trade						0.000		
						(1.53)		
Inflation							0.0002	
							(2.36)*	
Yr1993								-0.12
								(-1.04)*
Yr1998								-0.06
								(-0.48)
Yr2003								0.60
								(5.18)*
Yr2007								0.92
								(7.86)*
R	0.48	0.48	0.54	0.48	0.55	0.53	0.52	0.58
Adj. R	0.47	0.48	0.53	0.47	0.54	0.52	0.52	0.57
F	135.45	110.78	63.95	109.50	120.14	50.88	121.42	99.23
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	602	598	598	598	501	230	566	598

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 14: Corruption and Military in Politics: Panel Estimation using Random Effects: Sensitivity Analysis (I)

Variables	Dependent Variable: Corruption							
Military in Politics	0.24 (7.36)*	0.22 (6.07)*	0.26 (7.83)*	0.22 (5.81)*	0.22 (6.50)*	0.30 (9.41)*	0.16 (4.70)*	0.21 (6.01)*
PCY	-0.000 (-5.13)*	-0.000 (-5.52)*	-0.000 (-5.39)*	-0.000 (-5.13)*	-0.000 (-5.33)*	-0.000 (-7.41)*	-0.000 (-3.55)*	-0.000 (-4.98)*
Government Spending	-0.036 (-4.25)*	-0.036 (-4.35)*	-0.03 (-3.66)*	-0.04 (-4.42)*	-0.04 (-4.56)*	-0.03 (-2.93)*	-0.04 (-4.52)*	-0.04 (-4.35)*
Openness	0.006 (5.36)*	0.006 (5.06)	0.005 (4.49)*	0.007 (5.54)*	0.006 (5.55)*	0.004 (3.24)*	0.006 (5.50)*	0.006 (5.43)*
Democracy		-0.07 (-2.03)**						
Government Stability			0.063 (3.58)*					
Internal Conflict				-0.03 (-1.63)***				
External Conflict					-0.04 (-2.02)**			
Investment Profiles						0.155 (8.93)*		
Rule of Law							-0.22 (-5.65)*	
Religion in Politics								-0.13 (-3.18)*
RB	0.53	0.57	0.55	0.54	0.54	0.55	0.57	0.54
RO	0.45	0.48	0.46	0.46	0.46	0.49	0.50	0.46
Observations	602	598	598	598	598	598	598	598

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 15: Corruption and Military in Politics: Panel Estimation using Random Effects: Sensitivity Analysis (II)

Variables	Dependent Variable: Corruption							
Military in Politics	0.24	0.22	0.16	0.24	0.20	0.25	0.23	0.23
	(7.36)*	(6.21)*	(3.24)*	(7.38)*	(5.93)*	(7.52)*	(6.77)*	(7.96)*
PCY	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(-5.13)*	(-4.84)*	(-6.91)*	(-5.29)*	(-6.95)*	(-5.73)*	(-3.86)*	(-7.56)*
Government	-0.036	-0.04	-0.04	-0.04	-0.04	-0.03	-0.04	-0.02
Spending	(-4.25)*	(-4.59)*	(-3.32)*	(-4.13)*	(-4.36)*	(-3.29)*	(-4.32)*	(-2.51)*
Openness	0.006	0.006	0.004	0.007	0.006	0.006	0.006	0.002
	(5.36)*	(5.43)*	(2.93)*	(5.72)*	(4.71)*	(5.23)*	(5.37)*	(1.65)***
Ethnic Tensions		-0.097						
		(-2.65)*						
Military Spending			0.003					
			(0.37)					
Urbanization				0.000				
				(2.50)*				
Remittances					0.014			
					(1.5)			
Inflation						0.000		
						(1.68)***		
Socioeconomic Conditions							-.05	
							(-1.91)***	
Yr1993								-0.15
								(-1.87)*
Yr1998								-0.09
								(-1.12)
Yr2003								0.54
								(6.53)*
Yr2007								0.85
								(9.76)*
RB	0.53	0.54	0.61	0.52	0.68	0.58	0.54	0.64
RO	0.45	0.46	0.52	0.45	0.54	0.49	0.46	0.57
Observations	602	598	598	598	501	566	598	598

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 16: Corruption and Military in Politics: Panel Estimation using Alternative Techniques

Variables	2SLS			LIML			GMM		
Military in Politics	0.11 (2.15)**	0.14 (2.75)*	0.09 (1.7)***	0.11 (2.15)**	0.14 (2.75)*	0.09 (1.7)***	0.11 (2.26)*	0.14 (2.93)*	0.08 (1.61)***
PCY	-0.000 (-7.62)*	-0.000 (-7.98)*	-0.000 (-5.11)*	-0.000 (-7.61)*	-0.000 (-7.98)*	-0.000 (-5.11)*	-0.000 (-7.37)*	-0.000 (-7.55)*	-0.000 (-5.18)*
Economic Freedom	-0.19 (-5.08)*	-0.16 (-3.83)*	-0.13 (-3.27)*	-0.19 (-5.08)*	-0.16 (-3.81)*	-0.13 (-3.27)*	-0.20 (-5.25)*	-0.17 (-4.13)*	-0.13 (-3.55)*
Government Spending	-.019 (-1.7)***	-.020 (-1.7)***	-.017 (-1.6)***	-.019 (-1.7)***	-.020 (-1.7)***	-.017 (-1.6)***	-.019 (-1.8)***	-.019 (-1.7)***	-.017 (-1.7)***
Openness	0.001 (1.66)***	0.002 (1.62)***	0.002 (1.7)***	0.001 (1.66)***	0.002 (1.62)***	0.002 (1.73)***	0.002 (1.48)	0.002 (1.40)	0.002 (1.61)***
Inflation		0.000 (0.65)	0.000 (2.59)*		0.000 (0.64)	0.000 (2.59)*		0.000 (0.68)	0.000 (3.93)*
Bureaucracy Quality			-0.24 (-2.70)			-0.24 (-2.69)			-0.24 (-2.98)
Sargan	0.83 (0.36)	0.98 (0.32)	1.28 (0.53)	0.84 (0.36)	0.99 (0.32)	1.28 (0.53)			
Basmann	0.81 (0.36)	0.96 (0.32)	1.24 (0.54)	0.81 (0.37)	0.96 (0.33)	0.62 (0.54)			
Hansen							0.66 (0.42)	0.85 (0.36)	1.44 (0.49)
Wald	382.38 (0.000)	417.02 (0.000)	453.13 (0.000)	382.386 (0.000)	416.96 (0.000)	457.05 (0.000)	375.88 (0.000)	418.20 (0.000)	482.54 (0.000)
R	0.53	0.57	0.60	0.53	0.57	0.60	0.53	0.57	0.60
Observations	340	324	324	340	324	324	340	324	324

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Table 17: Corruption and Military in Politics: Panel Estimation: System GMM

Variables	Dependent Variable: Corruption							
Military in Politics	0.08 (1.70)***	0.08 (1.62)*	0.096 (2.06)**	0.08 (1.60)***	0.09 (1.99)**	.096 (2.30)*	0.10 (2.42)*	0.11 (2.87)*
PCY	-0.000 (-2.83)*	-0.000 (-2.70)*	0.000 (-4.06)*	-0.000 (-2.87)*	-0.000 (-3.68)*	-0.000 (-5.19)*	-0.000 (-5.73)*	-0.000 (-5.90)*
Economic Freedom	-0.14 (-3.52)*	-0.04 (-3.47)*	-0.14 (-3.66)*	-0.15 (-3.56)*	-0.14 (-3.72)*	-0.11 (-2.84)*	-0.12 (-3.34)*	-0.11 (-3.52)*
Rule of Law	-0.33 (-6.55)*	-0.006 (-6.19)*	-0.31 (-6.36)*	-0.31 (-6.13)*	-0.34 (-6.4)*	-0.29 (-6.25)*	-0.26 (-5.67)*	-0.29 (-6.55)*
Openness		0.001 (0.89)				0.002 (1.73)***	0.001 (1.25)	
Inflation			0.000 (0.65)				0.000 (1.49)	0.000 (2.58)*
Government Stability				0.069 (1.95)**				
Socioeconomic Conditions					0.11 (2.05)**			
Government Spending						-0.019 (-1.82)***	-0.017 (-1.62)***	-0.017 (-1.62)***
Urbanization								0.000 (0.82)
Yr1988	-1.14 (-8.88)*	-1.12 (-8.29)*	-1.19 (-10.32)*	-1.31 (-9.16)*	-1.19 (-9.15)*	-1.02 (-7.27)*	-1.05 (-7.62)*	-1.16 (-10.70)*
Yr1993	-1.24 (-11.1)*	-1.22 (-10.19)*	-1.25 (-12.60)*	-1.41 (-10.24)*	-1.26 (-10.39)*	-1.11 (-9.59)*	-1.12 (-10.35)*	-1.17 (-12.68)*
Yr1998	-0.86 (-8.69)*	-0.84 (-7.80)*	-0.88 (-10.53)*	-0.93 (-8.64)*	-0.84 (-7.78)*	-0.79 (-8.80)*	-0.84 (-11.19)*	-0.87 (-12.11)*
Yr2003	-0.31 (-4.52)*	-0.29 (-4.30)*	-0.32 (-4.88)*	-0.26 (-3.82)*	-0.29 (-4.09)*	-0.24 (-4.94)*	-0.29 (-5.36)*	-0.33 (-6.20)*
No of groups	114	129	127	126	129	130	128	128
Instruments	63	64	64	64	54	65	75	65
Wald stat	360.55 (0.000)	333.04 (0.000)	457.23 (0.000)	407.35 (0.000)	449.73 (0.000)	568.20 (0.000)	601.15 (0.000)	659.52 (0.000)
Hansen Diff	16.19 (0.57)	15.74 (0.61)	24.27 (0.14)	14.89 (0.67)	15.84 (0.39)	17.50 (0.49)	24.50 (0.26)	17.60 (0.48)
Observations	601	590	567	601	601	591	560	577

Note: *, **, and *** denote statistically significant at the 1 %, 5%, and 10% levels, respectively.

Appendix:

Table: List of Countries

1	Albania	41	Ethiopia	81	Mali	121	Sri Lanka
2	Algeria	42	Finland	82	Malta	122	Sudan
3	Angola	43	France	83	Mexico	123	Suriname
4	Argentina	44	Gabon	84	Moldova	124	Sweden
5	Armenia	45	Gambia	85	Mongolia	125	Switzerland
6	Australia	46	Germany	86	Morocco	126	Syria
7	Austria	47	Ghana	87	Mozambique	127	Taiwan
8	Azerbaijan	48	Greece	88	Myanmar	128	Tanzania
9	Bahamas	49	Guatemala	89	Namibia	129	Thailand
10	Bahrain	50	Guinea	90	Netherlands	130	Togo
11	Bangladesh	51	Guinea-Bissau	91	New Caledonia	131	Trinidad & Tobago
12	Belarus	52	Guyana	92	New Zealand	132	Tunisia
13	Belgium	53	Haiti	93	Nicaragua	133	Turkey
14	Bolivia	54	Honduras	94	Niger	134	UAE
15	Botswana	55	Hong Kong	95	Nigeria	135	Uganda
16	Brazil	56	Hungary	96	Norway	136	Ukraine
17	Brunei	57	Iceland	97	Oman	137	United Kingdom
18	Bulgaria	58	India	98	Pakistan	138	United States
19	Burkina Faso	59	Indonesia	99	Panama	139	Uruguay
20	Cameroon	60	Iran	100	Papua N Guinea	140	USSR
21	Canada	61	Iraq	101	Paraguay	141	Venezuela
22	Chile	62	Ireland	102	Peru	142	Vietnam
23	China	63	Israel	103	Philippines	143	West Germany
24	Colombia	64	Italy	104	Poland	144	Yemen
25	Congo	65	Jamaica	105	Portugal	145	Zambia
26	Congo, DR	66	Japan	106	Qatar	146	Zimbabwe
27	Costa Rica	67	Jordan	107	Romania		
28	Cote d'Ivoire	68	Kazakstan	108	Russia		
29	Croatia	69	Kenya	109	Saudi Arabia		
30	Cuba	70	Korea, DPR	110	Senegal		
31	Cyprus	71	Kuwait	111	Serbia		
32	Czech Republic	72	Latvia	112	Serbia & Monten		
33	Czechoslovakia	73	Lebanon	113	Sierra Leone		
34	Denmark	74	Liberia	114	Singapore		
35	Dominican Rep	75	Libya	115	Slovakia		
36	East Germany	76	Lithuania	116	Slovenia		
37	Ecuador	77	Luxembourg	117	Somalia		
38	Egypt	78	Madagascar	118	South Africa		
39	El Salvador	79	Malawi	119	South Korea		
40	Estonia	80	Malaysia	120	Spain		

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