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Corruption and Development

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Abstract

Corruption occurs throughout the world but is of special concern in poor countries. Widespread corruption is a symptom that the state is functioning poorly, and ineffective states can retard and misdirect economic growth. The economic costs and causes of corruption are reflected in the empirical evidence and the theoretical literature. It is useful to differentiate between corruption that is concentrated at the top and centralized corruption involving many payers and recipients. The policy options are explored for developing countries with leaders who are committed to reform. Structural reform is often necessary in such areas as tax and customs collection, regulation of private business, and development of state-sponsored infrastructure projects. Furthermore, basic governmental reform is often required to increase the transparency and accountability of the public sector and to facilitate the organization of independent oversight groups. Most developing countries must also face the difficult task of civil service reform and improvement of enforcement capabilities. The World Bank can assist such anticorruption efforts as part of its growing interest in the creation of institutional structures favorable to shared growth.

Corruption and Development

Susan Rose-Ackerman

Widespread corruption is a symptom that the state is functioning poorly. Ineffective states can retard and misdirect economic growth. International aid and lending organizations have begun to focus on corruption control as part of a general rethinking of their role in the post–cold war world. Creating institutional structures favorable to economic development is a growing priority.

Corruption occurs throughout the world but is of special concern in poor countries. Those who pay and receive bribes can expropriate a nation's limited wealth, leaving little for its poorest citizens. With systemic corruption, even countries well endowed with natural resources may fail to develop in a way that benefits ordinary citizens. Poor, highly corrupt countries face particular challenges even when controlled by reform-minded rulers. Reform of public institutions and government policies are necessary, but a country's poverty limits available options.

Since corruption is usually taken to be synonymous with evil, its mere existence is often a cause for concern. An economist, however, can arrive at that conclusion only after understanding corruption's impact on the efficiency and equity of the economic system. If its impact is benign, then the economist will argue for law reform since there are costs, both psychological and financial, in labeling illegal a practice that is actually functional. Therefore, I begin with an overview of the costs and causes of corruption as reflected in the empirical evidence and the theoretical literature. I then consider the difference between corruption that is concentrated at the top and decentralized corruption that involves many payers and recipients. With this background I

focus on the policy options for developing countries whose leaders are committed to reform and ask what role the World Bank can play in assisting these efforts.

Costs and Causes of Corruption

All states, benevolent or repressive, control the distribution of valuable benefits and the imposition of onerous costs. The distribution of these benefits and costs is generally under the control of agents who possess discretionary power. Private individuals and firms that want favorable treatment may be willing to pay these agents. But what is wrong with paying for what you want? That is, after all, the basis of the market system. The problem arises from the fact that the payee is an *agent*. The agent is responsible to a principal, whose goals will seldom line up with those of the "paying customer." Low-level bureaucrats are agents of superior officials, ministers are responsible to the governing coalition, elected officials are responsible to the voting public, judges are responsible to legal norms. Payments are corrupt when they are illegally made to public agents with the goal of obtaining a benefit or avoiding a cost. These payments are not merely transfers. They affect the behavior of both payers and recipients. Societies may set the border between legal gifts and illegal payoffs at different points, but in thinking about where it ought to fall, one must ask whether payments to agents further or undermine public goals. An economic analysis of corruption seeks to determine the efficiency consequences of purchasing benefits from public agents through bribery.

Recent cross-country studies indicate that strong legal and governmental institutions and low levels of corruption have beneficial effects on economic growth and other economic

variables.[1] Because the corruption indices are highly correlated with other measures of bureaucratic efficiency, such as the level of red tape and the quality of the judiciary, these studies are unable to distinguish the marginal effect of any one of these measures holding the others constant. The data are consistent with the claim that corruption is a function of the level of red tape, but the level of red tape is itself partly a function of the prevalence of corruption. Corruption is a symptom of other underlying problems rather than an independent variable.[2] No region has escaped the negative impact of corruption. For example, one recent study found that foreign direct investment (FDI) was negatively associated with high levels of corruption. There was nothing special about the East Asian countries—for them as well, corruption discouraged FDI (Wei 1997). A second study found that industrial policy can be undermined by corruption. Once again, the Asian countries were not an exception (Ades and di Tella 1995).

To go beyond these macroeconomic findings, we need to isolate the structural features that create corrupt incentives. Six broad, overlapping categories capture the most important situations that create corrupt incentives.

- The government may be charged with allocating a scarce benefit to many individuals and firms using legal criteria other than willingness to pay. *Bribes clear the market.*
- Officials in the public sector may have little incentive to do their jobs well given official pay scales and the level of internal monitoring. *Bribes act as incentive bonuses.*
- Private firms and individuals seek to reduce the costs imposed on them by government in the form of taxes, customs duties, and regulations. *Bribes lower costs for those who pay them.*

- Governments frequently transfer large financial benefits to private firms through procurement contracts, privatizations, and the award of concessions. *Bribes affect the level of monopoly rents and their division between private investors and public officials.*
- Bribes can substitute for legal forms of political influence. *Bribery of politicians buys influence, and bribery by politicians buys votes.*
- The judiciary has the power to impose costs and transfer resources between litigants. *Bribes can override legal norms.*

Bribes as Payments that Equate Supply and Demand

Governments frequently provide goods and services for free or sell them below market prices. Often dual prices exist. In China, for example, some producer goods are sold at both state-subsidized prices and on the free market. In 1989 the market price of coal was 674 percent of the subsidized price. Not surprisingly, payoffs to obtain supplies at state prices were reportedly common.[3] Multiple exchange rates and import quotas are frequent sources of payoffs. When the supply of credit and the rate of interest are controlled by the state, bribes may be paid for access.[4]

The incentives to make payoffs are clear enough in these cases, but what are their efficiency consequences? Suppose, first, that the briber is qualified to receive a scarce benefit but is required to pay for it. If the corrupt market operates efficiently, the service will be provided to the applicants with the highest willingness to pay. Consider, however, the ways in which inefficient or unfair results can arise. First, the goals of programs designed to benefit the needy or the well qualified will be undermined if the services are provided only to those with the highest

willingness to pay.[5] Second, corrupt markets are less open than competitive ones (Cartier-Bresson1995; Gambetta 1993; Rose-Ackerman 1978). The illegality of bribery induces participants to spend resources on keeping the transaction secret. Information about bribe prices will not be well publicized, and prices may be sticky. Some potential participants may refuse to enter the market because of moral scruples and fear of punishment, and public officials may limit their dealing to insiders and trusted friends. Furthermore, a corrupt system may be not only less competitive but also more uncertain than a legal market.[6]

In practice, many officials can exercise monopoly power by determining the quantity of services provided. The official, like a private monopolist, may seek to set supply below the officially sanctioned level to increase the economic rents available for division. Conversely, under other conditions the corrupt official might seek to provide an increased supply if the government has set the supply below the monopoly level. In other situations, the service is not scarce, but is, like a passport or a driver's license or an old age pension, available to all who "qualify." Officials, however, may have sufficient monopoly power to create scarcity either by delaying approvals or withholding them unless paid bribes (Paul 1995).

Finally, bribes are frequently paid to permit the unqualified to obtain a benefit. Shleifer and Vishny (1993, p. 601) call this "corruption with theft." Students pay to alter the results of university admissions tests; patients pay doctors to declare them eligible for disability payments. Firms that are not creditworthy may obtain loans. The unqualified will often have the highest willingness to pay, since they have no legal way to obtain the service.

Bribes as Incentive Payments for Bureaucrats

Bribes can be incentive payments for good service. Firms and individuals may pay to avoid delay. In some economic models bribes have desirable incentive properties. For example, payoffs to those who manage queues can be efficient since they give officials incentives to both work quickly and favor those who value their time highly (Lui 1985). The corruption of tax collectors can be efficient as long as the government can impose a binding overall revenue constraint.[7] But toleration of the routine corruption of those who manage queues and collect taxes is extremely problematic. First, the models assume that officials have only limited discretion. For example, tax collectors "discover" the tax liabilities of citizens and firms (Flatters and MacLeod 1995). In reality, they might creatively "create" that tax liability as a bribe extraction device, producing an arbitrary and unfair pattern of payments. Second, alternatives exist that avoid the costs of illegal payment systems. Queues can be managed through differential fees. Revenue collection offices may be permitted to retain a portion of the taxes they collect. Third, firms pay bribes to obtain certainty, but payments made to increase certainty for individual firms result in a wide variance in conditions across firms (Rose-Ackerman and Stone 1996).[8]

In short, bribes act as incentive payments to public officials. A policy of active tolerance, especially by outside aid donors such as the World Bank, is likely to be destructive of the prospects for long-term reform. Payoffs that are widely viewed as acceptable should be legalized, but not all "incentive pay" schemes will actually improve bureaucratic efficiency. They may, instead, encourage inefficient efforts to maximize financial rewards.

Bribes to Reduce Costs

Governments impose regulations, levy taxes, and enforce criminal laws. Individuals and firms may pay for relief from these costs. They may collude with tax collectors and customs officials to lower the sums collected. The economic impact of bribes paid to avoid regulations, supersede the criminal law, and lower taxes depends on the efficiency of the underlying programs that are subject to corrupt distortions. Given an inefficient legal framework, payoffs to avoid regulations and taxes may increase efficiency.[9] This defense of payoffs is commonly espoused by both foreign and domestic investors in the developing world. It is a pragmatic justification that grows out of frustration with the existing legal order. It attempts to justify corruption carried out to obtain benefits to which one is not legally entitled.

But are individuals and firms obligated to obey only those laws they judge to be efficient and just? In the industrial world, industry's response to rules it finds burdensome is not generally to bribe officials or enlist the help of criminals to evade the law. Instead, firms work to change the laws, make legal campaign contributions, lobby public agencies, and bring lawsuits that challenge laws and regulations. One can complain about the importance of wealth and large corporations in political life, but well-documented lobbying activities and campaign contributions are at least superior to secret bribes in maintaining democratic institutions. Some of the same firms that engage in legal political activities at home feel less constrained about violating laws in developing and transition economies. Since the United States outlaws bribes paid abroad to obtain business, U.S. companies face a domestic legal constraint.[10] But the perceived importance of that constraint

suggests that multinationals do not generally feel an obligation to obey the law in the developing countries in which they operate.

Unfortunately, investors will pay bribes not only to avoid *inefficient* rules and taxes. They will want to reduce the impact of *all* state-imposed burdens, justified or not. It seems strange to tolerate business firms' judgments that a well-placed payoff is justified because it increases their profits. Such an attitude can do serious harm in nations struggling to build viable states. These states need to develop public institutions that translate popular demands into law, that establish a credible commitment to the enforcement of these laws, and that provide legal recourse to those who think they have been wronged. If instead investors and ordinary citizens decide on their own which laws are legitimate, the attempt to create state institutions will founder. Law reform can support state legitimacy if the end result is a set of legal constraints that are based on general public goals, such as economic efficiency and fairness. International efforts to reduce the acceptability of bribery and increase its costs can help change behavior, but the role of individual firm policies and codes of conduct should not be underestimated.

Bribes to Obtain Major Contracts, Concessions, and Privatized Firms

Corrupt payments to win major contracts and concessions and privatize companies are generally the preserve of large businesses and high-level officials. Is there anything distinctive about such corruption other than the size of the deals? They appear analogous to cases in which government disburses a scarce benefit. Does the scale of the corrupt deal and involvement of high-level officials change anything?

One difference is the likelihood that rulers are effectively insulated from prosecution and can thus be less restrained in their corrupt demands than lower-level officials. A second difference is that those who obtain benefits through the bribery of low-level officials are rarely thought to behave inefficiently once the benefit is obtained. In contrast, for major deals the contrary argument is often made. But is there anything to it? To isolate these distinct issues, consider a logging concession obtained corruptly by a company over the higher bids of competitors. If corruption does not restrict entry and if the official cannot affect the size of the concession, the high briber is the firm that values the benefit the most. The losses are the extra taxes that must be collected and the forgone benefits of public programs not undertaken. The payoff may be "just" a transfer, but it is harmful to efforts to reduce poverty and use growth to raise the well-being of ordinary citizens.

Now consider the firm that has obtained a secure, long-term timber concession at a bargain price even when the bribe is added in. If it operates in the international market, its subsequent actions should depend on the market for timber. It seeks to maximize profits, and the concession payment is a sunk cost. This claim of no impact on firm behavior is too simple to reflect reality. The operative terms are *secure* and *long term*. Corruption introduces uncertainties into the economic environment that may give the firm an inefficient short-run orientation.[11] There are two reasons for this. First, the concessionaire may fear that those in power are vulnerable to overthrow because of their corruption. A new regime may not honor the old one's commitments. Second, even if the current regime remains in power, the winner may fear the imposition of arbitrary demands once investments are sunk. Competitors may be permitted to enter the market, or the contract may be voided for reasons of politics or greed.[12] Thus, the corrupt firm may cut

down trees more quickly than it would in less corrupt countries. It may be reluctant to invest in immovable capital that would be difficult to take out of the country.

In some countries systemic high-level corruption coexists with strong growth. These are states, mainly in Asia, that have managed to create relatively secure economic environments so that state-supported deals represent credible long-term commitments (Campos and Root 1996). Even in such countries, however, corruption is not actually beneficial (Wei 1997). In addition to its distributive costs, corruption distorts allocative choices. This is most obvious during periods of economic downturn that bring corrupt relationships into relief. Those who benefited from corruption and patronage in the past try to hang on to their advantage even if it is inefficient for society. Consider, for example, the ability of Hanbo Steel in Korea to obtain bank loans despite its lack of creditworthiness (*Far Eastern Economic Review*, 20 February 1997). Similarly, the aging of an authoritarian ruler may intensify rent seeking by his family and close associates that distorts investment choices. In Indonesia those close to the president appear to be trying to lock in gains for the future. The losses to the nation include both lost potential tax revenue and the possible inefficiency of some investment projects.

Bribes to Buy Political Influence and Votes

Democracy gives citizens a role in determining their political leaders. Corrupt elected officials can be voted out of office. But democracy is not necessarily a cure for corruption. In some systems corrupt politicians coexist with democratic forms even though citizens are aware of the practice. Corrupt payoffs are used, in part, to fund political parties and election campaigns. They fund

general electoral activities, and in some countries the outright purchase of votes by politicians, although illegal, occurs quite openly.

Modern political campaigns demand more resources than older-style contests. Thus, there is demand for increased funding for candidates and political parties. In the absence of public funding, the most convenient source of money is business interests that can be benefited or harmed by politicians decisions. Even if contributions from business can legally be made, both firms and politicians may prefer to keep the payoffs secret if a quid pro quo is involved. An entrenched system of illegal payoffs may undermine efforts to reform the funding of political campaigns. Studies of the political systems in France and Italy demonstrate how modern parties have come to be dominated by "business-politicians" (Mény 1996; Della Porta 1996). The testimony of Italian political operatives in the recent "Clean Hands" investigations reveals how corrupt practices can become entrenched in nominally democratic systems (Della Porta 1996). In Japan Prime Minister Tanaka Kakuei developed a system under which businesses were assigned candidates to fund and elect (Reed 1996). The experience in the U.S. suggests that even legal campaign contributions can exert influence, but at least in such cases the donations are public and can be evaluated by voters.

In Italy political "bosses" were concerned with mobilizing the vote. This could be done not just with campaign funds but also by mobilizing state resources, patronage jobs, and other types of government favors to create webs of obligation (Della Porta 1996). Politicians accused of amassing illegal campaign war chests in the Republic of Korea and Japan justified their actions by reference to the cost of campaigning in countries in which voters expect personal benefits from candidates (Park 1995; Reed 1996). In some countries the purchase of votes is quite open. The

provision of direct payments to voters has a long history going back to the nineteenth century in England and the U.S. Reforms have limited such payoffs in most industrial countries, but they remain a feature of electoral politics elsewhere. For example, the recent election in Thailand carried on a long-standing practice of small payoffs to voters (*Far Eastern Economic Review*, 28 November 1996; for background on Thailand see Phongpaicht and Piriyarangsan 1994).

In other countries executive branch officials purchase the votes of legislators. Special budgetary funds available to the executive with little accountability fuel this practice in a number of countries, especially in Latin America. When Brazilian President Collor's impeachment was before the Congress, observers worried that his allies were seeking to bribe the members to obtain a favorable verdict (Geddes and Ribeiro Neto 1992).

Conflicts of interest faced by both politicians and bureaucrats are an underappreciated problem in many developing and transition economies. In many countries few laws regulate the private business activities of public officials, leaving them open to accusations of favoritism. Campaign finance laws in many countries are similarly permissive, although in a few cases the rules are so restrictive that they practically require off-the-books transfers in order to finance campaigns. Recent scandals in France, Japan, the Republic of Korea, Italy, and the United States point to the importance of both clear rules governing the solicitation of private money and the provision of sufficient legal sources of funds.

Bribes to Buy Judicial Decisions

Judges have the power to affect the distribution of wealth through their decisions. Thus, like any public official with similar powers, they face corrupt incentives. Judges in some countries are reputed to be quite corrupt. Corrupt incentives are higher when judges are underpaid and overburdened and have poorly equipped and understaffed offices. Even if judges are not themselves corrupt, clerks in charge of assigning cases and advising judges may demand or accept bribes. In some Latin American countries, for example, the lack of formal court fees creates incentives for court employees and judges to charge unauthorized fees (Buscaglia 1995).

Payoffs can be a way to speed up decisions. One study found that delays and backlogs in Latin America increased dramatically between 1973 and 1993 (Buscaglia 1995); thus raising incentives to pay bribes. Bribes can also influence decisions in one's favor. Occasionally, bidding wars have been reported in which parties on opposing sides compete in making payoffs.[13]

When the judiciary is viewed as corrupt, uncertainties are introduced into the business climate. The law on the books may not mean much, and those with disputes avoid bringing them before the courts unless they are certain to be the high bribers. Individuals circumvent the court system by hiring private arbitrators and using other methods, such as the protection provided by organized crime. One study of the judiciary in Latin America reported that most business people try to avoid using the courts to resolve disputes (Buscaglia 1995). In Eastern Europe and Russia murders of businessmen and bankers are common. Many appear to be execution-style killings that are part of a brutal private system of "dispute resolution."[14]

Corruption and the Organization of Government

The level of corruption depends not just on the existence of economic rents but also on the political structure. An outside organization, such as the World Bank, can play a constructive role only under certain political-economic conditions. Kleptocracies, in which corruption is organized at the top of government, must be distinguished from states in which corruption is the province of a large number of officials. The other side of the bribery "market" must be specified as well. Is there a small number of major corrupt private actors, or is the payment of bribes decentralized? Putting together these two dimensions produces four stylized categories: kleptocracy, competitive bribery, bilateral monopoly, and the extreme of a weak state dominated by mafias.

Table 1. Types of Corrupt Governments

Recipient of bribes	Multiple bribers	Few bribers
Concentrated at top of government	Kleptocracy (a) pure extortionary state or (b) weak state	Bilateral monopoly
Multiple recipients at low levels of government	Competitive bribery with a possibility of spirals	Mafia-dominated state

In a pure kleptocracy the head of government can organize the political system to maximize the possibilities for rent extraction and can reallocate these rents for personal use. In the first case the head of government faces a large number of potential bribe payers. One might

suppose that such a ruler will act like a private monopolist, what Mancur Olson (1993) calls a "stationary bandit," striving for productive efficiency but restricting the output of the economy to maximize profits (Findlay 1991). However, in economic models of monopoly a stable system of property rights and markets exists. Kleptocrats may not face such constraints. They can expropriate the property of others and extract wealth from private citizens through threats of violence. If kleptocrats have secure tenure, they may avoid such exploitative, extortionary behavior. However, single-minded rent extraction can itself increase the uncertainty of the ruler's tenure.

Furthermore, most kleptocrats are not all powerful. Their goal is personal wealth maximization, but the tools at their disposal are imperfect. They may have a weak and disloyal civil service, a poor resource base, and a vague and confusing legal framework. Such rulers are likely to favor an excessively large state to maximize corrupt possibilities. They prefer to avoid waste by subordinates, but may be unable to prevent them from shirking and taking bribes (Coolidge and Rose-Ackerman 1997). Strong kleptocrats run brutal but efficient states; weak ones run intrusive and inefficient states in which some of the inefficiencies are part of the effort to extract bribes from the population and the business community.

In the second case a corrupt ruler faces a single major opponent across the table. In this situation, similar to a bilateral monopoly, the rent extraction possibilities are shared between briber and ruler. Their relative strengths will determine the way in which gains are shared and the size of the pie to be shared. If some rents can be created only with state help but the state fears losing all the gains to its adversary, it will not act. Similarly, the ruler may threaten to expropriate property and the antagonist may threaten to engage in violence.

A mafia is an organized crime group that provides protective services that substitute for those provided by the state in ordinary societies (Gambetta 1993). In some bilateral cases the state and the mafia share the protection business and perhaps even have overlapping membership. A powerful corrupt ruler in this context extorts a share of the mafia's gains. Alternatively, some states are heavily dependent on a few business firms that extract minerals or produce agricultural products. Such firms may form an alliance with a country's rulers to share the wealth. If the firm has invested in fixed capital or if the product it produces is a raw material available in only a few places on earth, the country's rulers are in a strong position. In contrast, if the firm produces an agricultural product and can easily go elsewhere, or if the raw material is available to the firm in different locations, it has a bargaining advantage and can demand that the country provide infrastructure, guarantees of labor peace, and low taxes. Little overt corruption may be seen in such regimes, but the harm to ordinary citizens may nevertheless be severe. The country becomes an appendage of the large investor. The losses include both distributive and efficiency costs. The state loses the ability to tap the profits of economic activity, and the economy is inefficient, since only policies favored by a narrow inside group are carried out. Some rapidly growing states, especially in Asia, may fit into this category, but their economic success appears to undermine this argument. Mutual interest between rulers and large investors has resulted in a peaceful business-state alliance that has avoided the worst pathologies of the bilateral monopoly case (Campos and Root 1996). Nevertheless, if the state proves unable or unwilling to branch out beyond a few favored investors, the long-run costs may be severe, as the economy loses the flexibility to respond efficiently to changing conditions.

The third variant is one with a weak and disorganized state in which many officials engage in freelance bribery. These officials face a monopoly of power in the private sector. As in the case of bilateral monopoly, the monopolist could be a domestic mafia or a large corporation. In either case, the private power dominates the state, buying the cooperation of the low-level officials, but is unable to organize the state into a unitary body. The disorganization and weakness of the state reduces the ability of the private group to purchase the benefits it wants. Making an agreement with one official will not discourage another from coming forward.

The fourth case is one in which many officials deal with large numbers of ordinary people and businesses. A fundamental problem with such situations is the possibility of an upward spiral of corruption. The corruption of some can encourage other officials to accept bribes until all but the unreconstructed moralists are corrupt. Under plausible conditions, there are two possible equilibria—one with a high level of corruption and one with very little. The problem for reformers is how to move a country from one equilibrium to the other (see Andvig and Moene 1990; Besley and McLaren 1993; Cadot 1987).

One way out of a corruption trap is to tie the expected penalty to the level of bribery. High-corruption equilibria occur because the net rewards of corruption increase as the incidence of corruption rises. In contrast, suppose that the probability of being caught increases as the size and incidence of bribery increases. Then it will no longer be true that high bribes and a high incidence of bribes go together. Few people may pay bribes, but those who do will pay very large ones. Law enforcement efforts will have increased the size and lowered the incidence of payoffs.

Some countries experience corruption at both high and low levels of government. Where then should reform efforts be concentrated? Some analysts are relatively sanguine about

kleptocracy, arguing that the most serious problem is decentralized corruption, under which officials "overfish" a "commons" in their search for rents (Shleifer and Vishny 1993; Olson 1993; Rodrik 1994). "Overfishing" can be the result of a decentralized government structure or a loosely organized hierarchy with discretion exercised by those at the bottom. Under this view corruption at the top will be designed to maximize monopoly rents and will lead to inefficient supply restrictions but will have no impact on productive efficiency.

A policy implication of this analysis is that most effort should be placed on reducing corruption at low levels. This is a problematic conclusion. The model assumes a fixed level of rents in the private sector (the common pool) that public officials try to extract. In reality, officials may have the power to expand the pool, and higher-up officials will generally have more power to increase the reach of the state than lower-level ones or those in state and local governments. But, one might argue, the secure, all-powerful kleptocrat will avoid such inefficient policies. However, corruption itself can be a source of insecurity. This insecurity gives rulers a short-term perspective that encourages additional stealing, making them even more insecure, and so forth. In addition, few are all powerful. Their only tools are inefficient and confiscatory. Thus, the cases in which one can be confident that the kleptocrat will behave like a private monopolist seem limited.

The World Bank needs to make hard choices about where to make loans and support policy reform. It should concentrate on countries in which top rulers are reasonably committed to clean government at the top as well as at the bottom. Countries dominated by kleptocratic rulers and weak states dominated by corrupt outsiders are poor candidates for support. Of course, most poor countries are somewhere in the middle. Corruption may be well entrenched, but some officials are genuinely committed to reform. In such cases the Bank must take a comprehensive

view. It does not serve the goal of economic development to help a reformer clean up the tax and customs systems if the ruler will use the proceeds for personal gain.

Reform Programs

Having isolated the economic incentives for corruption and put the problem in a general political context, I turn now to the steps that a reform-minded government can take to reduce corruption. Many of these reforms can be assisted by World Bank projects and loans but only if a country's political leaders are willing to bear the costs of change. The reform possibilities depend on the state capacity and overall poverty levels, but the range of options can be specified. In addition to efforts to change social attitudes and expectations, anticorruption policy can reduce the corrupt opportunities under the control of public officials on the one hand and increase the benefits of being honest and the costs of being corrupt on the other. The incentives for corruption are influenced by the following factors:

- The level of benefits and costs under the discretionary control of officials
- The formal laws on corruption, bribery, conflicts of interest, campaign finance, and the credibility of law enforcement
- The conditions of civil service employment and incentive systems within the civil service
- The extent of auditing and monitoring within government
- The ability of citizens to learn about government activities and file complaints

- The level of press freedom and the freedom of individuals to form nongovernmental organizations
- The level of active political opposition.

I focus on four broad categories: reductions in the discretionary power of government officials, enforcement of anticorruption laws, civil service reform, and increased accountability of government to citizens.

Reducing the Incentives for Payoffs

The most basic reforms are those that reduce the level of benefits under the control of public officials. A reform strategy must do this, however, without eliminating programs that have strong public justifications and without simply shifting the benefits onto the private sector, where they will show up as monopoly profits. Since such reforms are in line with World Bank development priorities, Bank staff can be especially helpful in providing technical advice in this area.

The most obvious option is simply to eliminate laws and programs that are permeated with corruption. If the state has no authority to restrict exports or license businesses, no one will pay bribes in those areas. If a subsidy program is eliminated, the bribes that accompanied it will disappear as well. If price controls are lifted, market prices will express scarcity values, not bribes. If a parastatal is the locus of corrupt payoffs, moving it to the private sector will eliminate the corruption.

For example, although firms involved in foreign trade are frequently involved in corruption, reform of Pakistan's export-processing rules appears to have reduced corruption for

exporters below that of nonexporters (Rose-Ackerman and Stone 1996). After a short experiment with Prohibition, the United States repealed the Eighteenth Amendment to the Constitution, outlawing the manufacture and sale of "intoxicating liquors." Its time in force, between 1919 and 1933, was a period of widespread illegal production and sale of alcohol and corruption of law enforcement officers. The debate over legalizing drugs in the industrial world turns on the feasibility of controlling the industry through criminal law. Gambling, once outlawed in many jurisdictions, has recently been legalized in many countries and states in the United States, albeit under heavy state supervision and even state ownership.

In general, any reform that increases the competitiveness of the economy will help reduce corrupt incentives. Thus, policies that loosen the controls on foreign trade, remove entry barriers for private industry, and privatize state firms in a way that ensures competition will contribute to the fight against corruption. Such reforms will also encourage firms to move from the informal shadow economy into the formal sector, where they can obtain access to capital at market rates and can be effectively regulated and taxed. In general, going underground is a substitute for bribery, although sometimes firms bribe officials in order to avoid official status. The link between intrusive state regulation, corruption, and the informal economy in Ukraine is documented by Kaufmann (Kaufmann 1994; Kaufmann and Kaliberda 1996).

But any move toward deregulation and privatization must be carried out with care. Deregulating in one area may increase corruption elsewhere. For example, a successful effort to reduce corruption in the transport of agricultural products in one African country increased the corruption in neighboring countries on the same transport route.[15] The privatization process itself as well as the new regulatory institutions that will be needed in the privatized world can be

corrupted. Instead of bribing the parastatal to obtain contracts and favorable treatment, bidders for the company bribe officials in the privatization authority. Insiders obtain special treatment (Manzetti and Blake 1996; Celarier 1996). The integrity of the privatization process is especially at issue in countries in transition. The risk is not simply corruption and insider deals but domination by organized crime groups, which drive competitors, especially Western firms, away. Thus, part of the privatization process ought to be the establishment of a transparent and reliable legal environment. This was not done in many countries that have already privatized, with predictable results (Rose-Ackerman 1994; Shelley 1994). Privatization and deregulation are desirable in a wide range of cases, but reformers need to look carefully at the incentives for rent seeking that exist (Rose-Ackerman 1996).

Many regulatory and spending programs have strong justifications and ought to be reformed, not eliminated. Corruption in the collection of taxes obviously cannot be solved by failing to collect revenue. In such cases one solution is to clarify and streamline the necessary laws in ways that reduce official discretion. The Mexican customs service, for example, cut the number of steps in the customs process at the Mexico City airport from sixteen to three (*El Economista*, 13 February 1992; Reuters News Service, 24 February 1993). Reformers have frequently suggested that procurement officers favor off-the-shelf items sold in private markets and that tax and subsidy systems be simplified (Rose-Ackerman 1978).

Rules could be made more transparent with publicly provided justifications. Government might favor simple nondiscretionary tax spending and regulatory laws as a way of limiting corrupt opportunities. The state might use private market prices as benchmarks to judge public contracts (Ruzindana 1995). Clear rules of proper behavior could be established so that violations can be

noticed even if the bribery itself is not. Where possible procurement decisions could favor standard off-the-shelf items to provide a benchmark and lower the cost of submitting a bid.

The value of such reforms depends upon the costs of limiting the flexibility of public officials. But in poor countries that lack trained personnel, simplification of public policies has particular appeal. Sometimes, however, a risk of corruption will need to be tolerated because of the benefits of a case-by-case approach to program administration. Transparency and publicity can help overcome corrupt incentives even in such cases, but only if the systems of accountability discussed below exist. If they do not, simple clear rules can simply permit a top ruler to extract payoffs more effectively.

Economists have long recommended reforming regulatory laws in such areas as environmental protection by introducing market-based schemes that limit the discretion of regulators. Analysts also recommend user fees for scarce government services. These reforms have the advantage of removing corrupt incentives by replacing bribes with legal payments. The sale of water and grazing rights, tradable pollution rights, and the sale of import and export licenses can improve the efficiency of government operations while limiting corruption. However, poor countries whose existing regulatory laws are poorly enforced may have difficulty establishing such reforms, since violators are not currently bearing the costs of existing rules.

Finally, administrative reform may lower corrupt incentives. Corruption is often embedded in the hierarchical structure of the bureaucracy. Low-level officials collect bribes and pass a share on to higher-level officials, perhaps in the form of an up-front payment for the job itself (Wade 1982). Conversely, higher ups may organize and rationalize the corrupt system to avoid wasteful competition between low-level officials. The top officials may then share the gains of their

organizational ability with subordinates, perhaps using them to run errands, transfer funds, and perform other risky jobs that expose them to arrest. Breaking such patterns may require a fundamental reorganization effort.

One possibility is the introduction of competitive pressures within government to lower the bargaining power of individual officials. When bribes are paid for such benefits as licenses and permits, which are not constrained by budgetary limits, overlapping, competitive bureaucratic jurisdictions can reduce corruption. Since clients can apply to any of a number of officials and go to a second one if turned down by the first, no one official has much monopoly power. Thus, no one can extract a very large payoff. For qualified clients bribes will be no larger than the cost of reapplication. Unqualified clients will still pay bribes, but even they will not pay much as long as they, too, can try another official. If some officials establish honest reputations, qualified applicants will prefer those officials, thus reducing the gains to the corrupt. This reduction in benefits may induce some marginal officials to shift to being honest, further reducing the benefits to the remaining corrupt officials and so on. A small number of honest officials can overturn a corrupt system if congestion is not a serious problem (Rose-Ackerman 1978). If, instead, those who pay bribes are unqualified, the honesty of some officials increases the gains to those who are corrupt, inducing more to become corrupt.

When officials, such as police officers, can impose costs another type of overlapping jurisdiction model should be considered. Police officers seeking to control illegal businesses can be given overlapping enforcement areas. That way gamblers and drug dealers will not pay much to an individual policeman since a second one may come along later and demand a payoff. The first one is simply unable to supply protection (Rose-Ackerman 1978). This system may work

better if the law enforcement officers belong to different police forces—local, state, or federal, for example. Then collusion between officers to defeat the system will be less likely. The FBI is involved in investigating corruption at the municipal level in the United States. The British Audit Commission is a national government agency with authority to monitor the probity of local governments (Great Britain Audit Commission 1993). Sometimes the overlap has an international dimension. The involvement of U.S. drug enforcement authorities in investigating the drug business in Colombia led a defector to choose the U.S. justice system over the Colombian and to open the door to information on drug cartel payoffs to Colombian politicians (*The Washington Post*, 28 January 1996).

Establishing Credible Law Enforcement

A basic condition for corruption control is a viable legal framework that enforces the law without political favoritism or arbitrariness. The goal is both to deter those tempted to engage in corrupt acts and to educate the public to resist criminal conduct by officials. Tough laws are not sufficient. Many highly corrupt countries have exemplary formal statutes that have no real meaning because they are seldom enforced. A country serious about reform must have effective investigation and prosecution bodies and an effective judicial system that is not itself corrupt.

An independent judiciary can be invaluable in checking official malfeasance. In India the Supreme Court pushed forward a corruption investigation that the government had wanted to quash (*Times*, 2 March 1996). In Brazil the Supreme Court's insistence that the Congressional vote on the president's impeachment for corruption be public helped keep the process honest

(Geddes and Ribeiro Neto 1992). The reform of the judiciary requires more than a simple change of personnel. With no change in underlying conditions little fundamental change is likely. The first step in reform is improving pay and working conditions for judges and supporting personnel, but this must be accompanied by better monitoring of performance, both inside the system and by outsiders. Information on delays by type of case and court could be collected and made public.

Additional training may be needed for judges if they are to deal responsibly with the disputes that come before their courts. An increase in the professionalism of judges ought to reduce the incidence of corruption. But all of these reforms will have little impact if the judiciary is not granted independence from the executive and legislative branches. Independence is accomplished in various ways throughout the world. Whatever the mechanism the goal is a judiciary with constitutional constraints on its power, but insulation from day-to-day political pressures. The judiciary can play a role not just in hearing corruption cases brought by state authorities but also in helping citizens review state actions. In countries in which the judiciary provides an independent voice for the rule of law, citizen suits to require the executive to obey the law may be a useful supplementary tool. The World Bank is beginning work on judicial reform, especially in Latin America, but the projects are all at an early stage (Rowat, Malik, and Dakolias 1995), and they may not focus strongly enough on their overall contribution to government reform.

One way to make the judiciary work more effectively is to have laws that are well drafted and relatively clear. Of course, courts cannot avoid exercising discretion, but clarity will both eliminate disputes and make judicial decisions appear less arbitrary. In some developing countries the laws are written in the language of the former colonial power and are difficult for citizens to

understand. Even when the language of statutes is not a problem, some countries continue to use obsolete statutes borrowed from industrial countries many years ago. Thus, although some corrupt incentives can be reduced by reforming and upgrading the judiciary itself, comprehensive reform also requires a review of the legal system in which judges operate.

But judicial reform will have little impact unless the prosecutorial system operates effectively. When ordinary law enforcement offices are ineffective or corrupt, an alternative is an independent anticorruption commission or an inspector general reporting only to the chief executive or the parliament. The best-known commission is Hong Kong's Independent Commission Against Corruption (ICAC), which reports only to the Governor General and has extensive powers (Klitgaard 1988; Quah 1993; Manion 1996). The Commission is charged with investigating corrupt allegations and also has an educational mission. Surveys carried out between 1977 and 1994 indicate that public perceptions of corruption fell in the early years of the ICAC, and indirect evidence suggests that corruption did, in fact, decline along with public perceptions. Other jurisdictions, such as Singapore, Malaysia, Botswana, Malawi, and the Australian state of New South Wales (Skidmore 1996), have similar institutions. Yet the ICAC is not without problematic aspects. Its widespread powers could be abused in systems less committed to the rule of law. The Hong Kong case indicates that a tough, independent anticorruption agency can be a potent tool as long as it represents a credible long-term commitment and includes checks on its own ability to be misused for political ends.

Reforming law enforcement and the judiciary may well be beyond the reach of poor countries in which corruption is endemic. In those cases reform will need to focus both on the

substantive reforms outlined in the previous section and on strategies that increase the accountability of the state to ordinary citizens.

Reforming the Civil Service

Many developing countries have very poorly paid civil servants. Officials supplement their pay with second jobs or payoffs. A recent study found a negative correlation between civil service wages (relative to private sector wages) and the level of corruption (Van Rijckeghem and Weder 1996). Civil service reform projects supported by the World Bank should include an explicit concern for reducing corruption (Nunberg and Nellis 1995). Civil service reform will generally need to be a thoroughgoing effort, especially if the system is caught in a trap in which high corruption levels beget even higher corruption levels.

If officials are paid much less than people with similar training elsewhere in the economy, only those willing to accept bribes will be attracted to the public sector.[16] Civil service pay should be set at least equal to equivalent positions in the private sector in order to make it possible to recruit based on merit and to permit those selected to serve without resorting to corruption. If the benefits under the control of officials are very valuable, however, parity may not be sufficient. Instead, civil service wages may need to be set above the going private sector wage, with generous benefits, such as pensions, that will be received only if the worker retires in good standing (Becker and Stigler 1974). It will seldom be possible, however, to raise civil service salaries to levels that reflect the discretionary benefits under the official's control. Experience from the industrial world suggests that such an expensive solution is unnecessary. It may be sufficient

to pay people enough to match the pay of private sector jobs requiring similar skills (Van Rijckeghem and Weder 1996). This strategy, however, must be combined with an effective monitoring system and a transparent merit-based system of selecting civil servants. Penalties must be tied to the marginal benefits of accepting payoffs. Conversely, where the only efficiency cost of corruption stems from its illegality, payments should be legalized. In the design of such systems, however, it is important to avoid giving bureaucrats monopoly power they can use to extract increased levels of rents.

One reason that civil service pay has fallen so rapidly in recent years is the fiscal pressure on governments. An across-the-board pay cut, often accomplished through inflation, is politically easier to manage than the selective firing of workers. And countries making good progress on achieving fiscal balance may jeopardize their success by bowing to pressure from civil servants for across-the-board pay hikes. For example, in 1992, before an election, Ghana increased all civil servants' wages by 80 percent (World Bank 1995). The political obstacles to effective civil service reform are often severe.

Increasing Accountability to Citizens

The private sector can be an important check on the arbitrary exercise of power by government but only if individuals can find out what the state is doing and use this information to hold public actors accountable.

As a first step, governments must publish budgets, revenue collections, statutes and rules, and the proceedings of legislative bodies. Financial data should be independently audited. Secret

funds available to chief executives and top ministers are an invitation to corruption. Several World Bank and UNDP projects have helped transition economies and developing countries publish timely and accurate documents about the basic operations of government. Others have helped countries, especially in Latin America and Africa, reform their budgetary accounting processes to make them more transparent (World Bank 1995). These reforms provide an important background for anticorruption efforts.

Procurement regulations must keep the process open and fair (Pope 1996). Many procurement scandals occurred either because top officials overruled the tender board or subordinate officials charged with procurement operated without formal controls. Procurement rules, however, must not be perceived as silly or overly intrusive. For example, rules that the low bidder always be accepted can lead to low-quality work or facilitate bid rigging (see Klitgaard 1988). Transparency International, an international nonprofit organization committed to fighting corruption worldwide, has recommended that potential bidders sign an "integrity pact," under which they pledge to refrain from corruption. Such pledges appear redundant, since corruption is illegal, but they have the advantage of highlighting the issue in countries with little respect for the formal law. Nevertheless, a serious attempt to implement an integrity pact will require an institutionalized complaint mechanism, not just jawboning.

Disappointed contractors are an important source of information in any integrity system. In general, the existence of losers with a large stake in the outcome, such as disappointed bidders, can facilitate efforts to limit corruption (Alam 1995). However, losers have an incentive to accuse the winner of corruption even if none occurred. Countries need a way to make constructive use of the information contractors can provide without becoming enmeshed in investigating the claims of

every disappointed bidder. The international community may need to help by considering some kind of forum for the hearing of such claims.

Those who lose from corruption can be involved in anticorruption efforts in other ways. Sometimes bribe payers are themselves losers who would be better off in an honest world. They feel like victims of extortion. Such bribe payers can be potential allies in an anticorruption effort, but they need mechanisms though which to express their complaints. Along these lines, the Bank can help countries experiment with lower-level tribunals and ombudsmen that seek to counteract the powerlessness of ordinary people faced with routine bribery demands. An alternative is the creation of "hot lines" through which citizens can complain directly to the government. Mexico has established such a system for businesses harassed by inspectors (Federal Executive Power of Mexico 1996), and the state of Chihuahua has experimented with a similar program to combat police corruption.

Information is a precondition for anticorruption efforts. Freedom of information acts in the United States and in a number of European countries contribute to effective public oversight. These laws permit citizens to request information without having to show that the information affects their own personal situation. But finding out what is happening is of little value unless people can use their knowledge to influence government. In countries without democratic electoral systems or independent courts, other forms of citizen voice need to be encouraged. For example, executive agencies could hold hearings at both the national and local levels so that those who will benefit or suffer from a government policy can have a voice. In this case the Bank's standard operating procedures may be too centralized to benefit from low-level consultation. Publicity through the media is an important option. Even an undemocratic ruler is likely to be

sensitive to public opinion. The World Bank's Economic Development Institute has made a start here with educational programs for African journalists to teach them how to engage in investigative reporting.

To see how an accountable process might work in a developing country, consider Oldenburg's (1987) description of a successful effort to control corruption in the land consolidation process in Uttar Pradesh in India in the 1980s. The keys were an open process with real participation by those affected, time pressure, and speedy and fair appeals. Government officials managed the process, but no one could proceed with planting until the new land distribution system was complete. Disappointed households could appeal and obtain quick decisions that the participants generally viewed as fair.

Individuals face a free rider problem in seeking to control political and bureaucratic processes and limit malfeasance. Information may be available in principle, but no one may have an incentive to look at it. Laws that make it easy to establish watchdog associations and nonprofits will help. Some countries, worried that nongovernmental organizations will be used to monitor their performance, limit such groups or make it very costly for them to organize. Formal legal constraints may be high, and groups and their members may be subject to surveillance and harassment. The Bank should help countries promulgate permissive statutes governing the incorporation of nonprofit organizations.

When such organizations do exist they can play a constructive role. For example, with the help of the World Bank and bilateral aid agencies, local branches of Transparency International have organized integrity workshops in some countries. These workshops bring together concerned people from the public and private sectors to discuss the problem of corruption.

Nonprofit organizations can also carry out and publish public opinion surveys that reveal public attitudes toward government services. Pioneering work has been carried out by the Public Affairs Centre in Bangalore, India, which produces "report cards" on services to the urban poor in five cities. It found that "speed" money was ubiquitous, with up to one-third of slum dwellers reporting that they needed to bribe to obtain services (Paul 1995).

Conclusions

Where should reform efforts begin? Countries serious about fighting corruption will require a detailed country-specific assessment along the lines of those recently completed by the World Bank for Bangladesh and Nigeria, but a few general remarks are possible. The first step is to discover where corruption is imposing the most costs. Here are several common possibilities:

- Tax and customs revenues may be far below the level needed to carry out basic government services, and the pattern of payments may be very inequitable because of payoffs. Options include simplifying the tax laws to reduce bureaucratic discretion and reorganizing the bureaucracy to improve oversight and incentives for good performance.
- Regulation of business may be so complex, time consuming, and intrusive that the development of a healthy private sector is affected. Here the answer is a hard look at the laws to see which can be eliminated or simplified and which require better enforcement. Many countries have much pointless business regulation combined with ineffective enforcement in socially beneficial areas, such as environmental protection.

- Another costly pattern is state sponsorship of infrastructure projects that are too large and complex. The cost of corruption is not the bribes themselves but the cost of inefficient projects. Even if direct evidence of corruption is not available, the inappropriate scale and design of these projects should justify canceling them. Such cancellations must, however, be combined with improved procedures for future project approvals.

Basic institutional reforms may be needed as a precondition for reform in particular sectors. I have stressed the importance of reforms that improve the accountability of government to ordinary citizens. Even if one holds constant a nation's constitutional structure, there are a range of reforms that may be politically difficult but are not particularly expensive. The problem is to institutionalize such reforms so that they will endure changes in personnel and in the political coalition. Reform must both increase the transparency and accountability of government operations and facilitate the organization of independent watchdog groups and grassroots citizens groups.

Even if the problems of substantive policy and institutional structure have been tackled, most developing countries must face the difficult task of civil service reform. This will be either financially expensive or politically painful, but it is a necessary part of any serious reform effort. Reform policies must reduce the size of the civil service, pay decent base salaries to those who remain, establish a merit-based recruitment system, and develop effective carrots and sticks that give officials an incentive both to be honest and to perform efficiently. This is, of course, much easier said than done, especially in poor countries, where civil servants are expected to support their extended families. The experience of the World Bank in this area, even in cases in which projects were ultimately unsuccessful, ought to be made broadly available.

The lack of credible institutions capable of hearing complaints and enforcing the law is a weakness of institutions in many developing countries and transition economies. Thus, one area for reform should be either improvements in existing institutions, such as the courts, or the creation of new bodies, such as independent inspectors general or anticorruption commissions. The experience of other countries—both successful experiments and those that backfired when the nominal corruption fighters became corrupt themselves—needs to be understood. The problem of anticorruption campaigns being used to undermine political opponents and discipline those who are otherwise troublesome must be faced when new institutions are proposed.

Fundamental change requires a long-term commitment from the top. Even if the basic constitutional framework is not open to change, serious reform can be carried out within any existing structure of government. Governments that make it very difficult for independent voices to be raised in criticism, however, will have an especially difficult time establishing a credible commitment to honest and transparent government. Such governments may be able to move quickly in the short run but always risk policy reversal in the future.

How should the World Bank, facing its own budgetary constraints, assist in the process of reducing corruption in developing countries? Priorities are difficult to establish in the abstract, but a few observations are possible.

- The Bank needs to make it much clearer than in the past that corruption will not be accepted as normal in its own grants and loans, and it must move to cancel projects in which corruption is uncovered or cost overruns suggest that venality or incompetence is pervasive. It needs to be skeptical of supporting projects that make it easy for public

officials to hide private gains, and it may need to discontinue lending in some countries in which corruption at the top appears endemic.

- Recent international efforts are focusing on reducing bribery in international business and checking the flow of illicit funds. Strategies include international treaties and actions by multinational organizations, such as the Organization for Economic Cooperation and Development and the Organization of American States' "efforts to convince countries to penalize overseas bribery," and development of business codes of conduct. The Bank should support such international efforts to limit corruption and encourage international efforts to establish budgetary, accounting, and procurement standards.
- Grant and loan projects should increasingly focus on creating an environment favorable to shared growth and the alleviation of poverty. The World Bank has experience in government reform, but its work needs to be evaluated for the lessons it can provide. Projects should be designed so that country officials work with Bank staff to isolate the most serious problems and design solutions in line with the possibilities outlined above. The Bank might select a few countries with supportive governments and work with them to design programs to serve as examples for the future. The Bank should not support piecemeal reforms that benefit corrupt autocrats.

The World Bank is concerned that projects are not sufficiently "owned" by borrowing countries. A focus on corruption puts an ironic spin on that concern. "Ownership" at the top is not desirable if patronage and corruption are rife or if projects help keep such regimes in power. In such cases projects with the greatest "ownership" potential are unlikely to be well targeted toward the poor or overall development objectives. Since the Bank is a development institution, it should seek to counteract the distortions introduced by the desires of rulers and their patrons to

amass wealth for themselves. Helping countries develop anticorruption strategies can both improve the legitimacy and effectiveness of governments and aid development by making it easier to target projects to overcome poverty and facilitate shared growth.

Notes

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[1] Mauro (1995, 1997) demonstrates that high levels of corruption are associated with lower levels of investment as a share of GDP in a cross-section of countries. A one standard deviation (2.4) improvement in the corruption index is associated with an increase of more than 4 percent in the investment rate and more than half a percentage point increase in the annual growth rate of per capita GDP (Mauro 1997).

[2] An index of the riskiness of investing in a country based on eleven factors from the Business International index (including the corruption index) was associated with both lower investment rates and lower growth rates (Mauro 1995). Keefer and Knack (1995) find that an index of the quality of government institutions is a significant determinant of investment and growth.

[3] Data are from the Price Reform Group of the Finance and Trade Institute of China's Academy of Social Sciences. Printed in *Zhongguo Wujia (China Price)* October 1990, Beijing.

[4] Interviews with business people in Eastern Europe and Russia indicate that payoffs are frequently needed to obtain credit (De Melo, Ofer, and Sandler 1995; Webster 1993; Webster and Charap 1993). In Lebanon a similar survey revealed that loans were not available without the payment of bribes (Yabrak and Webster 1995).

[5] A student of microfinance programs, Marguerite Robinson, found that programs that provide below-market credit to the rural poor are often corrupt and provide aid only to elites ("New Bank Lends Support to Vietnam's Rural Poor," *Reuters World Service*, 18 August 1995.)

[6] World Bank–sponsored surveys of business people in Pakistan and Ukraine indicate high interfirm variability (Rose-Ackerman and Stone 1997).

[7] The minister sets a revenue target, a nominal tax liability schedule, and the wage rate of the tax collector. Corruption gives tax collectors an incentive to seek tax revenue and is tolerated as long as the collector turns in a sum equal to the revenue target (Flatters and MacLeod 1995).

[8] Legal and regulatory uncertainty is frequently mentioned by business people interviewed in surveys in the developing world (Economisti Associati 1994; Stone; 1995; Webster 1993; Webster and Charap 1993); Pritchett and Sethi (1994) show how higher tariff rates are associated with lower proportional collections and greater variance in rates paid.

[9] "If assumptions that some state bureaucracies are inefficient are made and that the degree of regulation or taxation that they impose is excessive, three possible benefit of corruption emerge." (*Oxford Analytica* 1996) Bribes can permit profitable projects to go to the head of the queue, limit excessive regulation, and reduce tax payments.

[10] The act is the Foreign Corrupt Practices Act, 15 U.S.C. §§ 78m(b) & (d)(1) & (g)–(h), 78dd-1, 78dd-2, 78ff (a) & (c) (1988 & Supp. IV 1992). See Pendergast (1995).

[11] See Coolidge and Rose-Ackerman (1996). On the short-run orientation of corrupt timber concessionaires in Malaysia see Vincent and Binkley (1992). Deacon (1994) reports that insecurity of tenure and weak property rights are negatively associated with deforestation rates.

[12] For example, firms involved in the privatization of electricity and telecommunications in Malaysia complained that the government subsequently admitted additional competitors with strong political links. *Financial Times*, 13 October 1995.

[13] According to an Englishman living in Egypt in the 1820s, judicial decisions were influenced by the rank of the parties or a bribe from either. "On some occasions, particularly in long litigation,

bribes are given by each party, and a decision is awarded in favour of him who pays the highest." (Johnson 1991, p. 686).

[14] According to the Russian government, 269 businessmen and financiers were murdered in 1995 in execution-style slayings (*The Economist,* 9 November 1996).

[15] A USAID–sponsored project reduced the number of bribe extraction checkpoints along onion transport routes in Niger. Unfortunately, the end result was an increase in payoffs and tax levels in Côte'd Ivoire as the onions neared the food markets of Abidjan (Rogers and Iddal 1996).

[16] Botswana's status as a relatively clean African country may stem from its rulers' commitment to a professional and well-paid civil service (Raphaeli, Roumani, and MacKeller 1984).

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