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COMMENTARY

**CORRUPTION MAY WORSEN IN DEMOCRATIZING
ECONOMIES:
BUT DON'T LET IT ERODE OUR FAITH IN DEMOCRACY**

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ABSTRACT

This commentary is based on a recent study we conducted on the relationship between regime type, corruption, and economic development. We build a theory that links corruption and regime type to economic growth and test it on 158 countries, using multiple databases including Polity IV, transparency international, the World Bank, and others. We first distinguish three regime types, autocracy (dictatorship), anocracy (countries in early stage of democratization), and mature democracy. We found that when autocratic countries begin democratize, corruption usually gets worse. As the infant democracies mature, corruption decreases.

Keywords: political regime; democracy; anocracy; autocracy; corruption; economic growth

短 评

民主化的过程中腐败很可能恶化，
但我们不应因此对民主失去信心

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摘要

这篇短评是根据我们最近所做的关于政治制度与腐败和经济增长点关系的研究写的。我们通过对 158 个国家的资料分析，把这些国家分为三类：极权制国家，正在进行民主化的国家，以及成熟民主国家。我们发现当极权国家开始民主化时，腐败往往恶化，同时经济增长也最缓慢，只有当雏形民主国家变为成熟民主国家时，腐败才会降低，经济发展水平亦达到最高。

关键词：政体，成熟民主，雏形民主，集权，经济增长

The phenomenal economic performance of China under a dictatorship with rampant corruption versus the seemingly economic chaos in some democratizing countries has cast a serious doubt on our faith in democracy's ability to deliver economic prosperity and forced us to rethink the effect of corruption on economic development.

To better understand this issue, we conducted a study on the relationship between corruption, regime type, and economic growth using data from more than 100 countries between 2008 and 2012¹. What we find not only explain why democratizing countries may encounter worse corruption and slower economic growth, but also provide evidence that democracy can more effectively eradicate corruption and sustain economic development, therefore effectively dispelling the doubt on whether societies under dictatorship should democratize.

We first distinguish three types of political regimes in order to examine how the corruption- economic development relationship varies across them.

Type 1—Autocracy: This is a totalitarian regime, or dictatorship, such as Suharto's Indonesia before the late 1990s or today's China under the rule of the Chinese Communist Party, characterized by a strong dictator or a ruling party that wields iron control over society. This type of government controls economic activities and uses its control to maximize total bribes, which in turn provide incentives for the officials to facilitate business and thus increase GDP. In such a regime, the targets of the bribes are clear and the delivery of goods to the briber is secure. We call this a "one big mafia" corruption model. For example, if a developer bribed Suharto to get his construction project going, Suharto would instruct all relevant government departments to approve the project, allowing them to take reasonable amounts of bribes in the process. There are about 20 countries that are ruled by Autocracy in our sample.

Type 2—Anocracy: this is a regime type when autocracy begins to crack due to the social pressure to democratize. The absolute rule of the "one big mafia" disintegrates while an efficient and effective democracy has not fully established yet, creating opportunities for bureaucrats, or "many small mafias" to monopolize power in regions or markets they control. For example, immediately after Suharto was overthrown, no dictator could order and coordinate all the departments to give greenlights to a project, and each department head would have strong incentive to extort as much payment from the developer as possible, making the cost of bribe much higher and the probability of getting approvals from all departments much lower. Newly established infant democracies fit this model, such as Russia in the 1990s or Egypt after the Arab Spring. In Anocracy, turf wars among government agencies exacerbate and hinder economic development, until they reach Type 3. 44 countries are in Anocracy in our study.

Type 3—Mature Democracy, characterized by governmental checks and balances that substantially reduce or minimize monopolies over key government services. As an example, there are at least two government agencies that offer key government services (e.g., the U.S. passport agencies). While North America and Western Europe have long been mature democracies, it has also emerged in other parts of the world (e.g., Botswana, Israel, Japan, Mauritius, and Uruguay). Compared to the other two regime types, it has the highest economic development level and income, and lowest level of corruption. Given the high development and income level, the growth rate inevitably will slow down. The regime type covers the largest number of countries: 94 countries are Mature Democracies in our research.

Our statistical analyses provide some interesting insights about how regime type, corruption, and economic growth interact. Using the World Bank's measure on control of corruption, we found that the level of corruption in Autocracies, Anocracies, and Mature Democracies are 0.41, 0.66, and -0.21, respectively (a high, positive number means high corruption). The five-year average economic growth rates are 5.42%, 4.35%, and 2.70% for Autocracies (with per capita income of US\$8,523), Anocracies (with per capita income of US\$5,312), and Mature Democracies (with per capita income of US\$16,160), respectively.

Putting the two statistics together, an interesting picture emerges: Both Autocracies and Anocracies have a high level of corruption. However, Autocracies have a high level of economic growth despite the high level of corruption. Furthermore, its corruption level is not the highest, which belongs to Anocracies. Mature Democracies have the lowest level of corruption and economic growth rate, as expected.

Using multiple regression analysis, which allows us to examine how the interaction between regime type and corruption affects economic growth while controlling other factors that may affect economic growth, we found that the interaction between Anocracy and corruption exerts a strong negative effect on economic growth—in other words, corruption is the main culprit that hurts the economies undergoing the democratic transition. In contrast, we find that the role of the interaction between Autocracy and corruption is strongly positive, rather than negative as in Anocracies. Corruption seems to enhance economic growth in Autocracy.

Anecdotal evidence supports our statistical findings. In China, a clear case of Autocracy, businesses and government officials have formed a cozy relationship with a high level of mutual understanding and protection, in which the officials can safely award lucrative projects to a bidder who can offer the highest amount of bribe (who usually is also the most efficient, *ceteris paribus*). However, the recent anticorruption campaign in China has undermined the cozy relationship. Officials now silently protest the campaign by not approving projects, slowing down the economy. In Russia right after the fall of communism, many small mafias emerged

and independently demanded payments from business people seeking approvals, making corruption worse and less efficient, as no one small mafia could deliver what the business people wanted without the consent of other small mafias.

From the late 1980s to 2008, we witnessed the fall of the Berlin Wall which ushered Russia and its satellite countries into chaos, the strengthening of communist rule after the Tiananmen Square crackdown which was followed by rapid economic expansion in China, and the financial meltdown in the advanced democracies and free markets. These events seem to have contributed to the rise in popularity that a dictatorship is superior to a democracy in terms of economic growth.

Our study shows that this view fails to consider the relationship between regime type and corruption, and thus it does not help us understand why infant democracies tend to experience economic difficulties. This view is also misleading in its conclusion that dictatorship is a superior political system in terms of delivering economic growth because it fails to take into consideration the role of corruption and its interactions with the regime type. The surge in corruption during transition is a by-product and thus should not be used as an excuse for not undergoing transition. This is merely a convenient excuse for dictators to suppress democratization.

Policy makers in mature democracies and international agencies should promote democratization and at the same time they should help those countries undergoing transition to limit the period of chaos or Anocracy. In addition, the policy makers in transition countries also should make efforts to curb corruption in fledgling democracies and to restructure their bureaucracies to minimize complementarities (i.e., the “many small mafias” situation) that tend to maximize corruption by government agencies.

¹ Ilan Alon, Shaomin Li, and Jun Wu, 2016, “Corruption, Regime Type, and Economic Growth,” *Public Finance and Management*, 16(4) 332-361.

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