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Corruption and Country Size: Insights from Small State Studies

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Abstract

An elaborate body of academic debate deals with public sector corruption as a detrimental social problem. Considerable attention has been paid to the contextual factors of corruption and the role of wider societal norms and institutions in enhancing or deterring corrupt practices. However, there is only a limited amount of knowledge available on one factor – the size of countries. Are small or large countries more prone to corruption? There are a few studies that aim to clarify this issue, but the findings are contradictory. The aim of the article is to turn to a stream of social science research specifically interested in country size – small state studies – and to explore the relevance of this knowledge for understanding public sector corruption. The analysis shows that country size is a significant contextual characteristic that affects economic, political and socio-cultural factors of corruption. The article raises the need for further studies into causal mechanisms of size by including more small states into international comparative research, turning attention to qualitative comparative studies, and taking a closer look at the link between socio-cultural factors of corruption and country size.

Keywords: corruption, country size, context, population, small states

1. Introduction

Public sector corruption, most commonly defined as the abuse of public or entrusted power for private gain (Andersson and Anechiarico 2019, 117; Rose-Ackerman and Palifka 2016, 9) is condemned for its damaging effects on social relationships, economic development, and political stability. Shacklock et al. (2016, 1) argue that corruption "undermines the fairness, stability and efficiency of a society". Corruption has been shown to decrease wealth, investments and trading (Lambsdorff 2006) with the UN (2018) estimating the cost of corruption to be at least 5% of global GDP. Andersson and Anechiarico (2019, 7) emphasize corruption's detrimental effect on the "integrity of governance, to trust in democratic processes, and to effective decision making and administration".

Numerous recent books, research papers, and indices have aimed to identify the level of corruption in different countries, insisting that we must understand the causes and effects of corruption for an effective defense of public integrity (Andersson and Anechiarico 2019, xi). The debates have been characterized by the call to bring in a wider context into the studies. Several authors have emphasized the need for empirical analyses focusing on macro-level, systemic and contextual factors surrounding corruption (for example, Fernando and Bandara 2020; Persson et al. 2013; Mungiu-Pippidi 2006). In other words, next to the perspectives explaining corruption as a function of "bad apples" (related to the characteristics of individuals) or "bad barrels" (deriving from the characteristics of organizations), there is a call for more empirical research that discusses the characteristics of "bad larders", i.e. the impact of the environment where the "apples" or "barrels" are located (Fernando and Bandara 2020, 2; Gonin et al. 2012). In this view, the factors for corruption go beyond personal and organizational traits and include wider societal norms and institutions. As Doig and McIvor (1999, 659) argue, corruption as an "activity motivated by self-interest, violating the binding rules of distribution", always takes place in a specific context, and the "rules of distribution refer not only to the letter of the law, but also to norms recognized as binding by society and/or to the system's official norms and operational codes."

Research on corruption has taken considerable interest in these contextual variables – there are numerous empirical and theoretical studies on how factors such as economic development and openness to competition as well as democracy, culture, geography and history, regulatory quality, etc. relate to the level of (perceived) corruption (ElBahnasawy and Revier 2012; Lambsdorff 2006; Seldadyo and de Haan 2006). However, there is one contextual factor that has escaped solid explanations thus far – the size of countries. Are small or large countries more prone to corruption? Why? There are a few studies that aim to shed light on this issue, but the findings are contradictory and raise several methodological questions. Theoretical conceptualizations revolving around the economies of scale allow to make arguments in both directions and the function of size has been put forward as an ultimately "empirical issue" (Amin and Soh 2019, 4; Knack and Azfar 2003, 5). While the respective empirical studies are still scarce, the ones exploring the issue tend to conclude that the occurrence of corruption seems to increase with the size of the country, i.e. to argue that larger countries are more disposed to being corrupt (Amin and Soh 2019; Root 1999; Treisman 2000).

At the same time, however, there exists another stream of social science research that takes an active interest in the impact of country size. This knowledge, which can be gathered under the label "small state studies", directs attention to the increased corruption risks in smaller countries. The studies relying on the size of populations as the key variable (for example, Baldacchino and Wivel 2020; Briguglio 2018a; Corbett and Veenendaal 2018) show that a small population shapes the governance of countries through the shortage of resources, most of all human resources, and the special "social ecology" that comes with it (Jugl 2019; Sarapuu 2010). Corbett and Veenendaal (2018, 176) argue that "close connections and overlapping public and private relations between citizens and politicians in small states generally translate into particularistic politics, among which clientelism, patronage, and nepotism are common."

Nevertheless, these two streams of research have evolved rather independently from each other. Drawing on the potential value of knowledge offered by the small state studies, the article at hand aims to take an in-depth look into the studies in order to explore their relevance for corruption research. Guided by the academic debate on the factors of public sector corruption, the article aspires to answer two questions:

- What do small state studies say on the impact of country size regarding the explanatory factors of corruption?
- What are the potential implications of this knowledge for the research on public sector corruption?

In order to synthesize knowledge from two very wide academic debates, the analysis proceeds by, first, focusing on the stream of corruption literature that discusses the role of context in public sector corruption and, second, based on this overview, explores the key texts in small state governance to distil the knowledge relevant for understanding the function of states' size in public sector corruption. The article starts with a look into existing corruption research and gives an overview of the key contextual factors brought forward. Secondly, population size as a variable in corruption research is discussed. Third, small state studies are introduced and the portrayal of the contextual factors of corruption in small state studies is explored. The last section focuses on the implications of bringing the two streams of knowledge together and their potential synergy in the field of corruption research. The analysis shows that country size is a significant contextual factor affecting economic, political and socio-cultural factors of corruption, but its exact function is undecided. Thus, advancing research on the link between country size and corruption is both an empirical and a theoretical endeavor. In pursuing these aims, small state studies offer several seminal insights.

2. Contextual factors in corruption research

There is extensive international discussion on the factors that explain the existence and rate of corruption, ranging from single case studies to large N quantitative analyses. As the list of the factors analyzed is long, researchers have classified and grouped them in a number of ways. Some authors divide the factors that shape corruption into three or four principal groups (e.g. Ata and Arvas 2011; ElBahnasawy and Revier 2012; Seldadyo and de Haan 2006), others into as many as nine groups (e.g. Lambsdorff 2006). In this paper, similarly to Ata and Arvas (2011) and ElBahnasawy and Revier (2012), we rely on a division of explanatory factors into three core groups – economic, politico-administrative, and socio-cultural. The groups cover all the factors discussed under various categorizations and provide a functional analytical anchor for the study.

First, there are numerous theoretical and empirical analyses of *economic factors* as potential determinants of corruption. On a theoretical level, most of the explanations circle around the concept of competition: the more open the economy is and with fewer barriers it functions, the better in terms of corruption. Several factors have been shown to correlate with low levels of corruption and are proposed to reduce incentives for corruption. The most basic determinant has been argued to be the wealth of the country, determined by GDP per capita. Several authors (Damania et al. 2004; Serra 2006; Treisman 2000) have concluded that wealth is a good predictor of the level of corruption, with wealthier countries being less corrupt. One of the reasons behind it might be the ability of the country to invest more resources into anti-corruption policies; another may be related to better education and literacy in the society, which contribute to greater awareness and thus to a better likelihood of discovery (ElBahnasawy and Revier 2012, 314). The same has been claimed about general economic freedom (Gurgur and Shah 2005; Park 2003; Treisman 2000), openness to trade (Ades and Di Tella 1999; Treisman 2000; Knack and Azfar 2003) and greater import share (Herzfeld and Weiss 2003; Treisman 2000). Income distribution, however, has not been shown to have an important effect on corruption (Park 2003; Brown et al. 2011).

On the other hand, low wages in the public sector (compared to the private sector) and an abundance of natural resources (especially oil and gas) have been suggested to increase the likelihood of corruption. In case of public sector wages, several authors (Van Rijckeghem and Weder 1997; Alt and Lassen 2003; Rauch and Evans 2000) have suggested that comparatively lower wages may increase the motivation for bribes, as the cost of a bribe (losing a job) seems lower, while the benefit seems higher. However, not all empirical studies agree with this conclusion, stating that the relationships between wages and level of corruption are not always statistically significant (Gurgur and Shah 2005; Treisman 2000). Additionally, natural resources, their mining and export create opportunities for rent-seeking, thus increasing the potential level of corruption (Tornell and Lane 1998; Leite and Weidmann 1999).

There is no agreement on either the theoretical or the empirical level on how the size of the public sector (in terms of government expenditure and revenue relative to the GDP; e.g. Seldadyo and de Haan 2006) influences the level of corruption. Some authors assume that smaller public sectors create a deficit in providing public services, thereby creating temptation for bribes, whereas others argue that larger public sectors create more opportunities for corruption (Seldadyo and de Haan 2006, 14), especially through rent-seeking behavior as the public sector is a significant buyer of goods and services (ElBahnasawy and Revier 2012, 315). Lambsdorff (2006, 5) points out that there is also the question of reverse causality, as "corrupt governments have difficulty obtaining funding, be it through taxation or loans. This lack of resources then forces them to operate on a rather small budget."

Second, the literature brings forward *the politico-administrative factors*. Seldadyo and de Haan (2006, 20) divide them into two main groups. First, political and civil liberties associated with democracy, and second, administrative characteristics, including decentralization and federalization. When it comes to the democracy-related variables, there is a general agreement that democracy reduces corruption (Brunetti and Weder 2003). As Kunicová and Rose-Ackerman (2005) explain, political participation and competition, and democratic control mechanisms enable the public to monitor the elected officials' activities and, if needed, remove them from the office. However, as Lambsdorff (2006, 10) points out, the effects of democracy on corruption are not immediate, nor are they present in "half-hearted" democracies. In addition, democracies are seen as more stable forms of government, and (political) stability as a factor has been shown to reduce the potential level of corruption (Leite and Weidmann 1999; Lederman et al. 2001; Serra 2006; Park 2003), as in an unstable political situation officials tend to behave more opportunistically to take advantage of their (possibly short) time in office. Contrary to the empirical findings, ElBahnasawy and Revier (2012, 317) propose that stability may also have the opposite effect, as it allows officials time to build up corrupt relationships.

Strong rule of law and well-defended political freedoms have been shown to decrease corruption (Kaufmann et al. 2006; Damania et al. 2004). In short, if politicians and public officials expect corrupt activities to be detected and sanctioned, they may be less tempted to engage in them. In addition, as Rauch and Evans (2000) point out, Weberian principles of public administration (especially meritocracy) lower corruption due to the higher quality of bureaucracy (see also Gurgur and Shah 2005; Brunetti and Weder 2003). Multiple analyses (Lederman et al. 2001; Ali and Isse 2003; Gurgur and Shah 2005; Fisman and Gatti 2002) have shown decentralization to have a reducing effect on corruption, whereas federalization has the opposite effect (Kunicová and Rose-Ackerman 2005; Damania et al. 2004; Treisman 2000; Goldsmith 1999).

Third, *socio-cultural factors* are the smallest group, but the most difficult to quantify. Furthermore, quite often the direction of causality is not clear (Lambsdorff 2006). The main cultural factors that have been shown to have a reducing effect on corruption include Protestantism (La Porta et al. 1999; Treisman 2000; Serra 2006; Chang and Golden 2007, a higher proportion of women in representative institutions and the work-force (Swamy et al. 2001), as well as secular-rational values in the society (Sandholtz and Taagepera 2005). Protestantism is seen as beneficial due to its focus on individualism and a clear separation of church and state, whereas secular-rational societies put more emphasis on impersonal values. Ethnic fragmentation and conflict, on the other hand, are seen as factors contributing to corruption (La Porta et al. 1999; Lederman et al. 2001) due to the bureaucrats' potential loyalty to their ethnic group or family instead of public interest. Last, colonial heritage is seen as having mixed effects on corruption. Some authors claim that colonial heritage results in more corruption (Gurgur and Shah 2005; Tavares 2003), whereas others show differences between various backgrounds, arguing that former British colonies have lower corruption compared to the Spanish and Portuguese ones (Herzfeld and Weiss 2003).

It should be emphasized that there is a considerable overlap between the causes and effects of corruption (e.g. low socio-economic development), and on its own, no factor is a good indicator of corruption to be used in isolation from others. Furthermore, the lines between the groups of factors can be arbitrary. For example, the wage of civil servants has been classified as an economic (ElBahnasawy and Revier 2012) or bureaucratic/regulatory determinant (Seldadyo and de Haan 2006); regulatory quality has been discussed as an economic factor (e.g. limits to economic freedom, ElBahnasawy and Revier 2012; Seldadyo and de Haan 2006) or as a bureaucratic factor (Lambsdorff 2006); natural resources have been grouped among the economic (ElBahnasawy and Revier 2012; Seldadyo and de Haan 2006) and geographical/historical factors (Lambsdorff 2006). Nevertheless, the division of the factors into three groups provides a good framework for reviewing the literature on small states with regard to the potential impact of country size. This will be done after discussing the presence of size as a variable in corruption research.

3. Country size as an explanatory factor

Country size as a variable is addressed in a handful of publications in the field of corruption research. The authoritative literature reviews (e.g. Lambsdorff 2006; Seldadyo and de Haan 2006; Enste and Heldman 2017) usually refer to a few key papers on the issue – Root (1999), Treisman (1999), Fisman and Gatti (2002), Knack and Azfar (2003), and, more lately, Mocan (2008). These are large N studies, based on the quantitative analysis of various factors of corruption, mostly using Transparency International's Corruption Perception Index. The size of population is included in several ways in these studies – as one of numerous variables being studied, a descriptive variable or a control variable. Quite often, the main research questions or hypotheses are not related to the effect of country size, but to other factors, such as (fiscal) decentralization, trade openness, etc. When the effects of size are explicitly addressed, the authors usually point out the potential positive as well as negative effects.

Most often, the overviews of the effects of population size on corruption refer to publications claiming that smaller countries are less corrupt (e.g. Root 1999; Treisman 1999; Fisman and Gatti 2002). For instance, one of the key texts by Fisman and Gatti (2002) focuses on fiscal decentralization and its relationship to corruption. The authors conclude that "fiscal decentralization in government expenditure is strongly and significantly associated with lower corruption", using population, civil liberties, GDP and government size as control variables. Similarly, Treisman (2000, 405) uses population as a control variable when analyzing such factors as the legal system, religion, colonial background, political freedom, economic and social development, public service salaries and political instability. Again, he does not link population directly to the level of corruption, but creates a longer causal chain. Treisman (2000, 432) argues that countries with larger populations and areas "are both more likely to be federal and to be relatively more corrupt (perhaps because their economies are less exposed to competition from imports)". Wei (2000) discusses "a natural openness" of a country based on its population and distance from the world trading centers, concluding that bigger and far-away countries are less open and more corrupt, as smaller and more open countries are influenced by market discipline and are thus forced to have good governance. Using microdata to analyze the determinants of the probability of being asked for a bribe, Mocan (2008) concludes that the probability increases not only with population size but also with living in a large city (over 1 million inhabitants). The latest study by Amin and Soh (2019), which relies on survey data from 135 countries concerning firms' experience with corruption, concludes that corruption is positively correlated with country size and is higher in larger countries.

Knack and Azfar's (2000, 2003) research, however, reaches the opposite conclusion. Their main focus is on examining previous publications, which "conclude that larger [countries] tend to have governments that are more corrupt than governments in smaller nations" (again, referring to Root 1999; Treisman 1999; Fisman and Gatti 2002). Knack and Azfar (2003, 9) state that this is the result of sample bias: they claim that "only the well-governed countries among small nations are represented in the Transparency International index, and only the large nations among the poorly-governed ones are represented." Thus, with the inclusion of more badly governed small countries the correlation between population size and corruption would disappear. Yet another group of authors concludes that population size is not significant in determining the level of corruption. Tavares (2003) analyzes the relationship between foreign aid and corruption, including population among the variables, but finds it insignificant. A later analysis by ElBahnasawy and Revier (2012) uses multiple variables, including GDP per capita, openness to trade, natural resource endowment, religion, etc., with population among them. Their "results provide strong evidence that a country's population size does not seem to influence perceived corruption" (ElBahnasawy and Revier 2012, 324).

The above discussion shows that the existing literature on the relationship between the size of a country and corruption is not only limited but also controversial. The first and the most obvious of these controversies is the lack of agreement on the effect of population size on the level of corruption – whether smallness fosters corruption, discourages it or is insignificant. Second, there is a lack of discussion on the definition of country size – it is not clear what is meant by small or large in corruption research. If the thresholds exist, they are not thoroughly justified. Knack and Azfar (2003) explain that only two out of 30 countries with populations under one million are included in Transparency International data, and they use this line to show that excluding those countries from the dataset considerably alters the conclusions. However, no other explanation is given why the level of one million might be important in terms of corruption. Mocan (2008) uses 50,000 and 1 million as cut-off points for city sizes, but does not define any threshold for the country size. Other studies do not define their cut-off points at all (ElBahnasawy and Revier 2012).

Third, the factor of size is under-theorized – there is a superficial discussion on the function of size and how it influences the level of corruption. For example, one of the most often cited works by Knack and Azfar (2003, 4), whose theoretical discussion focuses mostly on the concept of optimal size, limits its discussion of smallness to citing Jalan's (1982) claim that "smaller nations benefit from greater social cohesion and fewer vested interests." In addition, they refer to the economies of scale and its possible influence on the provision of public services, rent-seeking as well as conflicts of interest (Knack and Azfar 2003, 5). Overall, the existing literature is centered around economic interpretations, concepts and variables of size: Root (1999) discusses the economies of scale (cited by Knack and Azfar 2000, 5), Fisman and Gatti (2002) focus on fiscal decentralization, Tavares (2003) on foreign aid, and Knack and Azfar (2000) on foreign investment and trade intensity.

Fourth, there is the problem of using decentralized units as proxies for small countries. For example, in the overview on determinants of corruption Lambsdorff (2006) discusses population size under the heading "decentralization", together with such factors as the share of subnational expenditures, federalization, and unicameral vs. bicameral parliaments. The paper by Fisman and Gatti (2002) that is often used to demonstrate that smaller states are less corrupt (ElBahnasawy and Revier 2012; Lambsdorff 2006; Seldadyo and de Haan 2006), actually deals with fiscal decentralization. Decentralized units in a large state, however, do not equal small states, even though the basic statistics (population, area, budget, etc.) might be similar.

4. The impact of country size according to small state studies

Small state studies

The field of small state studies has seen considerable growth in recent decades. Numerous edited collections and empirical analyses have been published discussing the relevance of country size, the special characteristics of small states, and the challenges related to the limited scale of political and administrative systems (for example, Baldacchino and Wivel 2020; Briguglio 2018a; Corbett and Veenendaal 2018; Briguglio et al. 2021; Joensen and Taylor 2021). While the most common variable used to categorize countries is the size of their populations (Briguglio 2018b; Corbett and Veenendaal 2018; Jugl 2019), the applied definitions and thresholds have depended on the research interest. For instance, the discipline of international relations conceptualizes small states mostly as "small powers" – i.e. those with limited capabilities and not able to change the terms of policy-making on the international arena (Maass 2009; Thorhallsson and Wivel 2006). Size becomes relative in this perspective. However, in the governance discipline with its interest in the internal matters of governing, a more absolute stance is taken. In this perspective, the limited population size is the key defining feature of small countries (Sarapuu and Randma-Liiv 2020). Jugl (2019, 119) argues that for analyzing the impact of size on the performance of governments, the size of a population is the most appropriate characteristic, because "it is a proxy for the number of social relations in a society, the human resource pool, the heterogeneity of citizens' and bureaucrats' identities and preferences and the demand for public goods and services."

Despite the growing interest in the impact of country size, no clear dividing line between small and large (or medium-scale) countries has emerged. In a number of studies, small states have been defined as those with a population of one million or less (Anckar 2020; Corbett and Veenendaal 2018; Raadschelders 1992). The Commonwealth Secretariat and the World Bank have employed a threshold of 1.5 million. Bräutigam and Woolcock (2001) use a threshold of five million. Even within the recent edited collections, different cut-off points have been applied in individual chapters (see e.g. Briguglio 2018a; Baldacchino and Wivel 2020). Due to the arbitrary nature of dividing lines, several scholars suggest conceptualizing the issue through "a continuum of size" (e.g. Bray 1991, 13; Bray and Packer 1993, 91) – the smaller the population gets, the more likely are the states to present specific characteristics.

Regardless of various conceptualizations of size and the fact that small states differ in their development, histories, governance models, etc., the studies share a common conviction that the size matters. The explanations for the function of size revolve mostly around "the economies of scale" and, more specifically, lacking economies of scale in countries with small populations (Jugl 2019). Through missing economies of scale, the small population size has an impact on the functioning of the government, the private sector as well as the non-governmental sector. There are limits to specialization and a small client-base for various products and services. At the same time, small countries face the need to maintain the functions of a sovereign state and satisfy the needs of citizens for different public services (Sarapuu and Randma-Liiv 2020). Consequently, the size of the population is a core characteristic that has an impact on all spheres of life. In the next sections, the representation of the three groups of explanatory factors in the small state studies is explored.

Economic factors

Small countries are very diverse and geographically located all over the world. The World Bank, which has a special focus on the economic development of small states (it lists 42 countries with populations under 1.5 million), maintains that despite their diversity, small states share common economic challenges. "Due to their small population and economic base, these countries are particularly vulnerable to exogenous shocks such as economic shocks, natural disasters, and climate change. With limited economic opportunities and significant migration, they often face capacity constraints." (World Bank 2022, 3). Many small states are islands and several of them archipelagos (20 of 39 countries with populations under one million in 2020; Baldacchino 2020, 71). In addition to smallness, these countries must also deal with islandness, territorial fragmentation, remoteness and insularity.

Different studies on small countries put forward similar arguments on their economic features. Small states are characterized by a small market size and a small client base, the absence of economies of scale, lacking competition in the domestic markets, limited natural resource endowments, limited diversification possibilities and small private sector elites (Briguglio 2018b; Baldacchino 2020). Small states tend to have proportionately larger governments (Bräutigam and Woolcock 2001, 4). The markets tend to concentrate around a narrow range of products and services that generate the majority of export sales (Baldacchino 2020, 74). These characteristics make small states dependent on international trade and vulnerable to the fluctuations beyond their borders. Briguglio (2018b, 11) concludes that "the main economic features shared by all small states is their limited human and physical capacity, their inability to reap the benefits of economies of scale in certain forms of production, their relatively high degree of trade openness and their high exposure to external economic conditions beyond their control." However, despite the constraints described above, many small states do economically remarkably well and are characterized by high levels of wealth. In terms of GDP per capita, several small states are in the top 10 and several more in the top 30 of the world (Anckar 2020, 48-49). At the same time, there are also a number of small states that lag behind and struggle economically, belonging among the states with the poorest scores. By reviewing four different measures of "political productivity" illuminating the performance of small states in economy, health, human development and education, Anckar (2020, 49) concludes that "small states are everywhere and at all levels."

The core economic characteristics of small states link with the key factors put forward in corruption research. Some of the characteristics can be expected to have a mitigating effect on corruption – greater economic freedom, openness to trade and bigger reliance on imports should decrease corruption risks. To attract FDI and development assistance, small states may be forced to improve their governance structures and practices, especially control instruments and financial accountability, thus also enhancing anti-corruption measures (Bräutigam and Woolcock 2001; Larmour and Barcham 2006). However, the lack of diversification, small domestic markets and limited competition may result in large sections of economies being controlled by small business elites. Business interest groups assume "greater political clout and leverage in the corridors of local power" (Baldacchino 2020, 73-76). The lack of competition may enhance rent-seeking and thus result in a further decrease in economic efficiency and growth and an increase in misallocation of resources and loss of government revenue. The close connection between politics and commerce creates opportunities for corruption (Findlay 1997, 36).

Politico-administrative factors

Politico-administrative factors can be divided into two sub-groups – political and administrative. First, with regard to the political factors, the small size of a country is expected to have an impact in two opposing directions, both to potentially foster democratic decision-making and to inhibit it. On the one hand, it is expected that the small scale of a country increases transparency and brings politico-administrative decision-makers closer to the people, making them more responsive and accountable (Veenendaal and Corbett 2015). People in small states are more or less known to each other so that ministers, high government officials, influential businesspersons or politicians may be more easily accessible, either formally or informally (Bray and Packer 1993; Sutton 1987). This context is expected to make politicians more representative of their electorates. However, evidence shows that small states' reality is not necessarily so conducive to democratic governing and rather provides a "mixed blessing" (Larmour and Barcham 2006; Veenendaal and Corbett 2015, 543).

The same characteristics that are expected to make governing more responsive and accountable may lead to personality politics overriding other considerations and to patron-client relationships, corruption and nepotism (Baldacchino 2012; Corbett et al. 2021). Interest groups may have a high impact on policy-making, especially if there are few strong industrial sectors in the country or no critical mass of institutionalized interest groups that could balance each other in the political discourse (Baldacchino 2020, 73-76; Larmour and Barcham 2006, 178-179). Power and influence tend to become concentrated in the hands of a few (Baldacchino 2020, 75; Corbett and Veenendaal 2018, 177). This may lead to the capture of the state and domination of those who are the loudest, the richest or the closest to the politicians. Despite the small state context allowing for more direct participation in the political process, minorities remain marginalized (Veenendaal and Corbett 2015, 539). All these problems may be aggravated by the weakness (or even absence) of independent media whose functioning is constrained by missing economies of scale (Ólafsson 2020; Larmour and Barcham 2006, 179; Veenendaal and Corbett 2015, 542). Nevertheless, "against all odds" (Corbett and Veenendaal 2018), the majority of small states are democratic and represent remarkably stable democratic regimes (Anckar 2020, 44-45). The forces emanating from the limited scale apparently balance each other and guide the states towards a compromise version of responsiveness and concentration of power.

The small size of a country has a direct impact also on its administrative organization and public service. There are two core implications of lacking economies of scale in this respect. First, the small size of public organizations puts limits on the division of labor by constraining specialization and pushing public institutions towards multi-functionalism (Bray 1991; Bray and Packer 1993; Farrugia and Attard 1989; Randma-Liiv 2002). Since public service provision is gripped by diseconomies of scale, there is constant pressure towards a centralization of public functions. Consequently, small states are likely to have fewer government organizations, hierarchical levels and positions, and less distance between the executives and the lower levels of organizations. Multi-functionality occurs both on the level of individual officials and entire organizations. One small state official is often in charge of several policy issues or phases in the policy cycle, which in larger countries are catered for by separate units (Farrugia 1993; Thorhallsson 2000, 81).

Second, the classic values of public administration – such as transparency, predictability, neutrality and equality – assume formalization through rules and standardization. However, the everyday reality of small states - in the form of higher personalism, close social relationships, and multi-functionality – steers small administrations away from rigid rule-following and towards adopting informal working procedures and flexibility (Randma-Liiv and Sarapuu 2019; Raadschelders 1992, 28). A less institutionalized system allows for a higher degree of personal intervention and a corresponding *ad-hoc* approach to issues, but also makes public officials more easily personally identifiable in connection with the specific decisions and their consequences (Sutton 1987). The implications of the tendency towards informality are double-edged. On the one hand, informality and flexibility allow small states to cope with the constraints of scale and to prioritize on a running basis. On the other hand, the reliance on informal work arrangements makes it more difficult to apply hierarchical and standardized organizational practices and may result in problems of transparency, barriers to control and accountability (Sarapuu 2010).

Consequently, strong rule of law, Weberian values in public administration, and merit systems as deterrents of corruption may be difficult to achieve in small states (Bräutigam and Woolcock 2001, 5). Centralization, informal coordination and communication, limited expertise, multi-functionalism and high personalism create a favorable environment for corruption. Due to these traits, governing systems can escape public, political and administrative control

(Warrington 1992, 228). Even when the formal anti-corruption institutions are in place, they may turn out to be "hollow" in practice and fail to do what is expected (Larmour and Barcham 2006, 179). Nevertheless, these problems may be balanced by higher transparency and personification accompanying the small scale.

Social factors

As becomes apparent from the above, one central finding of small-state studies is that these countries are characterized by a particular social ecology. The small size of the social field leads to closely knit communities with highly personalized relationships (Benedict 1966; Bray and Packer 1993; Farrugia 1993, 221; Lowenthal 1987; Randma-Liiv 2002; Sutton 1987). When the social field is small, multiple roles have to be played by relatively few individuals (Benedict 1966). That leads to particularistic social relations that extend over time and are affectively charged. A person's activities and performance are not evaluated based on some universal criteria, but based on *who* he or she is (ibid.). Lowenthal (1987, 35) characterizes small state relationships with the term "managed intimacy" – as their inhabitants meet over a long period of time in different role-relationships, they learn to get along with one another. Furthermore, as the social and economic fabrics of small states tends to be more fragile than in larger states, their inhabitants usually share a common sense of vulnerability (Lowenthal 1987), and a strong national and cultural identity (Sutton 1987, 18-19; Bray 1991). Many of the small states belonging to the SIDS group, are former colonies (Anckar 2020).

In the public sector, close social relationships can be expected to lead to some specific traits and behavioral patterns. Public officials have to operate professionally within a network of people with whom they are personally acquainted, related or connected. The separation of different roles may be difficult or even unrealistic (Baker 1992, 18), thus creating numerous conflicts of interest and the pressure to maintain social relationships over objective and neutral decision-making. As differing opinions can be suppressed by social and cultural sanctions (Baldacchino 2012), speaking up against corruption may not take place (Larmour and Barcham 2006, 180). Nevertheless, the same characteristics that facilitate corruption may also curb it. Although small states can be both homogeneous and heterogeneous in their ethnic, linguistic, religious or racial composition, they tend to be more cohesive (Briguglio 2018b, 11) and trust-based (Jugl 2019). The enhanced personal level trust and high public service motivation deriving from the strong sense of national identity can partly substitute the need for control and reduce communication and monitoring costs.

The above discussion on the three groups of factors is summarized in Table 1. As we see, the special characteristics of small countries can work in both ways – enhancing the corruption risk and reducing it. Although the picture seems similar to the one in corruption research – the theoretical generalizations do not give an unequivocal explanation of the function of countries' size – three important findings emerge: the size of the population is a critical characteristic of countries; countries with small populations are characterized by special traits of economic, political and social systems; and several of these special traits create a favorable environment for corruption. The implications of these findings are discussed in the next section.

Table 1. The explanatory variables of corruption and the special characteristics of small states

Factors	**Explanatory variables analyzed in the corruption literature**	**Special characteristics of small states outlined in small state studies**	**Impact of small country traits on corruption**
Economic factors	Wealth as measured by GDP per capita, economic growth, income distribution and poverty, wages, size of the public sector, import share, economic freedom, openness and restrictions on foreign trade, foreign investment, capital markets, inflation, natural resources, socio-demographic factors	Very diverse level of economic development; many belong to the category of developing states (SIDS); small domestic markets; small open economies; high dependence on international trade; limited competition at home; importance of FDI; potential dependence on development assistance; limited natural resources	Higher economic freedom, openness to trade, reliance on import and external pressure to improve governance potentially reduce corruption Small markets, lack of economic diversification, limited domestic competition and high shares of foreign aid potentially increase corruption
Politico-administrative factors	Political and civil liberties, length of democratic traditions, freedom of press, structure of the government (federalism and decentralization), electoral system, governmental administration, political instability, legal system and rule of law, quality of governance and bureaucracy, merit system, participation	Majority democratic; pressure towards centralization; diverse in terms of ethnicity and religion; informality and personalism; formal institutions missing or under-institutionalized; potential capture by interest groups or interest groups missing; multi-functionality; limits to specialization; constraints on steering and control; constraints to merit system	Democratic institutions, smaller scale of systems, higher transparency, higher accessibility, international donors potentially reduce corruption High informality, "hollow" formal institutions, individual autonomy, small elites, weakness of media, administrative centralization, multi-functionality, and lack of expertise potentially increase corruption
Socio-cultural factors	Trust, religion, ethnic, linguistic and religious fragmentation, urbanization, historic background (e.g. colonialism, transition), geography, gender representation, value system	More cohesive; more trust-based; post-colonial background; remoteness and insularity (SIDS); particularistic relations; managed intimacy; perceived vulnerability; adherence to tradition; importance of independent statehood	Small social field, particularistic relations and high probability of conflicts of interest potentially increase corruption Trust, social cohesion and shared national identity potentially reduce corruption

5. Discussion

Drawing on the increased recognition of context in corruption research and the controversial findings on the function of country size, we aimed to explore the knowledge created by small state studies and its implications for understanding public sector corruption. The overview above indicates that small state studies provide several insights for corruption research. The three groups of explanatory factors brought forward in the academic debate on corruption – economic, politico-administrative and socio-cultural – embrace also the core issues raised in small state studies. Although small states are diverse regarding their socio-economic development, natural resources, ethnic background, history, value system etc., some of the traits related to small size potentially lower the probability of corruption whereas a number of others are seen to increase corruption risks and hinder anti-corruption activities. For example, while openness of the economy, economic freedom, democratic traditions, transparency, and high trust potentially reduce corruption, small states’ lack of economic diversification and lack of competition in combination with weak media systems may lead to dependence on powerful interest groups, creating a favorable environment for state capture and rent-seeking. The problem is further exacerbated by small elites and close personal connections potentially creating numerous conflicts of interest. The social intimacy combined with informal coordination and communication may result in the weakening of traditional Weberian values of public administration like impersonality, neutrality, objectivity, and predictability. These values have been emphasized as crucial in ensuring the rule of law, quality of governance, and meritocratic bureaucracy, all of which function as deterrents of corruption. In short, small states can be structurally more vulnerable to corruption.

Nevertheless, despite the finding that there are several traits of small states that create a favorable environment for public sector corruption, the verdict on the function of country size is still open. In addition to small states being very diverse, corruption itself is a highly complex social phenomenon that goes to the very fabric of states’ political, economic and cultural institutions (Collier 2002). It depends on the specific institutional environment whether the factors relevant for corruption balance or amplify each other’s impact. According to small state studies, the interaction of the factors can be expected to function differently in small countries than in large countries. Importantly, small states are not scaled-down versions of large ones – missing economies of scale and small social fields make them different qualitatively and create a special context for corruption. For instance, Larmour and Barcham (2006, 183) conclude that “the principles underlying the NIS [*National Integrity Systems*] – of mutual supervision between various institutions, checks and balances, independent offices – seem to run into difficulty when applied at a very small and personal scale.” Moran (2001, 385-386) proposes that small countries might be especially vulnerable to the infiltration of criminal money.

Consequently, we argue that the challenge of advancing research on the relationship of country size and corruption is both a theoretical and an empirical endeavor. The combination of the existing knowledge from corruption research and small state studies offers several avenues for further research. In light of the main controversies in the existing corruption research identified above – no agreement on the causal relationship, lack of discussion on the definition of “smallness”, under-theorization of the function of size, and the usage of decentralized units as proxies for small countries – a few propositions can be made. First, despite the endemic shortage of statistical data on small countries acknowledged by several scholars (e.g. Amin and Soh 2019, 26; Briguglio 2018b; Knack and Azfar 2000, 2003), there is more information available today than two decades ago when the most often cited studies on the topic were published. The most recent Transparency International CPI includes data on 180 countries (out of 193), allowing the quantitative analyses to be repeated with more data points. Thus far, comparative international studies seldom include the size of countries among their explanatory variables (Veenendaal and Corbett 2015; Sarapuu and Randma-Liiv 2020). Yet, as Corbett and Veenendaal (2018, 166) convincingly point out in the context of comparative political science, the exclusion of small states can be detrimental to the discipline, and adding them is vital "because they do not conform to the standard battery of theoretical explanations found in mainstream democratization theory" (see also Ólafsson 2020).

Consequently, there is the need to include small countries more in the studies on public sector corruption in order to make use of the existing data and to incentivize the creation of new data and knowledge. However, in this endeavor, the problem of lacking data cannot be solved by using decentralized units of larger (federal) states as proxies for small countries. The main arguments for the substitution are found in the similarities of the basic statistical information, like population, area, budget, and maybe even isolation or socio-cultural distinction. Nevertheless, sub-national units and their governance have some decidedly different characteristics compared to small sovereign countries. While sub-national units deal with a limited number of functions, independent small states have to take care of the same tasks as large states – foreign and defense policy, infrastructure, environment, taxation, etc. Furthermore, sub-national units most often are part of a wider society and can draw on its population in terms of human resources whereas smaller states usually have restricted opportunities for that. These differences mean that there are considerable limitations to using decentralized units of larger states as proxies for small ones.

Second, even when the relationship between country size and corruption is conceptualized as an empirical issue, there is the need for underlying theoretical explanations. As Amin and Soh (2019, 26) argue, future research needs to delve into the causal mechanisms through which the size of the country affects the level of corruption as well as into the interaction of different drivers of corruption in order to find out if they "work independently of each other or substitute or complement one another". There is substantial room for the development of theory on the function of size as a factor of corruption. With regard to the definition of size, the size of a population emerges as a key variable shaping the economic, political and social institutions of countries. While small state studies do not provide us with a clear cut-off point between small, medium or large countries either, the studies underline the importance of "economies of scale" as the central concept explaining the function of size. Due to the research interest, the focus of small state studies is mostly on economies and diseconomies of small scale. However, this knowledge can be used to guide analysis on the relevance of size more generally and also to inquire whether there exists an optimal country size from the perspective of corruption (see Jugl 2019).

In advancing the theoretical understanding of country size as a factor, perhaps the most potential lays in studying the socio-cultural factors. The special social ecology is the key trait that runs through all the spheres of the small state context – economic, political and socio-cultural. As corruption is inherently interpersonal (Philp 2005), we can assume that the nature of relationships in a society shapes the nature of corruption as well. Most of all, the particularistic environment with high personalism and informal communication means that there is a much bigger role for individual choices than in larger states. As Ólafsson (2020, 153) argues in the context of political communication, the underlying assumption that the professional roles of journalists and politicians can be studied without taking into account the actual persons fulfilling the roles needs reframing in small state context. It means that studying formal institutions has less explanatory power in small countries, and it is crucial to look into the choices and perceptions of individuals (Larmour 2008, 237; Larmour and Barcham 2006, 178; see also Transparency International 2022, 35-36). The latter observation has at least two implications for corruption research – first, a more nuanced approach to the definition and measuring of corruption is needed in order to take account of different forms of corruption becoming manifest; and, second, quantitative comparative studies of corruption need to be complemented with detailed and systematic qualitative studies on the socio-cultural factors of corruption.

Last but not least, the findings presented above have implications for anti-corruption practice. The special social ecology of small states forges close connections between people and challenges the typical anti-corruption rules and regulations. As Walton (2021, 9) argues, small size does not always come with cohesiveness, and more heterogeneous states have to address “the social, economic and cultural drivers of identity formation and corruption” to successfully combat corruption. For example, close relationships and multiple roles may make it more difficult to establish conflict of interest rules, and provide effective whistle-blower protection; lack of experts may create revolving door risks; conflict avoidance may hinder effective control, etc. Many of those rules and instruments may have to be adapted to suit the small state environment. Considering the openness of small countries to the global pressures through business, international organizations and foreign aid, the international anti-corruption policies and their influence on small state policy-making could be of further interest. Closer attention being paid to the potential tension between the global best practices type of policy learning on the one hand, and the need to adapt those best practices to the small state context, on the other, could provide interesting information not only on the anti-corruption policies in small states but also on the transferability and universality of policy instruments in general.

6. Conclusion

The article aimed to contribute to the academic debate on public sector corruption, seeking to understand the impact of societal norms and institutions as the causes of corruption. More specifically, it aspired to take an in-depth look into small state studies and to explore the relevance of this knowledge for corruption research. The analysis was inspired by the lack of solid explanations on the function of country size in corruption research. The analysis showed that small state studies to not provide an unequivocal explanation on the function of country size either. The special characteristics of small countries work in both ways – they enhance the corruption risk as well as reducing it. However, the studies define the size of a population as a critical characteristic of countries; explain the impact of small populations on the economic, political and social systems of countries; and outline the special corruption risks related to the limited scale. The article substantiates the need for more studies into the causal mechanisms of country size and delineates several avenues for further research. Most importantly, small states need to be included in international comparative studies on corruption more than has been the case thus far, quantitative comparative research needs to be complemented with detailed qualitative studies, and considerable progress in knowledge can be expected from linking the socio-cultural factors of corruption with country size. These further steps will benefit both the academic corruption research and international anti-corruption practice.

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