

# AN ESSAY ON THE POLITICAL FUNCTIONS OF CORRUPTION

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## Introduction

MOST DISCUSSIONS OF CORRUPTION IN DEVELOPING nations have generated vast quantities of heat and righteous indignation while shedding little light on the phenomenon itself. Observers from Western nations, often quite oblivious of their own recent history, have contributed more than their share to the resulting confusion and moralizing. Only recently have a handful of American and English economists and political scientists — profiting perhaps from their respective nations' long experience in this area — began to examine corruption in a more systematic, dispassionate, and comparative manner.<sup>1</sup>

In this new spirit an attempt is made here to examine in some detail the political functions of corruption. Before plunging in, however, we must have a working definition of corruption, a difficult task in view of the immense variety of entrepreneurial skill which has been devoted to its actual practice. Profiting from the definitional efforts of J.S. Nye, we may, with one caveat, subscribe to the statement that, "Corruption is behavior which deviates from the formal duties of a public role because of private regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence."<sup>2</sup> The only problem with this definition is that with the meaning it attaches to the term, "private regarding," it seems to exclude illegal favors done without reward by public officials on behalf of, say, their ethnic or religious group. Perhaps the term "non-public" would be more appropriate here as it includes, within the definition, deviations which favor longer groupings. With this qualification, the term covers most of what is meant when people speak of corruption among public officials. It includes behavior ranging from a peasant's minute payment to the government hospital orderly so that he might be examined by the physician more quickly to a large firm's generous

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<sup>1</sup> See for example, Nathaniel Leff, "Economic Development Through Bureaucratic Corruption," *The American Behavioral Scientist* (November, 1964), pp. 8-14; J.S. Nye, "Corruption and Political Development, A Cost-Benefit Analysis," *The American Political Science Review* (June, 1967), pp. 417-427; Ronald Wraith and Edgar Simkins, *Corruption in Developing Countries* (London: Oxford U. Press, 1963); and Robert K. Merton, *Social Theory and Social Structure* (Glencoe, Ill.: Free Press, 1949), pp. 71-81.

<sup>2</sup> J.S. Nye, *op. cit.*, p. 419.

contribution to a politician in return for his fiddling with the tax laws to its advantage. It includes not only favors done for cash, but illegal favors done for motives of loyalty or kinship.

About the actual causes of corruption we shall have very little to say except as they touch on its political function. But one point should be clear; while there may well be a greater incidence of *illegal* corrupt acts in the developing nations than in the West at a similar stage of economic development, there is no reason to suppose that the actual behavior we are referring to—forgetting for a moment its legal status—is any more widespread in the new nations than in the West at a comparable epoch. Judgments which imply otherwise are not simply cases of Westerners forgetting their own past and wagging their fingers at developing nations. The misunderstanding is usually more subtle and involves: a) a failure to compare legal systems at analogous periods and b) a failure to distinguish between the private and public sectors.<sup>3</sup>

1. The gap between the legal system and social practice: The development of the legal system in most Western nations was a more or less internal affair. At any given time, there were a host of governmental and non-governmental practices the legal standing of which had not yet been determined. In Great Britain, for example, before civil service reforms were instituted a tremendous number of sinecures—"officers without employment"—and pensions were distributed or sold by the crown. Although even contemporary observers called this corruption,<sup>4</sup> such patronage did not contravene any existing law until the Whigs found it to their political advantage to pass one.

The new nations, by contrast, have often adopted a system of laws and general orders which give expression to reforms which were the product of long political struggle in the West. Consequently, the Malaysian politician, for example, finds himself denied by much of the patronage which helped build strong political parties in England and the United States. Acts which were at one stage in Britain or the U.S. quite legal, or at least legally ambiguous, are now expressly forbidden by the laws and regulations of new nations. The behavior is the same in each case, but the legal status of the act has made corruption seem more widespread in developing areas.<sup>5</sup>

2. Private morality and public morality: It is quite obvious that, even today the standards of behavior for the public sector are more puri-

<sup>3</sup> See Wraith and Simkins. *op. cit.*, pp 12, 13.

<sup>4</sup> See John Wade, *The Black Book*, (1820) cited in J.F.C. Harrison, ed., *Society and Politics in England: 1780-1960* (New York: Harper, 1965), pp. 93-98.

<sup>5</sup> In fact, many new nations regulate public appointments in a more stringent manner than nations like the U.S. If a Nigerian were told about the political considerations involved in the appointments of postmasters in America he would undoubtedly call it corruption. The fact that it is now institutionalized, "legal" patronage and accepted practice would not change his view of it.

tanical than those of the private sector. The president of a business firm may appoint his inept son assistant vice president and, although he may regret the appointment from a financial point of view and be accused of bad taste, he is quite within the limits of the law. Similarly, if he lets an overpriced supply contract to a close friend, the market may punish him but not the law. Should a politician Smith or bureaucrat Smith feel inclined likewise, however, he is likely to find himself without office and perhaps the object of the State-vs-Smith criminal action.

Whether a given act takes place within the public or private sector thus makes all the difference in the world as to whether it is defined legally as corruption or not. Restraints in the one case are the responsibility of law enforcement agencies and, in the other, it is the discipline of the market which checks such behavior. The point here is simply that the larger the relative size and scope of the public sector, the greater is the proportion of certain acts which will be legally considered corrupt. And this is precisely the case in new nations where the role of the public sector is comparatively more important than it was in the West. Many of the acts which we are considering took place within the confines of the private sector in developed nations and therefore fell outside the formal definition of corruption. By contrast, the public sector's size in developing areas changes what were private concerns in the West into public concerns, making the incidence of corruption—legally defined—that much greater.

The restrictiveness of the legal system and the expansion of the public sector, then, turn what might otherwise be simply bad taste or stupidity into corruption. But we should keep in mind that the incidence of such behavior in the national community as a whole may well have been as high or higher in the West than in the new nations although its legal status is vastly different.<sup>6</sup>

## II.

### **Input Influence-vs-Output Influence**

#### **1. The Distortion of Formal Analysis**

By now political scientists are well acquainted with a growing body of theoretical and empirical literature which examines the process by which

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<sup>6</sup>One further distorting factor concerns the greater attention paid to corruption at the national level. In the West, although there are wide differences here, local and/or state governments were more powerful than they are in developing areas generally, and a great deal of the total "volume" of corruption took place at this level. By comparison then, the national governments in the West may have seem less corrupt than in the new nations since local units were an equally attractive source of plunder in the West.

interest groups influence legislation. The strategies of influence, the nature of the relationship between elected officials and pressure groups, and the independent effects of the legislative process itself are among the subjects in this area which have received considerable scrutiny. Using the common distinction between input and output functions, the studies referred to are concerned with a portion of the input functions of a political system.

In contrast to the well developed structures for interest articulation and aggregation found in industrialized Western nations, students who have attempted similar analyses in less developed nations have encountered slim pickings indeed. The picture which has emerged from such attempts most often emphasizes: 1) the lack of subjective civic competence which inhibits the expression of demands; 2) the weakness of interest structures which might organize and clarify previously inchoate interests; 3) and the relative absence of institutionalized forms through which political demands might be communicated to political decision-makers. In this context, the weakness of interest structures when coupled with the personalistic character of political loyalty allows national leaders to formulate policy free from many of the restraints imposed by party interest groups in the Western setting.<sup>7</sup>

Even given competitive elections, then, the very weakness of political interest structures means that demands originating outside elite circles will not have nearly the degree of influence on legislation which they do in more highly organized political systems. As far as it goes, this seems to be an accurate analysis. It would be a grave mistake, however, to assume that because legislation is often drawn up in an atmosphere free from the organized pressure of interest groups, that therefore the public has little or no effect on the eventual "output" of government.

My point is simply that much of the interest articulation in the new states has been disregarded because Westerners, accustomed to their own polities, have been looking in the wrong place. A sizeable proportion of individual, and occasionally group, demands in less developed nations reach the political system, not before laws are passed, but rather at the enforcement stage. Influence before legislation is passed is generally called "pressure-group politics" and is the frequent object of examination by political scientists: influence at the enforcement stage is generally called "corruption" and has seldom been treated as the alternative means of interest articulation which it in fact constitutes.

## 2. Rational Impulses to Corruption

The peasants who avoid their land taxes by making a smaller and illegal payment which supplements the Assistant District Officers' disposable income, are as surely influencing policy outcomes as they would if they formed

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<sup>7</sup> See Lucien W. Pye, *Politics, Personality and Nation Building: Burma's Search for Identity* (New Haven: Yale University Press, 1962), pp. 19, 26, 27.

a peasant union and agitated for the reduction of land taxes. In a similar fashion, businessmen who protect their black market sales by buying protection from civil servants are changing policy outcomes as effectively as they might by working as a pressure group through Chambers of Commerce for an end to government price controls. A strong case can be made as well that, within the context of certain political system, it may be more "rational"—and here we use the term "rational" in its economizing sense—to protect one's interests when laws are being implemented rather than when they are still being debated by politicians. Three examples of situations in which corruption may well conserve scarce resources are suggested below:

*a. Where organizational skills are scarce and where, as a result, interest group associations are either weak or non-existent, the corruption of law enforcement may be a more economizing way to exert influence over policy outcomes.* The divisive loyalties of peasants to their ethnic, village, religious or caste grouping creates enormous organizational barriers which all but preclude their induction into an association which would seek to advance their interests *qua* peasants. Given this situation, it is more rational for the individual peasant or for the peasants of one village, say, to influence the laws which disadvantage them by bribing local government officials.

*b. Where legislative acts tend to be formalistic—where the administration of law is so loose and erratic that existing law has little relation to eventual governmental outputs, it may well be more rational to make demands known at the enforcement stage than at the legislative stage.* Businessmen in a developing nation may realize that, although the government has passed what they consider to be an unfair tax law, their actual administration bears little or no resemblance to what is called for by the statutes. This may occur because enforcement personnel are unwilling or unable to follow its directives or because politicians do not allow them to. Under the circumstances, it may make more sense for each firm to "buy" precisely what it needs in terms of enforcement rather than financing a campaign to press for a new law that would be as formalistic as the present one.

*c. Where a minority is discriminated against politically and regarded more as a "subject" than a "citizen" group by the general population, its members may well feel that pressure group action would destroy what little political credit they enjoy and thus turn to the corruption of enforcement officials to avoid damaging political attacks from more powerful groups.* Throughout much of Southeast Asia and East Africa, a large proportion of commerce and industry is in the hands of groups which, even if they have managed to acquire local citizenship, are considered as aliens by large sections of the local population. It would be foolish, even suicidal in some cases, for these so-called "pariah" capitalists to seek influence openly as an organized pressure group. A healthy regard for their property and skin alike forces them as a

group to rely upon illegal payments to strategically placed bureaucrats if they are to safeguard their economic interests.

At least two of the conditions (a and c above) under which influence at the enforcement stage becomes "rational" are off-cited characteristics of the less developed nations.<sup>8</sup> We have already remarked on the relative absence of associational interest groups which might bring the demands of their constituency to bear on the legislative process. Quite by itself this deficiency in organization makes the resort to corruption a rational strategy for many. And in underdeveloped areas there are groups which are virtually denied access to the open political area whether for ethnic reasons (the Chinese in Southeast Asia) or for ideological reasons (the private business sector in nations where the political elite champions public sector enterprise) or both, who thus exert their influence via more informal routes or else forego the effort to shape policy altogether.

The reader will note, however, that the specified conditions under which it would be rational—other things equal—to seek influence at the enforcement stage have applied only to the seeker (buyer) of influence. The ultimate success of the transaction, of course, depends on the bureaucrat(s) or politician(s) in question. Provided that the civil servants' concern for the law or the nation at large does not impose restraints upon him,<sup>9</sup> we may say that the probability of him refusing, say a bribe, will be equal to the product of the probability of being punished times the severity of the penalty if punished.<sup>10</sup> Thus a severe penalty coupled with a very small probability of being caught and punished is roughly equivalent in its disincentive effects as a quite small penalty coupled to a high probability of being found out. Looking at things from the government side for a moment, then, there are three factors at work determining the probability of corruption (assuming the value of the reward to be constant):

1. The extent to which loyalty to the law, to the government, or to the nation has become a private value.
2. The probability of being caught.
3. The severity of the penalty if caught.

As regards the initial factor, the growth of concern for the national community, law, or to government policy *per se* is a slow process and, although such concern has begun to take root quite firmly in many new

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<sup>8</sup> The remaining situation (b) where, because the laws are formalistic, influence at the enforcement stage would be more rational is fairly common among new nations, but not so general that one could call it "characteristic".

<sup>9</sup> The value of the "reward" for a corrupt act is the other factor here, but we are assuming, for the moment, a "constant" reward.

<sup>10</sup> Similar restraints are of course applicable to the case of the "buyer" of influence too, although we have thus far assumed the buyer to be a pure *homo economicus*.

nations, the leaders of these nations would be the first to concede that it has not yet rendered their civil establishments immune to corruption. The crucial importance of whether one's loyalties are engaged or not can be seen by the fact that corruption by the officials of clan associations among the Chinese in Southeast Asia or of tribal associations in Dakar or Kinshasa is rare in comparison with corruption among public servants in the same areas.<sup>11</sup> In the one case group loyalties are firmly engaged and in the other, group loyalties are less strongly at work. Given the predominance of familial and parochial loyalties in the less developed areas, restraints, for the short-run at least, are often more a function of the penalties involved and the likelihood of being apprehended. In most new nations the penalties are quite severe—involving at least the loss of a relatively secure, high-paying, high-status past and, at most, loss of life. The probability of being apprehended, however, although it varies considerably from nation to nation, is generally quite low. The disincentive effects of severe penalties are therefore largely vitiated by the small likelihood of prosecution.

Under the circumstances we have described—circumstances which apply to most developing nations—it is not only rational for individuals and groups to seek influence at the enforcement stage but it is also rational for governmental officials to admit such influence.

### III

#### Corruption and the Process of Political Inclusion

In a piece that challenges many of the assumptions commonly held by students of *political development*, Samuel Huntington, proposes an alternative theory of *political decay*.<sup>12</sup> Briefly put, Huntington's argument is that the rapid social mobilization—urbanization, politicization, etc.—characteristic of new nations has placed an all but impossible burden on their new and frail political institutions and has led to the decline of political competition, political instability, national disintegration, corruption, and institutional decay. The new nations are, accordingly, "buying rapid social modernization at the price of political degeneration."<sup>13</sup>

I would like to suggest, however, that what we have called corruption represents an effort—albeit informal—of the political system to cope with

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<sup>11</sup> See Ronald Wraith and Edgar Simkins, *Corruption in Developing Countries* (London: Allen and Unwin Ltd., 1963), p. 50.

<sup>12</sup> Samuel P. Huntington, "Political Development and Political Decay," in Claude E. Welch, Jr., ed., *Political Modernization: A Reader in Comparative Political Change*, pp. 207-241.

<sup>13</sup> *Ibid.*

a rate of social change which chokes the formal channels of political influence. Thus we can view corruption as an *index* of the disjunction between the social system and the formal political system; a subversive effort by the social system to bend the political system to its demands. In fact, the extent and variety of corruption in a new nation is a fairly accurate reflection of the failure of the formal political system to aggregate and meet the demands of important sectors of the society. Groups or individuals who seek influence through corruption have what they feel are essential interest which the open political system has failed to meet or perhaps even regards as illegitimate. In this way corruption supplements the capacity of a formal political system which is unable to process demands created by social mobilization.

The fact of corruption means that, while the formal political system may seem rigid and restrictive, the informal political system represented by corruption may add a substantial openness and flexibility to ultimate policy outputs. Political competitiveness may, if you will, enter unobtrusively through the back door. An empirical assessment of the interests represented by policy outputs would be quite inadequate if it stopped at the content of laws and failed to ask in what direction and to what extent corruption in fact altered the implementation of policy. The table below is an effort to distinguished between those groups which achieve access to political influence via the formal political system and those groups which, for a variety of reasons, must enter the competition at a more informal level.

Table I

Groups and Their Means of Access to the Political System in Less Developed Nations  
*Granted Access to Formal Political System*      *Groups Resorting to Informal (Corrupt) Political System Because Denied Formal Access by virtue of:*

	<i>Ideological Reasons</i>	<i>Parochial Reasons</i>	<i>Lack of Organization</i>
a. Political elites	a. Indigenous	a. Minority ethnic	a. Unorganized
b. Party branches	business groups	or religious	peasants
c. Civil servant ass'ns	b. Foreign busi- ness interests	groups	b. Unorganized urban lower classes
d. Professional ass'ns	c. Political opposition		
e. Trade unions			

This categorization is rather sketchy and cannot do complete justice to any single developing nation but it is sufficiently descriptive of the situation in most to alert us to the variety of interests which make their surreptitious way through the political back door. Aside from those groups which are

blocked from formal participation by ideological reasons—and which are often well organized—the formal political system is *par excellence* the domain, the monopoly, of the modern social sector. The very nature of the formal political system places the unorganized and the minority communities at a tremendous disadvantage such that their interests are seldom represented in the content of legislation. This imbalance is, if not rectified, at least mitigated by the influence at the enforcement stage which constitutes virtually the only access to the political system afforded these groups. Thus corruption serves as an important corrective to the competitive advantage enjoyed by the modern sector in a formally modern political system.

### Corruption as an Alternative to Violence

As we have indicated, the incidence of corruption in a developing nation is one indicator of a lack of integration in the formal political system. To the extent that corruption admits important interests which are blocked from formal participation, we may say that it seems as a deterrent to politically motivated violence.<sup>14</sup>

The political history of the West is rich in occasions where the timeliness of corruption allowed a new group to secure a measure of influence denied them by the formal political system and thereby diverted them from what might have become revolutionary pursuits into more mundane calculations of advantage. England may well owe the relatively peaceful inclusion of her bourgeoisie to the venality of her public officials while in France, on the other hand, the relative efficiency of the centralized bureaucracy under the monarchy left open only the revolutionary path to political power. Fattened by the West Indian trade, the British *nouveaux riches* were able to outbid rural landlords for seats in Parliament and to secure, by bribery, the conditions under which commerce might flourish. Urban and rural capitalists in France were less fortunate in this regard and resorted to a successful frontal assault on the system itself.<sup>15</sup>

In a similar vein, the corruption of the big city machines secured a measure of influence for the European immigrants who arrived in the United States in the late 9th and early 20th centuries. In return for their political support of the machine boss the newly arrived received patronage employment, favored treatment in court, and loans and welfare payments which were often quite outside the bounds of strict legality. Thus groups which might have otherwise become susceptible to more radical, not to say revo-

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<sup>14</sup> Cf. Martin C. Needler, "The Political Development of Mexico," *American Political Science Review* (June, 1961), pp. 308-312.

<sup>15</sup> Nathaniel Leff, "Economic Development through Bureaucratic Corruption," *The American Behavioral Scientist* (November, 1964), pp. 8-14.

lutionary, doctrines were effectively domesticated and given a stake in the system.<sup>16</sup>

Much of what we have said about the West is true as well for under-developed areas: the villagers who have recently arrived in the cities of West Africa, the Chinese or Indian businessman in Southeast Asia, have all been attached, in greater or lesser degree, to the informal political system which attempts to meet their needs and demands. Corruption acts on these groups as essentially a conservative force which, by granting them influence over policy outputs, weds them more firmly to the political system and dilutes the impulse toward more radical solutions. In this limited sense, then, corruption is also a democratizing influence inasmuch as it allows for the participation of interest groups beyond what the formal political system alone can presently manage.

Referring again to Huntington's theory of political decay, it would perhaps be more accurate to look at corruption as a sort of half-way house between violence and constitutionality, a means by which some of the new demands produced by rapid social change are accommodated within a political system whose formal institutions are inadequate to the task. If the concept of political development includes the capacity of a political system to respond to new demands in such a way as to reduce the potential for violence, then corruption and political development are not at all incompatible. Viewing corruption from this angle, the following paradigm might represent an appropriate developmental sequence.

Table II

A Political System's Capacity for Integration Demands Over Time		
<i>Non-Integration</i>	<i>Informal Integration</i>	<i>Formal Integration</i>
Violence — — — →	Corruption — — — →	Constitutionality (i.e. institutionalization of demands)
<i>e.g.</i> Congo	Thailand	England/USSR

Any existing political system will, of course, exhibit all three tendencies and one must ask by what means the *preponderance* of political conflict is managed. Thus, within the United States, one can find violence where the demands of negroes are frustrated and corruption as the avenue by which

<sup>16</sup> For one group, and an important one, widespread corruption may well increase political alienation and the attractiveness of radical solution. The urban, Westernized, middle class have often incorporated current Western notions of governmental probity and are thus likely to view corruption as a symptom of the nation's moral turpitude. The same comment might apply to a lesser extent to the military officer corps.

illegal gambling and prostitution are represented,<sup>17</sup> but the preponderance of political demands are now processed at the formal, institutional level.

When violence becomes less common in a political system, corruption often becomes more common. The relationship is not simply fortuitous, but rather represents the substitution of bargaining for raw contests of strength. In this context, one might say that in England violence was beginning to give way to corruption around the period of the Glorious Revolution and that corruption became less prominent than institutional politics by the reform period of the 1830's. In the United States the apogee of violence represented by the Civil War—where fellow citizens slew one another on a scale not equalled before or since—gave way to corruption of similarly Texas style proportions through the 1880's and 90's well into the first portion of the 20th century.

It is important to understand that the conservative effects of corruption are a direct consequence of the fact that corruption places influence in the hands of individuals and groups which are most likely to be non-participants in the formal political system,<sup>18</sup> that is, corruption is conservative to the degree it is democratizing. In spite of the fact that corruption is often particularistic—dispensing favors to certain sections of the community more than others—and that when it is not particularistic it usually benefits wealth elites more than other groups, the question is historically not one of choosing between the formal political system and corruption. Either because of their lack of organization or their outright exclusion from formal influence by the dominant elites, the groups which acquire influence at the enforcement stage are exercising the only means of influence open to them. Thus the choice is usually between no access or else limited, **imperfect access which corruption** at least provides.

### **Political Adjustment by Self-Interest**

The question of loyalties sheds further light on the function of corruption. In most developing nations the loyalties of the great proportion of citizens are restricted largely to parochial groupings and to close kinsmen. In the absence of the wider loyalties which would facilitate both the growth of effective parties and a measure of consensus on national goals, a system of political influence which emphasizes narrow self-interest—and corruption

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<sup>17</sup> As the growth of a nation's political institutions continues, much of the residual corruption represents the effort of business interests which are *per se* illegal such as gambling and prostitution in the U.S., to protect themselves from prosecution.

<sup>18</sup> One must, of course, assess the openness and effectiveness of the informal political system as well. Often some groups are excluded from both the formal *and* informal channels of influence, a problem we shall examine later.

does precisely this—may well succeed in producing a degree of cooperation that would otherwise not be possible.<sup>19</sup> The “man in the street” in Bangkok or Bogota cares a good deal less whether the actions of the politician or bureaucrat conform to standards of due process than whether the outcomes benefit him or not. What is suggested here is that the system of self-interest represented by corruption is perhaps the only viable basis of political adjustment during the early stages of political development when narrow loyalties predominate. Later, the growth of wider loyalties leads to an increase of participation in the formal political system and a consequent decline in the level of corruption.

Where the interests of one's family dwarfs wider loyalties<sup>20</sup> and where political and economic life are seen as a zero-sum game, then, the cement which binds a group together must come from the individual rewards each receives by virtue of his participation. Operating in such circumstances, political parties in new nations are generally not so suicidal as to assume a high degree of loyalty to the political system *per se* or to modern interest groups. If a competitive political party wishes either to maintain or enlarge its basis of support it will of necessity have to turn to those inducements which motivate a good portion of its cadre and those whose electoral support it hopes to attract. In this setting, the resort to particularistic rewards (including patronage, exemption from prosecution, contracts, and land grants) is quite understandable. Some of these rewards can be distributed quite legally (through the “pork barrel”, for example, in the Philippines) but many must be obtained in a less formal manner. In the short run, competitive political parties are more likely to respond to the incentives which motivate their clientele than to alter the nature of those incentives. Thus, as long as the circumstances we have described persist, political competition will always be associated with a certain amount of corruption.

#### IV

### Who Benefits Most?

#### A. Parochial-vs-Market Corruption

Determining which groups benefit from corruption is quite a complex task. One might begin by recognizing that most corruption involves the

<sup>19</sup> David Greenstone suggested this in his article, “Corruption and Self Interest in Kampala and Nairobi,” *Comparative Studies in Society and History* (January, 1966), p. 208. “The crucial function of self interest in politics is to replace a mutual dedication to the goals of ‘good government’ with a mutual if more selfish loyalty to a system of specific material incentives. Some of the decline in political capacity is offset by a modified and politicized version of the invisible hand.”

<sup>20</sup> . . . . “Amoral Familism,” to use Banfield's term. Cf., *The Moral Basis of a Backward Society* (Chicago: The Free Press, 1958).

trading of a resource like wealth of family connections for power; that is, it involves the "purchase" of an authoritative governmental decision by some individual or group not legally entitled to enter into such a transaction. Both the buyer and the seller benefit in this "black market government"<sup>21</sup> since the buyer pays something less than what he estimates the benefits of the decision to be for him, while the power-holder, as a monopolist, charges what the traffic will bear and at least enough to compensate himself for the risks he runs.

Aside from the power-holder, be he politician or bureaucrat, who always benefits as a necessary partner in the transaction, the nature of the beneficiary depends to a great extent on whether the power holder is motivated more strongly by parochial loyalties to kinsmen, friends, or ethnic group or whether he is more impersonal and market oriented. Both play a role—sometimes simultaneously when say a politician will only do favors for his ethnic group but nonetheless exacts from them what he can in terms of cash, goods, or services. To the extent that parochial considerations predominate, however, the beneficiaries will be those with "connections" such as kinship, friendship, ethnicity, etc. Where market considerations prevail, on the other hand, wealth elites will benefit more since they are in a position to make the most lucrative bids. The two by two table below illustrates the relationships we have just discussed.

Table III

<i>Type of Corruption</i>	<i>Major Beneficiary</i>
1. "Parochial"	Individuals and groups with "connections"
2. "Market"	Individuals and groups with wealth

South Vietnam under Diem would tend to fall in the "parochial" category given the favoritism shown northern Catholics, the Philippines would approach the "market" variety of corruption, while Thailand would have to be termed a "mixed" system.

### **B. Political Competition and the Beneficiaries of Corruption**

Two other important factors which determine who profits from corruption are the balance of political-vs-bureaucratic power within the polity and the degree to which politics is competitive in the electoral sense. The table directly below suggests how these variables affect the direction of benefits.

<sup>21</sup> A term borrowed from Robert O. Tilman's unpublished paper, "Administrative Corruption: An Interpretation".

Table IV  
Level of Benefits from Corruption by Social Group and Type of Regime  
*Recipients of Benefits of Corruption*

Type of Regime	<i>e.g. Indiv. &amp; Groups with Parochial Connections to Elite</i>		<i>Wealth Elites</i>	<i>Bureaucrats</i>	<i>Party Leaders Cadre Voters</i>	
	1. Bureaucracy Polity (non-traditional—Thailand)	x	X	X		
2. Party-dominated Polity non-competitive—Tunisia	x	x	x		X	
3. Party-dominated Polity competitive—Philippines investment/consumption/orientation	x	X	x	X	X	X
	Uncertain	Investment	Uncertain	Uncertain	Consumption	

\* large X's indicate the probable major beneficiaries of corruption in each type of regime, while small x's indicate minor beneficiaries.

In the table we assume that realistically those persons and groups closely identified with members of the ruling elite will always profit to some extent from corruption. If corruption exists at all, it will be difficult to deny the persuasive claims of family and friends.

The probable patterning of rewards for each type of political system is explained at greater length below:

1. Where parties are either weak or non-existent and where the bureaucrats—perhaps in league with the military—dominate, it is clear that bureaucrats and wealth elites will be the chief recipients of corruption's fruits. This pattern is typical of Thailand where the reigning military/bureaucratic elite is relieved of electoral anxieties and where non-parochial corruption consequently centers largely around payments made by local and foreign business concerns to secure licenses, tax relief, government contracts, etc.

The bureaucracy-dominated polity and the sort of corruption which characterizes it are becoming, if anything, increasingly common as the decline of political parties coupled with restive officer corps and a strong central bureaucracy conspire to create them. New nations such as Pakistan, Indonesia, Ghana, Burma, Dahomey, and perhaps even Nigeria, to mention but a few, fall into this classification at present.

2. Non-competitive, party-dominated regimes often have a strong ideological cast and a program for national reconstruction which has led some analysts to refer to them as "movement" regimes. Although the durability of

such regimes is now rather questionable, Tunisia, Tanzania, Kenya and pre-coup Ghana, come to mind as examples of this system of government.

The need of such regimes to strengthen the party as the engine of economic and social change means that, to the extent corruption exists, a portion of its benefits will flow to party cadre and supporters.<sup>22</sup> Whereas for the bureaucratic regime only parochial considerations are likely to interfere with "market" corruption, for the "movement" regime, the need to build the party organization also becomes a factor in determining who gets what. Virtually, by definition, a larger portion of corruption in a non-competitive party-dominated system is processed by the party elite with the bureaucracy becoming, as it were, a junior partner.

In actual practice during the 20th century, "movement" regimes have generally been motivated by socialist preferences for the public sector. The greater their success in propagating this doctrine, the less likely it is that wealth elites in the private sector will profit from corruption.

3. Political systems dominated by competitive parties further widen the range of beneficiaries of corruption to include the voters themselves. When elections are hard fought, those who control votes possess a power resource as surely as those who control wealth and can thus bargain in the informal political system. The access of wealth elites to the fruits of corruption is as evident in this regime as in a bureaucratic one and perhaps even greater since parties and politicians must have bonds for campaign purposes. But unlike the bureaucratic regime where there is no particular reason for the power holder to disburse his proceeds, the politicians in a competitive political system have great incentives to distribute a portion of their gains in buying votes and/or doing illegal favors for those who control votes which may influence the outcome of elections. Thus the competitive party regime, although it may encourage a greater amount of corruption, includes voters and vote brokers within the range of beneficiaries simply because the electoral process places bargaining resources in their hands.<sup>23</sup>

The outstanding example of this system and the corruption which typifies it is the Philippines, while nations such as Ceylon, Malaysia, Uruguay, Chile, Columbia, and Venezuela are possible candidates for inclusion here too. In the Philippines, which boasts the world's highest *per capita* cost for electoral campaigns, businessmen have easy access to politicians, and, the powerful "sugar bloc" virtually provides salaries for a certain number of senators and congressmen who protect its interests. The very competitive-

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<sup>22</sup> To the degree such regimes are successful in creating national loyalty they will most likely reduce the *overall* level of corruption, although the direction of benefits will remain as we have indicated.

<sup>23</sup> This is not to say that wealth elites or bureaucrats profit less *in an absolute sense* from corruption since the level of corruption could, hypothetically, be so much higher than in another system that both groups might have higher absolute gains.

ness of the system, however, means that politicians find it useful to buy votes or perform illegal favors for local influentials.

What occurs in the Philippines is quite comparable to what happened in England, particularly before legislation against rotten boroughs, or in the immigrant choked cities of the U.S. Furthermore, one can already see in the Philippines the growth of institutionalized means to reward voters and the consequent decline of more particularistic, illegal rewards—a process already experienced in much of the West. Two mechanisms are notable in this respect: first, pork-barrel legislation which enables the politician to channel employment, goods, and services to his constituents and remain within the law; and second, a legal patronage system which allows the successful candidate in the ruling party to nominate a number of his supporters for positions in the executive branch.<sup>24</sup>

The transfer of rewards from the informal to the formal political system—from illegality to legality—in this fashion presupposes certain changes in the nature of the electorate. For one thing, many of the rewards of “pork-barrel” legislation include indivisible benefits such as schools and public works and thus require a measure of community identification since voters must see themselves sharing in the gains of the entire community.<sup>25</sup> A system of legal rewards, in addition, necessitates a higher level of trust between voters and new candidates because pork-barrel funds and legal patronage can only be distributed after the nominee has won election while under pre-election bribery, the voter is paid off before he casts his ballot. Inasmuch as the transformation from outright corruption to the institutionalized rewards we have described requires the growth of both wider loyalties and political trust, we would not be inaccurate to describe it as a step in political development.

## V

### **Economic Growth and the Beneficiaries of Corruption**

The relative success or failure of a nation to achieve a high rate of economic growth depends on a host of factors beside corruption. The motivation of the ruling elite, the skills and resources at its disposal, and its capacity for carrying out agreed policies are more central to the question of capital formation than corruption. Nevertheless, corruption may have some independent influence on economic growth which merits examination.

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<sup>24</sup> See Gregoria A. Francisco and Paul de Guzman, “The 50-50 Agreement: A Political Administrative Case,” *Philippine Journal of Public Administration* (October, 1960), pp. 328-347. The institutionalized political appointment of local postmasters and the nomination of cadets to the armed forces academies are instances of the same process in the United States.

<sup>25</sup> The conditions of “amoral familism” in the Southern Italian town Banfield, (*op. cit.*,) describes would render the pork-barrel an ineffective means of winning voter support.

### A. Non-Distortive Corruption

Here it is useful to distinguish between corruption which distorts formal government policy, as it generally does, and corruption which has no appreciable effect on policy. In the latter category we would include what might be called "payments for speed". Such "speed money" may either add economic growth or have no effect on it, but only rarely would such corruption have a negative influence on growth. The citizen who pays a small illegal fee to a government clerk to receive his radio license more quickly is probably having no influence on economic activity.<sup>26</sup> Government policy is not changed since the citizen would have received his license anyway after, say, a half hour wait. On the other hand, the business firm which bribes a civil servant to secure a license to begin operation without a lengthy wait has decided that the wait would cost it more than the "bakshish" or "dash" needed to avoid such a delay. Providing the firm's calculations are accurate in this respect, corruption here has a net beneficial effect on the rate of economic growth.

### B. Distortive Corruption: The Private Sector

Most of what we call corruption, however, involves not merely a payment for speed but a real distortion of official government policy. The peasant who bribes to avoid his taxes and the businessman who receives an overpriced contract through a highly placed relative are both changing government policy: the peasant escapes his legal tax obligation and the entrepreneur secures a contract he would not otherwise be granted.

If we are interested in economic growth this "distortive" type of corruption impels us to ask whether the policy which results from such corruption is more likely to contribute to economic growth than the original governmental policy which is being distorted. Here again the distinction between "parochial" and "market" corruption is central. In the case of parochial corruption, only an examination of the marginal propensity to save of groups with "connections" will begin to reveal whether this distortion will promote economic growth more than formal government policy. There is some evidence, however, that "market" corruption, inasmuch as it benefits wealth elites, is likely to have a greater multiplier effect than the formal economic policy of most new nations.

The case for market corruption can be made persuasively for Southeast Asia. The nations which have made the most economic progress to date are the Philippines, Thailand, and Malaysia while Burma and Indonesia have

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<sup>26</sup> The act, however, increases the clerk's income and decreases the citizen's by an equal amount and if there is a difference in their marginal propensity to save, this may have some effect on economic growth.

hardly reached pre-war standards of real *per capita* income.<sup>27</sup> Although it is risky to generalize from only five cases, we would suggest that the size of the private sector is significant here. Both pre-coup Indonesia and Burma have opted for a largely state-run economy while Malaysia, Thailand, and the Philippines have imposed fewer restraints on the private sector. What few restrictions there are on private sector activity in the three more successful nations have been partly vitiated by corruption—the Philippines and Thailand would rank fairly high on anyone's scale of corruption—while ever widespread corruption in Burma and Indonesia failed to protect the private sector from state control or operation. In spite of the best intentions and a declared policy of economic growth, the state-run economies have performed significantly less well than those where the private sector predominates. Indications are that Southeast Asia is not an exception in this respect.<sup>28</sup>

If this analysis is correct, it follows that, other things being equal corruption which secures greater freedom of operation for the private sector will generally promote economic growth. The impetus to such corruption would, of course, be less if government policy imposed fewer restrictions on the private sector. But since we are speaking of the real world where most new nations are inclined to severely circumscribe or eliminate the private sector, "market" corruption may well enhance the possibilities for economic growth.

### C. Effects of Political Competition on Corruption and Growth

Leaving aside for the moment the question of how effectively government policy promotes economic growth, one can distinguish between the groups which profits from corruption in terms of their marginal propensity to save. To the extent that corruption places power or money at the disposal of groups with a high marginal propensity to save it will clearly contribute more to economic growth than if it benefits groups with low marginal propensities to save (MPS). Using the list of groups in Table IV we can make but a few provisional judgments on this nature.

<sup>27</sup> Dece Douglas S. Paauw, "Economic Progress in Southeast Asia," *Journal of Asian Studies* (November, 1963), pp. 69-91. We have omitted the Indo-Chinese states from consideration here for obvious reasons.

<sup>28</sup> One might compare the performance of Ghana or Guinea (state-run economies), to that of the Ivory Coast, for example. Albert O. Hirschman has argued too, that the concern for balanced growth and the creation of the economic infrastructure, both of which require greater government intervention, are perhaps less conducive to growth than orthodox theorists would suppose. Our generalization is meant to apply to non-communist state-run economies. How much better, however, is the subject of some dispute.

Table V

		Recipient Groups				
		<i>Individual and Groups with Parochial Connections to Elite</i>	<i>Wealth Elites</i>	<i>Bureau- cratic Elites</i>	<i>Pol. Leaders &amp; Pol. Cadre</i>	<i>Voters</i>
MPS Estimate	uncertain		high	uncer- tain	uncer- tain	low

For those with parochial ties to the elite, bureaucrats, and politicians we cannot estimate *a priori* their MPS. It will vary greatly from country to country. In Malaysia one might suspect that bureaucrats have a higher MPS than politicians, and politicians a higher MPS than groups with parochial connections to the elite. Even if this is accurate, the order could well be reversed in other national settings. For voters and wealth elites, however, one can say with some confidence that the MPS of voters is relatively low and that of wealth elites relatively high. Thus, if we were concerned exclusively with economic growth, corruption which benefited wealth elites more than voters would be of greater benefit than corruption which favored voters. The fact that competitive political systems are more likely to include voters among the beneficiaries of corruption implies that corruption here is less favorable to growth—other things equal—than corruption in a non-competitive political system where voters are not among the beneficiaries. Under conditions of political competition the gains of voters from corruption will probably spread the wealth more evenly—an egalitarian income effect—but may well have less salutary growth effects since voters are more likely to consume than to save their gains. Corruption in a non-competitive system, on the other hand, does not have this levelling effect but may well contribute more to economic growth by favoring groups with a higher MPS. This is not to say that corruption amidst political competition necessarily retards economic growth but rather that it is not as likely to assist economic growth as much as corruption in a non-competitive setting.<sup>29</sup>

#### D. Qualifications

The proposition that “market” corruption which benefits wealth elites will contribute to economic growth is, alas, subject to a few other qualifications which bear enumeration.

1. Not all of those who argue for the possible benefits of certain kinds of corruption in certain circumstances realize that, if carried too far, corruption is apt to be counter productive. There are at least two reasons for this.<sup>30</sup>

<sup>29</sup> Corruption in a competitive political system may marginally assist growth by subverting the bias of the electorate for present consumption and welfare.

<sup>30</sup> Leff, *op. cit.*, is an example of an analysis which errs, unlike traditional discussions, in its virtually unqualified praise for “market” corruption as a path to economic growth.

First, most forms of corruption, in fact, constitute a tax on economic activity. The payments for a license to do business, a construction permit, etc., are part of the costs of doing business to the merchant or entrepreneur. When such costs are relatively modest they are more than outweighed by the bureaucratic obstacles which they overcome and the incentive which they may provide for efficient operation. At some level, however, corruption may become so costly that many businesses which could otherwise operate at a profit become marginal or clearly unprofitable. One might imagine that politicians and bureaucrats would realize the point at which they are killing the goose which lays their golden eggs—and while the Philippines seem to appreciate these limits, it appears that in Indonesia, quite apart from the policy of nationalization, the race for spoils becomes so wild that many potentially profitable enterprises were either not begun or were actually forced to close down. In such circumstances, many Indonesians preferred to deposit their holdings in foreign banks.

The level of corruption leads us to a second, and related, problem of uncertainty. Many of the bribes paid to bureaucrats and politicians by businessmen were in effect efforts to reduce somewhat the high risk factor which surrounds investment decisions in underdeveloped areas. In this context businessmen would prefer a predictable system of corruption which assures them of the service or decision for which they are paying and sets known limits on the costs they will have to bear. A strong, cohesive party often creates these conditions of certainty by acting as a central clearing house for corruption of this kind. But when uncertainty prevails, when the payment for a decision offers little assurance that it will actually be carried out or if the full cost of a needed decision cannot be known, the businessman may prefer to remain "liquid" rather than running risks of such magnitude. Thus, the greater the extent of corruption (the costliness of a decision) or the greater the uncertainties involved (the risk factor) the less likely that corruption by wealth elites will have a positive effect on economic growth.

2. Until now we have assumed that most of the corrupt transactions between businessmen and bureaucrats or politicians expand the freedom of the private sector to respond to market forces. Some transactions, however, may actually restrict or distort market forces and have negative effects on economic growth. For example, a firm may secure a contract to supply materials to the government by bribing selected officials who are then unable to complain when he delivers materials well below contract standards or fails to observe other terms of the agreement. Similarly, an import or export enterprise might pay politicians or bureaucrats to enact laws or regulations which will give it a monopoly in a certain area or place obstacles in the path of its competitors. In such cases, corruption has the effect of inhibiting normal competitive pressures which serve to encourage more effi-

cient operation. Economic growth is more likely to be retarded than accelerated when corruption follows this pattern.

### E. Corruption and Growth

Throughout this discussion we have suggested a number of conditions under which corruption may actually promote the process of economic growth. For the sake of convenience, most of these propositions are stated more succinctly below.

*Corruption is more likely to have a positive influence on economic growth when:*

1. National rulers are either uninterested or hostile to economic growth.
2. The government lacks the skills, capacity, or resources to effectively promote economic growth.

*and when:*

3. Corruption is "market" corruption where all "buyers" of influence have equal access to bureaucrats and politicians. (The assumption here is that if parochial considerations are weak, only the ability to pay will count and efficient producers will gain an advantage).
4. Corruption benefits groups with a high marginal propensity to save (*e.g.* wealth elites) more than groups with a low marginal propensity to save (voters)<sup>31</sup>
  - this situation is, in turn, more likely in a non-competitive political system than in a competitive one where votes can be traded for influence.
5. The cost of a unit of influence is not so high as to discourage otherwise profitable undertakings.
  - this situation is more likely when there is price competition among politicians and bureaucrats who sell influence.
6. There is greater certainty as to the price of a unit of influence and a high probability of receiving the paid-for "decision".
  - this is more likely when:
    - a. The political and bureaucratic elites are strong *and* cohesive
    - b. Corruption has become "regularized"—even institutionalized after a fashion—by long practice.
7. Corruption serves to increase competition in the private sector rather than to secure a special advantage or monopolistic position for any one competitor.

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<sup>31</sup> For this reason Nye (*op. cit.*, pp. 424-425) feels corruption among the upper levels of the elite is more likely to be beneficial for economic development than corruption at lower levels.

This listing is, of course, far from complete although it does represent many of the major considerations involved in determining whether corruption will have a net positive or negative effect on economic growth. The greater the number of these enumerated conditions which a system of corruption satisfies, the greater the likelihood that corruption will contribute to economic growth.

## VI

### Conclusion

The preconditions for corruption are the existence of a government monopoly over goods, services, or posts and a level of demand for these benefits which outstrips available supply.<sup>32</sup> When the value of the scarce benefit is driven up by demand pressure to a level that exceeds the price the government has set (in many cases the government price is zero), offers to purchase it illegally are likely to occur. One writer has approximately called corruption a form of "black market bureaucracy".<sup>33</sup>

Since much corruption thus represents the penetration of the free market into areas where it is legally forbidden it becomes important to ask how "perfect" the bureaucratic and political "black market" is. A "perfect" market, among other things, responds only to cash and not to voting strength or kinship ties, its prices are determined solely by the interaction of demand and supply, and information as to product and price are available to all.

To the extent that this black market approaches "perfection" in this sense, it will be more likely to contribute to economic growth. A good many of the conditions we enumerated in the previous section reflect the fact that the freer the corruption market is, the higher the probability that wealth elites with their high marginal propensity to save will dominate the market. As beneficial as this might be for economic growth, chances are that it will restrict the equally important process of political inclusion or integration.

What we are suggesting is that, when it comes to corruption, political integration and economic growth may work against each other. The kind of corruption which most accelerates economic growth favors wealth elites and largely excludes voters and those with parochial ties to the elite from the market. Pure market corruption, then, may wed the wealth elite to the regime while excluding voters and "parochials". On the other hand, corruption which distributes the fruits of corruption not only to wealth elites but also to voters and "parochials" is surely more beneficial for political

<sup>32</sup> This excludes, for the moment, corruption which involves avoiding the enforcement of laws (e.g. tax laws, criminal laws) by a lesser "payment" to enforcement officials.

<sup>33</sup> Robert O. Tilman, "Administrative Corruption: An Interpretation," Unpublished paper, p. 7.

inclusion but is, at the same time, likely to spread rewards among consumers who are less apt to use these rewards as productively as investors. Which variety of corruption is considered "better" therefore depends whether economic development or political integration is deemed to be the most crucial systemic problem. The Congo, one might say, would be better off with corruption which maximizes political integration while Tunisia or the Philippines might be better off with corruption that maximizes economic growth.

Regardless of the potential economic benefits of market corruption, there are important objections to such corruption which relate to the adequacy of the price system in allocating values. Market corruption suffers from all the recognized shortcomings of any free market pricing system. First, claims in the market must be backed with money and distribution is therefore highly unequal. Such goods and services as education, health care, etc., for example, are subject to government intervention because the distribution which would result from the price system is considered by almost all as unsatisfactory.<sup>34</sup> Secondly, the price system often involves third party damages or costs which are not a part of the market's calculations. Examples such as pollution or the depletion of natural resources come to mind where the community attempts collectively to restrict the price system so as to protect third party interests. Market allocation may finally result in the private control of functions which the community has decided to collectively allocate. Private control over courts or military units, for example, are results of market penetration into government services which could impose tremendous costs on the community at large. The importance of such considerations as these may be great enough to warrant centralized decisions rather than market decisions (in this case corruption) whether or not the political system is democratic and whether or not corruption might promote economic growth.

In concluding, it is well to remember that the fundamental objection to corruption is that it always assigns greater importance to wealth and/or "connections" than to votes. This is presumably the democratic response to corruption in public life. If as in many developing nations, however, the political system is closed or oligarchic, the democratic objection to corruption becomes less valid since corruption may, in such instances, serve as an informal democratizing force.

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<sup>34</sup> This and succeeding points are taken from Robert A. Dahl and Charles E. Lindblom, *Politics, Economics and Welfare* (New York: Harper, 1953), pp. 387-391.