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Abstract

The temporal persistence and geographical prevalence of corruption in the world have provoked a vast amount of research into its causes. Low civil service remuneration, especially in less-developed nations, is believed to be an important contributing factor to corruption. The assumption is that, when salaries are low but expectations for service remain high, government officials may demand more compensation from informal or even illegal channels than what is officially sanctioned; hence, corruption arises. Accordingly, increased pay level is assumed to be effective in deterring corruption. Using China as a case, we argue that the relationship between civil service pay and corruption is not as simple as suggested. The empirical evidence gathered from China casts doubt on the assumed connection between the two to debunk the myth that increasing civil service pay contributes to the control of corruption. The paper also presents the policy implications of the above analysis for human resource management and civil service governance.

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Does Increased Civil Service Pay Deter Corruption? Evidence from China

Corruption, defined as obtaining private gain by public power,¹ is commonly seen as a conduct driven by explicit or implicit economic incentives. Thus, many scholars consider it important to examine embedded economic motivations in corrupt activities. This has led to increased scholarly curiosity to rivet on the level of compensation for civil servants as compared with the service provision they render, so as to assess the implications of income disequilibria for the likelihood of corruption. The underlying assumption is that, when salaries are low but expectations for service remain high, government officials may demand more compensation from informal or even illegal channels than what is officially sanctioned; hence, corruption arises. A logical solution to corruption that follows from the above is to raise civil servant salaries (Rijckeghem & Weder, 2001; Tanzi, 1998). This solution becomes particularly seductive if people are interested in “one-size-fits-all” recipes for fighting corruption or attempting to follow successful anticorruption “epitomes” such as Singapore and Hong Kong which do award high levels of remuneration and benefits to civil servants.

This article argues against the assumption that increased civil service pay deters corruption. Based on empirical data from China which reveal parallel dramatic increases in both the levels of corruption and of civil service pay in recent years, we find a limited role of higher remuneration in controlling corruption in public personnel management. Corruption prevention is, rather, a multifaceted mission which requires concerted efforts in various areas

of human resource management and beyond. In what follows, we first examine the prior literature on the issue. Next, we explore how the remuneration structure of the Chinese civil service has evolved to demonstrate a general trend of escalation. That is then followed by a presentation of corruption trends in the same period to examine whether increased salaries have caused corruption to level off or decrease. In the conclusion section, we summarize our findings and discuss their implications for human resource management.

Theorizing the Linkage between Civil Service Pay and Corruption

“What causes corruption?” is a highly debatable question and the existing academic literature provides no shortage of answers. Though none of the explanations have won unanimous support, low civil service pay has been widely accepted as an important contributing factor for corruption. Scholars point to a strong negative relationship between the level of civil service salaries and incidences of corruption. They contend that poorly paid civil servants are more vulnerable to venality and prone to illicit and unethical rent-seeking, as suggested by the fact that less-developed countries often top the list of most corrupt nations (Rijckeghem & Weder 2001). Specifically, the lower compensation level in the public sector as compared to that of the private one is reckoned as a key factor in the spread of corruption (Mahmood, 2005; Wei, 1999). This view is also shared by Chinese scholars (see

Wu, 2008). The idea of boosting civil servant pay to deter corruption has even attracted the attention of China's top leaders. The former Premier Zhu Rongji once said that, although China could not afford a high wage policy, it might still be able to increase civil servant pay for anti-corruption purposes (Takung Pao, 2000). These views are backed up by some theories concerning the relationship between civil service compensation and corruption such as the theory of relative deprivation, the notion of need-based corruption, and the "shrinking" and "fair-wage" hypotheses.

Relative Deprivation Theory. Following Emile Durkheim's analysis of *anomie*, Robert K. Merton (1938) was among the first to develop the idea of relative deprivation for social analysis (Giddens, 1972, p. 184). This idea was further formulated into a theory of relative deprivation in a number of studies conducted by different scholars: Davis (1950), Gurr (1970), and Crosby (1976). Despite of different foci, these studies all concur with the assumption that people feel deprived when, in social comparisons, they perceive a failure to obtain the same outcomes as others. Such unfavorable comparison or "felt distributive injustice" (Crosby & Gonzalez-Intal, 1984, p.141) has intriguing implications for one's behavior and may lead to social deviance. While Gurr (1970) sees it as the primary motivation for participation in collective political violence and rebellions, others argue that feelings of relative deprivation may contribute to unethical behavior such as corruption. Kulik, Fallon, and Salimath (2008) further suggest, that when individuals feel they have been

unjustly deprived of something perceived as an entitlement, they may develop negative self-feelings that, in turn, result in socially unacceptable behavior or foster the conditions underlying the emergence of corruption.

Need-based vs. Greed-based Corruption. While the relative deprivation theory pinpoints the social conditions contributing to the spread of corruption, it offers no explanation as to why some individuals are more susceptible to corruption than others. Motivations for corruption admittedly abound, they can nevertheless be classified into two major categories: need-driven and greed-driven. A corrupt act is need-driven when grossly underpaid low-level officials accept bribes to pay for basic necessities, such as food or schooling for their children (Gupta 2001; Pilapitiya 2004). Alternatively, corruption can be attributed to the insatiable avarice of individuals for wealth (Wraith & Simpkins, 1963). Greed-driven corruption is more apparent in corruption cases of well-paid officials in higher level positions, as they do not count on bribery for survival.

Efficiency Wage Models. The “efficiency wage” hypothesis has been developed on the premise that labor productivity may increase as a result of paying more in salaries and wages than the market-determined minimum rates. The provision of such efficiency wages is expected to stimulate high morale, prevent shirking, and reduce employee turnover (Akerlof & Yellen, 1986; Leonard 1987). Specifically, this hypothesis has been applied to the study of corruption by virtue of two efficiency wage models, the “shirking hypothesis” and the

“fair-wage model,” which differ in terms of the size of the salary increase required to deter corruption. According to the shirking hypothesis, due to the difficulty with performance monitoring, some employees may be inclined to “shirk” instead of doing what is expected. Thus, managers may pay wages above the market clearing rate to prevent shirking. This may have an impact on corruption because higher salaries increase the cost of job loss, while penalties for corrupt actions entail not only jail terms, but also job losses (Rijkeghem & Weder, 2001). Increased salaries thus raise the stakes of engaging in corruption. The fair wage-corruption model, in contrast, contends that officials find corruption tempting only when they see themselves as not receiving a “fair” income, rather than acting as benefit maximizers. “Fairness” is determined by comparing a number of factors, such as the salaries of peers within or beyond their workplaces, the market clearing rate, subsistence requirements, social expectations, and the status of civil servants (Mahmood, 2005). The perception of failure to receive fair remuneration not only renders public officials vulnerable to bribery, but also lowers the moral costs of corruption (Abbink, 2002; Tanzi, 1994).

In various ways and to different degrees, these theories and models accept a close relationship between remunerative incentives and socially deviant behaviors such as corruption. They assert, implicitly or explicitly, the effectiveness of higher civil service salary as a strategy for controlling corruption

The Increase of Civil Service Pay in China: Scope and Magnitude

The existing literature on the question of whether increased civil servant pay deters corruption tends to rely more on theoretical postulates than on empirical evidence. This is largely due to a paucity of information as data on civil servant salaries and levels of corruption are often scattered or simply inaccessible. In addition, the impact of salary changes on civil servants' behavior, if any, may not manifest itself immediately and directly. It is likely that corrupt officials act indifferently to small increments in their salary in the near term. In this study, we pay particular attention to multidimensional and longitudinal empirical evidence in gauging the impact of civil service compensation on corruption control. We do so in two separate steps: first, to examine whether official salaries have actually been increasing; and second, to explore whether there has been a corresponding declining trend in instances of corruption.²

The civil service pay structure is highly centralized in China. Although four major overhauls of the pay system took place in the history of the People's Republic of China (PRC), low-salary policy for civil servants remained largely unchanged for about five decades until the late 1990s.

Just as Cooke (2005, p. 294) correctly points out, "for half a century, the state has largely maintained a high-employment, low-wage, low-consumption pattern of the economy."

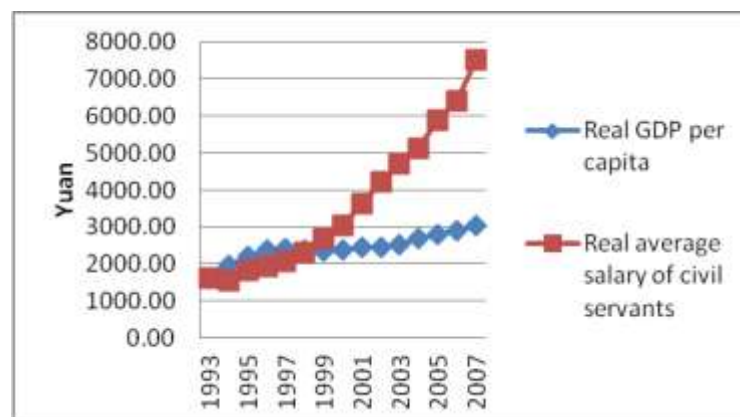
This situation has been markedly reversed since 1997 as a result of six major pay raises. The then Premier Zhu Rongji promised to double the salary of civil servants within three years, projecting in an official speech in 2000 that “as a whole, 100% of pay raises will be accomplished” (Singtao Daily, 2001). The dramatic change in the wage policy for government employees may be attributed to several factors. The most obvious one was the intention to increase the morale of civil servants whose salaries had been chronically low. But there were other deeper considerations. In the aftermath of the 1997 Asian financial crisis, China faced the thorny problem of how to avoid economic stagnancy and seek sustainable development. The new wage policy thus became an integral part of the government strategy of increasing spending to boost domestic demand. The concern over corruption played an equally, if not more, important role in the decision about pay increases. It was reported that Premier Zhu Rongji stated in the same speech as quoted above that “though we are unable to afford high salaries, we may still use salary increments to deter corruption” (Takung Pao, 2000).

The reorientation of the civil service pay policy manifested itself in six consecutive pay raises in 1997, 1999, 2001, 2003, and 2006. The increments were by no means small. For example, the overall salary paid to state organs and social organizations increased by 21 percent on average in 2001, as a result of two separate pay increases that year in January and October. The pay rate jumped by 23 percent again in 2007, one year after the 2006 pay raise

required by the central government. Consequently, the salary of civil servants in 2007 was 8.38 times that of 1993. Even if inflation is taken into consideration, the real salary increase of civil servants has been in double digits since the late 1990s.³

The rapid growth in civil service pay can also be seen in other ways. First, the average annual pay of Chinese civil servants exceeded the country's GDP per capita in 1999 for the first time and has remained larger ever since. The ratio of civil service pay to GDP per capita increased from 1.26:1 in 2000, to 1.90 in 2004, to 2.21 in 2006, and reached 2.47 in 2007 (see Figure 1). Second, the relative ranking of civil service pay among all occupational categories rose quickly. As indicated by Table 1, 2001 was a watershed year in which the relative ranking of civil service pay was in the middle (0.50) for the first time in the period. Even though the ranking declined slightly between 2003 and 2005, it reached its highest position in 2006 and 2007.

Figure 1 Comparison between Civil Service Pay and GDP per capita (yuan), 1993-2007



Source: China Statistical Yearbook, 1994-2008.

Note: Real average salary is nominal salary deflated by the Consumer Price Index (CPI) while real GDP per capita was deflated by the indices of GDP per capita. In both cases, 1985 is set as the base year where CPI and

the index of GDP per capita are equal to 100.

Table 1 Ranking of Civil Servant Salary among Various Occupational Categories, 1993-2007

Year	Total categories (A)	Absolute ranking (highest) (B)	Relative ranking (A/B)
1993	16	10 th	0.63
1994	16	10 th	0.63
1995	16	12 th	0.75
1996	16	11 th	0.69
1997	16	9 th	0.56
1998	16	10 th	0.63
1999	16	9 th	0.56
2000	16	9 th	0.56
2001	16	8 th	0.50
2002	16	8 th	0.50
2003	19	10 th	0.53
2004	19	10 th	0.53
2005	19	10 th	0.53
2006	19	9 th	0.47
2007	19	8 th	0.42

Source: Compiled by authors with reference to the National Bureau of Statistics Population and Labor Branch 1994-2008.

Note: The occupational categories were divided into 16 groups from 1993 to 2002 and 19 groups after 2003. The relative ranking is the number of total categories divided by the value of absolute ranking. The lower value denotes a higher rank.

The State and Trend of Corruption: Has It Declined?

Has the rapid and substantial increase of remuneration for civil servants led to a decline of corruption in China? The answer is no. Corruption has remained a deep concern among the

general public and continued to constrain the governing capacity of the Chinese government and the public trust it has strived to attain. As Chen and Dickson (2008, p. 795) note, “corruption has ranked at or near the top of the list of China’s worst problems in most public opinion polls.” For example, in an Internet survey conducted by the *People’s Daily* in 2002, corruption stood at the top of the ten biggest concerns of Chinese people (Manion, 2004). The survey results presented in the *2005 Blue Book of Chinese Society* revealed that respondents considered corruption the second most important among 12 serious problems facing the country (Ru et al., 2004). Concurring with public perceptions, our data show some alarming trends in the development of Chinese corruption in recent decades.

A Rapid Increase in “Grand” and “Major” Corruption Cases. The most obvious evidence is the sharp increase in the number of “grand cases” (*da an*) and “major cases” (*yao an*). In China’s official terminology, “grand cases” refer to those corruption cases that involve large sums. Once the money incurred in a graft, bribery, or embezzlement case exceeds a certain amount, the case will be classified as a “grand” one. For recent decades, the “threshold” for grand cases has been raised considerably and consistently, which indicates that the sums involved in corruption cases are generally getting larger. In the 1980s and early 1990s, bribery at or above 10,000 *yuan* and embezzlement at 50,000 *yuan* were categorized as grand cases. Since 1998, the sums have been increased to 50,000 *yuan* and 100,000 *yuan* for bribery and embezzlement respectively (China’s Supreme People’s Procuratorate,

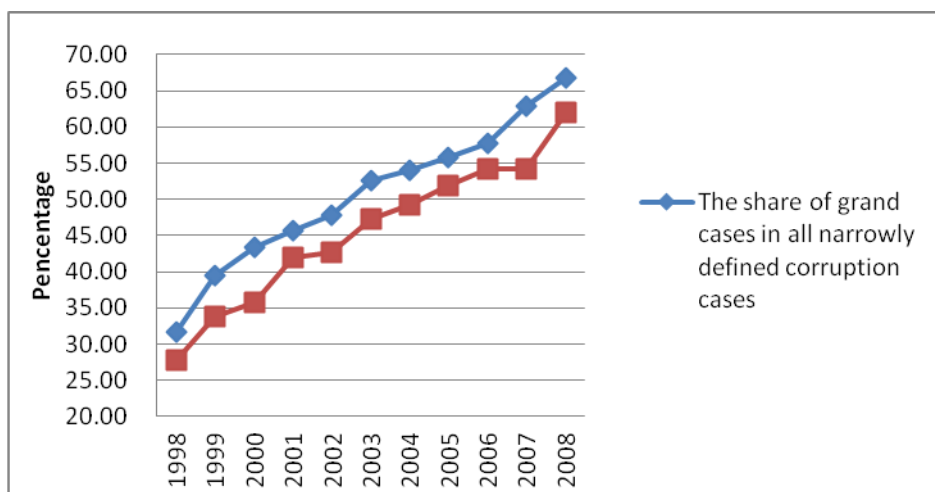
1988-2007; Guo, 2008).

“Major cases” are defined as those implicating high-ranking officials without any regard to the amount of money. Specifically, corruption of senior party and state officials at the rank of county level or above is regarded as a “major” case. Unlike the changing criteria for grand cases, the definition of major cases has remained intact.

We use the data provided by China’s Supreme People’s Procuratorate (SPP) to illustrate the trends in “grand” and “major” corruption cases. The SPP’s annual report, delivered at the plenary session of the National People’s Congress, provides national data and is subsequently published in the *China Procuratorial Yearbook*. We have compiled two sets of data based on this source. One consists of corruption cases in a narrow and more strictly economic sense, including graft, bribery, embezzlement, and misappropriation. The second includes all of the above, plus cases involving the abuse of power in a broader sense, such as nepotism, privilege seeking, dereliction of duty, and other types of misconduct. The growing trend of corruption is confirmed by both sets of data. Our statistics show that the share of grand corruption cases in the narrow sense increased from 31.68 percent to 66.88 percent between 1998 and 2008, with an average annual increase of 50.70 percent, while the share of grand cases (in the broad sense) rose from 27.69 percent to 62.02 percent, with an average increase of 45.53 percent (Figure 2). It should also be noted that the share of grand cases is, in fact, underestimated because, as illustrated earlier, the “threshold” amount to qualify as a grand

case has been raised several times in recent years.

Figure 2 Growth of “Grand” Corruption Cases (%), 1998-2008

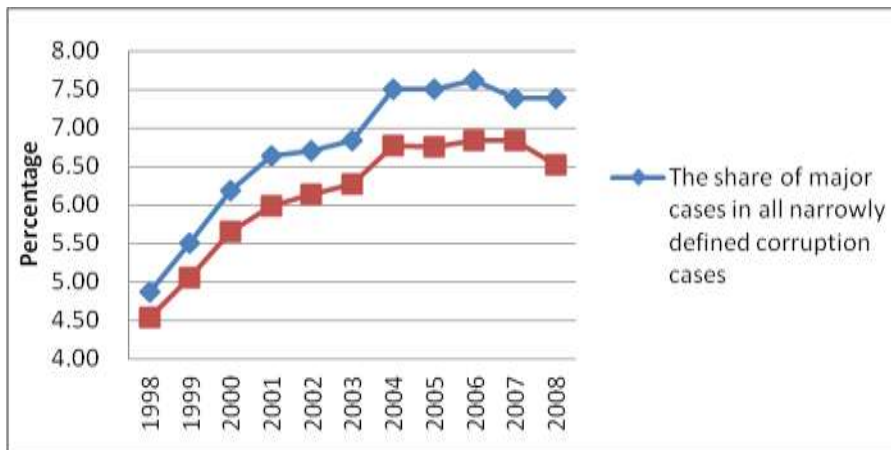


Source: China’s Supreme People’s Procuratorate 1999-2008; China Law Yearbook Editorial Board, 2009.

Notes: 1) The share of grand cases is the total number of filed cases divided by the number of grand cases.
2) Corruption in a narrow sense includes graft, bribery, embezzlement, and misappropriation only, while broadly defined corruption includes all the above plus other types of power abuse such as nepotism, privilege seeking, and dereliction of duty.

The statistics for major corruption cases present a largely similar picture. The number of major cases in the two sets of data, in the same period, grew from 4.87 percent to 7.38 percent, and 4.53 percent to 6.53 percent respectively (Figure 3). Thus, regardless of how corruption is defined (narrowly or broadly) and the nature of cases (grand cases or major cases), a trend of rising corruption is manifest.

Figure 3 Growth of “Major” Corruption Cases (%), 1998-2008



Source: China’s Supreme People’s Procuratorate, 1999-2008; China Law Yearbook Editorial Board, 2009.

Notes: same to Figure 2.

Soaring Sums Incurred in Corruption Cases. The amounts of money involved in corruption cases have also dramatically increased in recent years. Yang (2004, p. 219) reports that “[w]hereas in the immediate post-Mao years the amount of money involved in each corruption case rarely surpassed the 100,000 *yuan* mark, by the late 1990s many corruption and financial fraud cases involved tens of millions and even billions of *yuan*.” That the stakes of corruption cases have risen can be seen from empirical evidence, as follows. In Guo’s (2008) databases,⁴ the average sum involved in major cases of corruption jumped from 17,000 *yuan* in the 1980s to more than 3 million *yuan* in 2004, accompanied by a sharp increase in the number of cases involving more than 1 million *yuan*. The annual SPP reports indicate that the number of the “extra-grand” cases increased tenfold every four years. Cases disclosed by the Investigation Bureau of the CCP Central Commission for Discipline

Inspection provide good illustrations of this trend toward ever-higher sums. In 2000, the case of Wang Leyi, the deputy director of the General Administration of Customs of China, involved 1.46 million *yuan*. The Vice-Governors of Hebei and Anhui Provinces, charged for corruption in 2003 and 2004, received bribes worth 9.36 and 5.17 million *yuan* respectively. The sum involved in some extra-grand cases reached as much as 20 million *yuan* in 2005. The head of the transportation bureau in Guizhou Province, for example, accepted 24.61 million *yuan* worth of bribes while Liu Jinbao, Vice-Chairman of the Bank of China, made just slightly less – taking a total of 23.46 million *yuan* in illicit income (Investigation Bureau of the CCP Central Commission for Discipline Inspection 2002-2005). It should be noted that the soaring sums involved in corruption cases are not driven by inflation since the Consumer Price Index only doubled between 1990 and 2007.

Long Latency Period as an Indicator of Growing Difficulty in Corruption Control.

Latency period (*qianfuqi*) is defined as the time lag between the occurrence of a corrupt activity and its detection. A number of studies indicate that the latency period has expanded gradually in the reform era (see Guo, 2008; Wedeman, 2008). One may argue that the prolonged latency can be attributed to slack law enforcement, but given that periodic and increasingly intense anti-corruption drives have been frequently launched in China, we have good reason to believe that the prolonged latency indicates that corruption has become more complex and easier to conceal. To that extent, timely detection becomes all the more difficult.

All this indicates that corruption is far from being curbed in China. Its state has been aptly characterized by scholars as showing a “surge” (Johnson & Hao, 1995), “acceleration” (Manion, 2004), and “growing in complexity” (Gong, 2008). Corruption has survived periodic and feverish anti-corruption crackdowns, fierce “audit storms” (*shenji fengbao*), and repetitive moral education conducted under the official warning that fighting corruption is a struggle of “life and death” and become more threatening. It continues to haunt Chinese society in various forms and, in spite of various anti-corruption efforts, “the country still ranks among the more corrupt in the world” (Manion, 2009, p.5).

Conclusion: Implications for Civil Service Management

Our data show that the effect of civil service pay raises on deterring corruption is tenuous in China and, hence, relying on pay increase as an anti-corruption strategy is far from adequate. The temporal persistence and geographical prevalence of corruption in the world have provoked a vast amount of research into its causes. Low civil service remuneration, especially in less-developed nations, is believed to be an important contributing factor as it erodes employee incentives, while higher salary rates raise the stakes of engaging in corruption as corrupt officials risk losing more when caught. We argue in this article that the relationship between civil service pay and corruption should be treated with

caution. . As our findings indicate, civil service pay in China has steadily and substantially increased in the past decade as a result of six major pay increments and some minor upward adjustments. The scope and magnitude of each increment were large and significant enough to indicate a fundamental change to the long-existing “low wage and low consumption” policy that had dominated pre-reform China. Salary rates of government employees have increased not only in absolute terms but also in relation to other social groups, as enlarged differentials between the workforce in the government and those of other sectors demonstrate. At the same time, however, corruption in the country remains uncontrolled. Despite numerous anti-corruption campaigns and considerable civil service pay increments, corrupt officials have continued to risk their career, and even their life, for the gains made possible by corrupt activities.

Our findings have important implications for human resource management. We challenge the conventional view that the corruption of public personnel is driven by economic needs or personal voracity caused by resource scarcity. Such a view leads people to perceive corruption as a particularly acute problem with civil service management in less-developed countries since their civil servants are often poorly paid. The empirical evidence from China suggests that the connection between low salaries (and thereby the desire or need for money) and corruption is more apparent than real. We argue that the genesis of corruption is a complex social issue that cannot be simply tackled at the level of

individuals. When the social demand for corrupt services is high, legal institutions are weak, and the oversight system remains impotent, pay increases add little to corruption control.

Specifically, the Chinese experience is illustrative on two fronts with regard to human resource management. First, raising public sector remuneration is not a solution to corruption. The utility function of civil servant pay in curbing corruption is more nuanced than it has been suggested as improvement in formal salaries cannot effectively reduce corruption in a country where plenty corruption opportunities exist. Second, in line with the findings of Di Tella and Schargrotsky (2003), we see the impact of salary raises on corruption contingent on other necessary conditions in human resource management. To control corruption requires, for example, integrity enhancement in personnel recruitment, training, appraisal, and promotion. Macro-level institutions such as accountability, transparency, and equal opportunities in public personnel management must be strengthened as well. Nevertheless, the findings in this article must be used judiciously because they are strictly based on China's data. New and long-term data, especially those from other countries, are needed to increase the general applicability of our study.

In short, human resource management is socially embedded. Effective civil service governance is contingent on whether successful improvements can be made in both the micro-level incentive structure of individual civil servants and the macro-level institutions which shape the performance and conduct of public personnel.

Notes:

1. See, for example, Joseph Nye's definition of corruption as "behavior which deviates from the formal duties of a public role because of private-regarding (close family, personal, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence" (Nye, 1967, p. 417).
2. Our data were gathered from official documents, statistical yearbooks, newspaper reports, and other public sources, which cover roughly 15 years from the early 1990s to the present. We chose 1993 as the starting year because China's current civil service system was first introduced in 1993 and a corresponding remunerative system was simultaneously adopted.
3. The *China Statistical Yearbook* in corresponding years recorded these salary increases.
4. Guo established two databases. Database A covers 68 major cases of corruption committed by public officials at or above vice-provincial and vice-ministerial level between 1978 and 2005. Database B consists of 526 cases involving middle-level public officials at the county and bureau levels from 1978 to 2004. See Guo (2008).

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