Corruption, Liberalization and Democracy:

Editorial Introduction

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Corruption has been a long-standing if intermittent focus of concern in development circles for over three decades. There has been an enormous amount of theorizing and empirical research on the phenomenon which has produced a bewildering array of alternative explanations, typologies and remedies based on intellectual approaches ranging from macro-sociological analyses of socio-cultural processes to dyadic game-theory modelling. While this work is quantitatively impressive, it has not culminated in a paradigm of analysis which is useful both for understanding and for combating corruption. Indeed, the gradual accretion of research has tended to make the issue seem ever more complex and immune to comparative analysis while attempts to simplify (as, for example, through the use of rent-seeking or public choice theories) have proven instruments too blunt to be intellectually cogent or practically useful. As the World Bank admits in its report on **Governance and Development** (1992: 16), the causes of corruption are rooted in the particular political and economic conditions of each country and 'as such, its causes are as complex as the types of corruption are varied'. In practical terms, this complexity - and the resulting perplexity - makes remedial efforts difficult. Moreover, while corruption is part of the corridor and canteen conversations of development practitioners, the expediencies of institutional diplomacy make it difficult to tackle explicitly and directly, either as a target of developmental action or as a criterion for development assistance.

Why then raise corruption yet again as a subject for serious attention? First, there is a widespread perception that the level and pervasiveness of corruption is not only much greater than we thought it was, but may well be increasing. Political and bureaucratic corruption is still stubbornly entrenched in the poor countries of sub-Saharan Africa and South Asia, remains an intrinsic element of the developmentally successful East Asian NICS (with the exception of Singapore), has reached the very highest levels of political office in many Latin American societies and has rapidly reached alarming proportions in the post-communist transitional societies, notably in the former Soviet Union and China. Ariel Cohen writes in the World Bank publication **Transition** (1995: 7) that 'a tidal wave of corruption is sweeping Eurasia, threatening to bury the fragile democratic institutions in Russia and

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other countries in the region', a tide which 'not only threatens Russia but the entire world'. Moreover, contrary to conventional wisdom, recent revelations in Japan, Belgium, Italy, France, Spain and the United Kingdom have shown that pervasive political corruption can be an entrenched element of highly industrialized, democratic societies, not an unfortunate but ultimately escapable dimension of underdevelopment or authoritarianism. Indeed, from the perspective of the 'donor' countries in the industrialized West and East, corruption is not only more of a problem than ever 'out there' in the developing world, but it also an uncomfortable aspect of their own situations.

Second, the waves of economic liberalization starting in the eighties, the 'third wave' of democratization in the post-Cold War 1990s and the 'good governance' agenda which has emerged among the major development agencies have brought renewed hopes for an effective, root-and-branch cure for corruption. The spread of neo-liberal economics and liberal-democratic politics has brought to the fore certain basic assumptions and theses about the causes and cure of corruption. On the economic side, corruption has been identified as one of the consequences of excessive state intervention and the bureaucratic rents created thereby; on the political side, it has been seen as a consequence of the unaccountable monopoly power of various kinds of authoritarian or totalitarian regimes. The policy implications of these analyses are that corruption can be reduced by rolling back the state through privatization and deregulation and by introducing more competition, transparency and accountability into the political process through a transition to a liberal democratic regime. These broad arguments seem plausible in broad theoretical terms, but how accurate are they in reality? They need to be subjected to empirical testing in the light of experience of economic liberalization and political democratization over the last decade. In some contexts, it would seem, (India and China, for example), the amount of corruption has **increased** along with and apparently as a result of economic liberalization. Moreover, the democratization of many erstwhile authoritarian regimes does not seem to have made a significant impact on levels of corruption (for example, in South Korea) and may even have made things worse (for example, the Philippines).

Counter evidence of this nature raises a host of questions about the precise nature of relationships between corruption in its various forms on the one side and economic liberalization and political democratization on the other. Do the latter processes contribute significantly to reducing the incidence of corrupt practices? If so, why and, if not, for what precise reasons and can anything be done to remedy the situation in the short and medium terms? Answers to these questions may be helpful not only for any attempt specifically to integrate anti-corruption measures into the governance agenda of the development agencies, but also for many citizens of newly democratic societies who are struggling to combat corrupt practices as part of a broader search for clean and responsible government and social justice.

These questions can best be answered through a combination of comparative analysis with analytically informed case studies of countries which have recently been undergoing economic and political transitions. Such form the majority of contributions to this Bulletin. In this Introduction we shall briefly trace the findings of our contributors under three headings: economic liberalization and corruption, democratization and corruption and the political economy of corruption and anti-corruption.

(i) Economic liberalization and corruption

The global comparative evidence marshalled by Ades and di Tella suggests a clear, inverse relationship between corruption one the one hand and investment and indices of economic liberalization such as the degree of domestic product market competition and openness of economies on the other. Evidence of processes of transition - which may operate not merely in the short and medium but also in the longer term - derived from our country case-studies suggests, however, that the relationship is more complex and less-unidirectional. Rather than reducing the incidence of corruption, economic liberalization in certain contexts acts rather to displace it, redefining the character of corrupt relationships away from those initiated and controlled by state actors to those initiated and controlled by actors in civil society. This 'privatization' of corruption is documented by Tat Yan Kong in his study of government-business relations in South

Korea and Gordon White in his study of post-Mao economic reforms in China and is analysed by Mushtaq Khan in terms of a shift in the balance of power between patrimonial and clientelist forms of corruption, the scale and distribution of which depends both on the nature of the 'political settlement' between state and society within which a specific process of economic liberalization takes place and on the extent to which it is challenged and contested. The overall level of corruption may be unaffected: on the one hand, the supply of corrupt opportunities from state officials (both bureaucratic and political) remains high because the regulatory responsibilities of the state in the new economic system may still remain substantial while political controls over the behaviour of state officials remain weak. On the other hand, the demand for corruption remains high because economic influentials, notably the new economic elites enriched and empowered by the liberalization process, seek to maintain and defend rents in the face of competitors. The long-term remedy for this situation is to attack both sources of supply and demand by transforming the institutional behaviour of the state, especially by strengthening its regulatory capacity, and by institutionalizing the operations of markets and the behaviour of market actors through both exogenous (state) and endogenous (associational) regulation. Without the latter 'clean-up' of the market sphere, private corruption will act to weaken state capacity in ways which threaten the entire credibility and capacity of the public sphere, as Harriss-White shows in her study of a South Indian market town and Rathin Roy documents in his study of the black economy in India and its impact on the disposable fiscal surplus of the state. Mark Hampton adds an international dimension to the problem by drawing attention to the potential impact of economic globalization on corruption, arguing that the rapid growth in the international circulation of 'furtive capital' through the growing 'offshore interface' of tax havens and offshore financial centres provides greater incentives for domestic corruption by facilitating the covert laundering of gains from corrupt transactions.

(ii) Democratization and corruption

Several of our contributors similarly provide evidence to suggest that the relationship between corruption and democratization over the past decade has been contradictory. Far from improving things in the short and medium term, democratization may actually increase the sources and scale of corruption without strengthening countervailing political or institutional capacity. As Gordon White shows in the case of China and both Charles Jones and Walter Little argue in the context of Latin America, previous authoritarian regimes exercised strict controls over corruption. In such cases a mere change in the procedural regime makes things worse by destroying these constraints without providing an alternative set. Moreover, as John Sidel documents in the cases of Thailand and the Philippines, even in countries where the previous authoritarian regime was pervasively corrupt, democratization has had the effect not of reducing corruption but 'decentring' it from the central elite of the ancien regime to local bosses able to select their own national politicians and through them control the bureaucracy. While democratization involves the spread of political and civil freedoms, it can also open up an era of licence without responsibility to the benefit of existing and emergent economic and political elites. Democratic systems also provide incentives and opportunities for corrupt behaviour, notably the enormous costs of mounting election campaigns, the capture of political parties by economic elites, the politicization of the state apparatus by elected officials and the desire of the latter to compensate for political uncertainty by building up a capital stake through corruption. However, our contributors tend to agree that these phenomena are particularly strong in fledgling democracies where a procedural transition has not been accompanied and underpinned by a spread of 'real' or substantive democracy. While democratic institutions do open up a long-term prospect of institutional remedies for corruption, these require a powerful political impetus to make them work effectively. This latter must await the expansion of political power to currently excluded majorities and the activation of constituencies which suffer most from elite corruption, including both middle and working class movements and the political institutions which represent them.

(iii) The political economy of 'new corruption' and anti-corruption

As the contributions to this Bulletin accumulated, the editors read them with a growing sense of

alarm. Rather than witnessing a trend from the bad days of the 'old corruption' of economic *dirigisme* and political authoritarianism to a new dawn of economic competition and political accountability, we discovered the rise of a 'new corruption', rooted in the logic of economic and political liberalization, reflecting the activity of rapacious local elites no longer subject to the domestic and international constraints of the Cold War era and increasingly pervaded by criminal or 'mafioso' forces. It might of course be said that these are mere transitional teething problems. In the long run, since competitive markets will destroy the basis of rent-seeking and democratic institutions will create the political constraints necessary to enforce accountability, corruption will wither away. Historically speaking, however, this took a very long time in the currently industrialized countries and corruption is far from withering away there. Moreover, there are fundamental processes currently at work which make this scenario seem utopian. Domestic and international liberalization - by undermining the political credibility and regulatory capacities of many states- has contributed to a more generalized process of political decay. This reduces the incentives for probity on the part of officials and politicians, and creates a widespread social alienation from the political process. In turn this alienation reduces the possibility of strong political movements emerging to wage war on corruption.

Does this mean that action to reduce corruption in the here and now is impossible, a prospect which is distasteful to professionals in the 'can-do' world of development? As Mushtaq Khan and Barbara Harriss-White argue forcefully, we can begin by improving our understanding of the phenomenon by going beyond the currently dominant economic analyses (notably rent-seeking theory) and seeking to integrate their insights within a broader framework of political economy which situates corrupt transactions within the context of challenges to specific 'political settlements'. The identification of corruption also needs to extend beyond its traditional focus on the state to a wider consideration of both state and civil society since, as several of our contributors argue, the impact of liberalization is to displace the *primum mobile* of corruption from the state into the market sphere.

As for practical measures, the situation at first glimpse looks bleak because our case-studies show that there can be a huge array of anti-corruption institutions, regulations and laws available in a given society (Venezuela, for example), but not worth the paper they are written on without the political impetus to make them effective. In the recent past, there have been few success-stories in combating corruption. There are cases where a hegemonic political institution has been able to impose effective constraints (the usual example is the People's Action Party in Singapore), but these seem rare and Singapore is very special (as is Hong Kong which is also often cited as a success). If we are interested in effective as opposed to declaratory measures, we need to understand the forces and motives underlying the politics of anti-corruption. Comparative experience of anti-corruption 'clean-ups' within authoritarian systems suggests that, to be effective, they need to rank high on the national political agenda and the political leadership must be 'committed' to them. But how can both these political conditions be achieved in the context of democratic polities?

Both economic liberalization and democratization can liberate political resources and opportunities for combating corruption. They can free up power monopolies in society and reduce the feasibility of corrupt behaviour through greater openness and competition. Tat Yan Kong's study of South Korea shows how democratization can open up these possibilities, even in the face of the continuing political hegemony of an alliance between state officials and big business. The extent to which these opportunities can be seized upon and exploited depends on the mobilization of wider political constituencies in civil society, both at the national and the global levels. It no longer seems plausible that corruption will simply die away in the long term as an automatic consequence of some overall systemic transformation, whether this be economic liberalization, political democratization or social modernization. Each of these processes may create contexts conducive to controlling corruption, but the role of human agency is crucial. We can expect that countries at similar levels of political, social and economic maturity may be characterized by varying levels of corruption (for example, Italy versus the United Kingdom, Japan versus Germany, Singapore versus South Korea). This suggests that the task of

combating corruption has its own 'autonomous' political status. It is likely to require a protracted battle over political space in which 'clean' areas are captured and defended and then gradually expanded to cover more and more social and political territory. It is in this wider context that the 'good governance' and 'civil society' agendas of the donor agencies - applied indirectly and incrementally - may play a role, albeit a small one.

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