

Mungiu-Pippidi, Alina; Hartmann, Till

Book Part — Accepted Manuscript (Postprint)

Corruption and Development: A Reappraisal

Suggested Citation: Mungiu-Pippidi, Alina; Hartmann, Till (2019) : Corruption and Development: A Reappraisal, In: Oxford Research Encyclopedia of Economics and Finance, Oxford University Press, Oxford,
<http://dx.doi.org/10.1093/acrefore/9780190625979.013.237>

This Version is available at:
<http://hdl.handle.net/10419/225072>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Corruption and Development: An Overview

Alina Mungiu-Pippidi and Till Hartmann

Subject: Economic Development , Public Economics and Policy Online Publication Date: Jul 2019

DOI: 10.1093/acrefore/9780190625979.013.237

Summary and Keywords

Corruption and development are two mutually related concepts equally shifting in meaning across time. The predominant 21st-century view of government that regards corruption as unacceptable has its theoretical roots in ancient Western thought, as well as Eastern thought. This condemning view of corruption coexisted at all times with a more morally indifferent or neutral approach that found its expression most notably in development scholars of the 1960s and 1970s who viewed corruption as an enabler of development rather than an obstacle. Research on the nexus between corruption and development has identified mechanisms that enable corruption and offered theories of change, which have informed practical development policies. Interventions adopting a principal agent approach fit better the advanced economies, where corruption is an exception, rather than the emerging economies, where the opposite of corruption, the norm of ethical universalism, has yet to be built. In such contexts corruption is better approached from a collective action perspective. Reviewing cross-national data for the period 1996–2017, it becomes apparent that the control of corruption stagnated in most countries and only a few exceptions exist. For a lasting improvement of the control of corruption, societies need to reduce the resources for corruption while simultaneously increasing constraints. The evolution of a governance regime requires a multiple stakeholder endeavor reaching beyond the sphere of government involving the press, business, and a strong and activist civil society.

Keywords: corruption, development, modernization, collective action, principal agent

The Stakes

Number sixteen of the Sustainable Development Goals, a UN manifesto officially adopted by United Nations and applicable from January 2016 with 2030 as its target, states as objectives “the provision of access to justice for all, and building effective, accountable institutions at all levels.” While these broad “good governance” objectives were preferred to a more straightforward “corruption eradication,” goal sixteen is nevertheless a clear statement that development implies universal access to justice and accountable government. Transparency International, an international NGO, has long maintained that a relationship exists between high levels of corruption and a country’s failure to achieve the Millennium Development Goals, the more material predecessors of the Sustainable Development Goals. In other words, corruption allegedly is the main obstacle for comprehensive development.¹ A considerable though by no means internally consistent body of research by the Bretton Woods institutions and academia also claims that “poor quality of institutions,” the euphemism by which systematic corruption has come to be known, presents the major obstacle to economic development. The argument was put most eloquently in an international bestseller by Acemoglu and Robinson (2012) who see in the persistence of “extractive institutions” over “inclusive” ones the reason why some nations fail and others succeed. In various shapes and forms, such arguments have become the mantra of development agencies after the lack of success of the “Washington consensus”

macroeconomic reforms in the last decade of the 20th century and the need to amend them through a more context-sensitive approach.

Following the footsteps of two classic paper, Bardhan (1997) and Rose-Ackermann (1998), this article focuses on the interplay between two concept, each equally shifting in meaning across time: corruption and development. Following the bulk of literature and the need to limit the topic to an encyclopedia on finance and economics, our main focus is on economic development. We thus address corruption and its opposite, good governance, as macro equilibria reached by human societies explaining the enabling of merit in both private and public sector versus a public allocation system based on privileged connections with authority holders.

In the first part we show the theoretical roots of the current Western view of government that sees corruption as unacceptable, despite the existence at all times of a competitive, more indifferent or neutral, approach. We then explore the complexity of issues within the nexus of development and corruption, as well as the alternative explanations offered across time and across academic disciplines for why and how corruption deters development and what could be undertaken in response. We finally focus on the mechanisms that enable corruption and review the theories of change offered by the main corruption theories and their performance in practice.

Classic Views on Why Corruption Is Bad for a Polity

The presumption that corruption is intrinsically opposed to the welfare of a polity comes from the ancients and is embedded in the most influential Western thought, as well as Eastern thought. Both Plato (2018) and Aristotle (2013) argued that the definition of a virtuous ruler is the one whose government is dedicated to the common, and not the self-interest. Righteous forms of government according to Aristotle are those in which “the one, the few or the many govern with a view to the common interest: but the governments which rule with a view to the private interest whether of the one, or of the few or of the many are deviations” (quoted in Mulgan, 2012, p. 30). Cicero synthesizes Greek and Roman thought on the matter best when he explains in his *De Officiis* (On duties) that “those who propose to take charge of the affairs of government should not fail to remember two of Plato’s rules: first, to keep the good of the people so clearly in view that regardless of their own interests they will make their every action conform to that; second, to care for the welfare of the whole body politic and not in serving the interests of some one party to betray the rest. For the administration of the government, like the office of a trustee, must be conducted for the benefit of those entrusted to one’s care, not of those to whom it is entrusted. Now, those who care for the interests of a part of the citizens and neglect another part, introduce into the civil service a dangerous element—dissension and party strife” (Cicero, 1994, p. 66). This definition of good government as non-partisan government and of the good state as autonomous from private interest enjoyed a long and distinguished intellectual history, to inform 20th-century thought through Max Weber’s sociology of political regimes, introducing terms such as universalism (as opposed to particularism) and impersonal treatment (in the case of bureaucracy) as opposed to patriarchal or patrimonial (when public and private realm are unduly fused) (Weber, 1947).² The name of this governance doctrine that succeeded in becoming prevalent with the Western modernization is “ethical universalism in public life.” This evolution should not be taken for granted; indeed, as James Q. Wilson argues, universalism and individualism, which spread in the West after the Enlightenment to become generally held norms, are neither natural, nor necessarily and invariably good principles (Wilson, 1993). Eastern tradition is equally old and solid. While the Western tradition primed the equality of rights—in other words, equality before the law as fundamental to good governance—Confucius argued back in 500 BC that the secret of good governance is a balanced social allocation: “To centralize wealth is to disperse the people; to distribute wealth is to collect the people” (quoted in Dawson, 2002, p. 179); “If the people have plenty, their prince will not be left to want alone. If the people are in want, their prince will not be able to enjoy plenty alone” (quoted in Dawson, 2002, p. 180). The negative impact of corruption on societal progress was also alluded to by 14th-century Arab historian Ibn Khaldun. He perceived corruption as a major threat to *asabiyyah*, a concept he used to describe group feeling, solidarity, and social cohesion, which he regarded as central in explaining the rise and fall of societies (Ibn Khaldun, 1987). The ideas whereby good governance

entails a society based on equality, solidarity, and trust between the ruler and the ruled, are in fact very old, and corruption was always defined by the ancients in both the West and the East as government in the private interest of the rulers versus the good governance, which is exercised in the public interest of all.³ The most common definition of corruption in the 21st century, used by Transparency International as the misuse of public authority for undue private gain, is in fact an Aristotelian definition by all counts. It is also far broader than illegal corruption, or just bribery, which is often removed from the broader corruption context to be discussed separately. How to establish what is the public interest of all and what policies lead to advancement is what makes up the whole realm of public policy. Starting with the 19th century and Jeremy Bentham's utilitarian doctrine that good governance is "freedom and effective drainage," the intervention of the government was supposed to be either minimal or benevolent, thus no room for corruption would exist (Bentham, 1996). Adam Smith put forth the core doctrine of liberalism by arguing that social welfare arises incidentally, as a by-product of pursuing self-interest: "By pursuing his own interest [one] frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good" (Smith, 2007, p. 293). The rise of Marxism and socialism, with its promotion of the elimination of private property and economic freedom in favor of a social welfare entirely planned and implemented by the state (which would later "wither away," in the words of Engels) led to the development of the 20th-century defense of classical liberalism, with Ludwig von Mises (2005) or Friedrich Hayek (2011) arguing that the more government intervenes, the less it can achieve social welfare.⁴ In the classic liberal view, development and corruption are incompatible, and government favoritism necessarily develops out of government discretion, impeding merit as a basis of wealth development. As Ayn Rand put it: "When you see that money is flowing to those who deal, not in goods, but in favors—when you see that men get richer by graft and by pull than by work, and your laws don't protect you against them, but protect them against you—when you see corruption being rewarded and honesty becoming a self-sacrifice—you may know that your society is doomed" (Rand, 1957, p. 413).

Corruption and Its Opposites

Later on, but on the same foundations, the economist Daron Acemoglu (Acemoglu, 1995) developed an equilibrium model of the allocation of talent between productive and unproductive activities (such as rent seeking), arguing that allocations of past generations, as well as expectations of future allocations influence current rewards and the society may get trapped in a "rent-seeking" steady state equilibrium. Rent seeking is a concept coined by the economist Anne Krueger (Krueger, 1974) to indicate the situation when firms compete for privileges from the authorities (for instance, import licenses) rather than in a free market. Krueger also implies that the behavior of entrepreneurs is affected by rent-generating restrictions, which exist in all economies and should be pictured as a continuum between a system of no restrictions whatsoever and a perfectly restricted system. In the absence of restrictions, entrepreneurs would seek to achieve windfall gains by adopting new technology, anticipating market shifts correctly; in other words, incentives would exist for merit as the main source of wealth. With full restrictions, regulations would be so all-pervasive that rent seeking would be the only route to gain, and therefore entrepreneurs would devote all their time and resources to capturing windfall rents (Krueger, 1974). Her paper was explicitly aimed at the developing world, and it had in common with an earlier paper by Gordon Tullock (who looked more at United States and developed economies) that it forecast high social costs for such an economy of privilege versus a free market, since seeking monopoly privilege would imply a wasteful investment of resources (Tullock, 1967). Tullock and Buchanan, two prominent scholars of a school of thought known as "public choice" also introduced the useful distinction between profit seeking and rent seeking, with the former based on merit (providing a product or service that consumers would be willing to pay more for than the opportunity cost of the resources used) and the latter based on coercion by preventing others from competing equally or by forcibly taking their wealth (Buchanan et al., 1980). Unlike profit seeking by market means, rent seeking by political means does not create wealth; it merely transfers it from one party to another and wastes resources (the ones used to get the rents) because these are invested to produce an outcome in which nothing of value is created. Furthermore, acquiring rents through political power distorts the operation of the market process, impinging on interest rates and the prices of goods and services. So rent seeking of this kind actually destroys wealth (Buchanan, Tollison,

& Tullock, 1980). Moreover, rent seeking tends over time to create perverse incentives as more people feel encouraged to engage in it, trying to acquire political power either to gain advantages over the less powerful. Therefore, it subverts rule of law, private property, and trust in government, a commodity Confucius valued above defense means and food, because, as he put it, “Death has always been the lot of men; but if the people have no faith in their rulers, there is no standing for the state” (Confucius, 2010, Sect. 3, Part 12).

Another Nobel Prize–winning economist, Douglass North, has advanced the preliminaries of a theory on why development and corruption evolve in inverse progression, arguing that “as human beings became increasingly interdependent, and more complex institutional structures were necessary to capture the potential gains from trade,” societies needed to “develop institutions that will permit anonymous, impersonal exchange across time and space”; however, their success in creating the *right* institutions varied due to diverse “local experience” (North, 1993, p. 4). Societies that do not manage to create open access and impersonal, merit-based relation to govern both the market and the state–citizen relation remain poor. Their economy remains one of privilege, and their state remains captured by particular interests and does not evolve to ethical universalism. Even if competition exists both in politics and in the economy in such a society, the main stake of politics amounts to spoiling public resources to the benefit of particular groups (Mungiu-Pippidi, 2006). Of course, there are no ideal types to be found in reality, and the evolution between an economy completely regulated by particular interests monopolizing authority to control economic rents and its contrary, an open economy where freedom and rule of law allow perfect competition is a continuum, as Krueger (1974) suggested. Some authors focus more on the processes defining the continuum, others on its outcomes, but we find a consistent approach in recent years across disciplines. This is to consider the capacity of the state to enforce public versus private interest is the major feature of governance, shaping social allocation and consequently development. The set of opposites in Table 1 show remarkable consistency and should actually be seen more as complements of an emerging consensus across at least economics, historical sociology, and political science. The more public authority is misused to create economic advantage for particular interests instead of contract protection and minimal transaction costs for every firm, the less wealth creation there will be.

Table 1. Governance Orders

Author	Continuum “bad” extreme	Continuum “good” extreme
Krueger (1974) on rent seeking societies	Government restrictions	No government restrictions
Mungiu-Pippidi (2006, 2015b) on control of corruption	Particularism (favoritism and corruption)	Ethical universalism
North, Wallis, and Weingast (2009) on social order and violence	Limited access order	Open access order
Rothstein and Teorell (2008) on quality of government	Favoritism	Impartiality
Acemoglu and Robinson (2012) on prosperity	Extractive institutions	Inclusive institutions

These ideal types of governance defining the continuum are rarely considered in much of the popularization of corruption literature, which abound in discussions about “types” or “modes.” While particularism in public allocation can be encountered in myriad forms, there are no theoretical grounds to presume that lower-level corruption of the scale (“petty”) is different from the corruption on the top of the scale (“grand”). What seems to differ is rather the scale of the opportunity or the shape of the corrupt act (which depends on the nature of the particular interactions of government with private interests in that area). It is only certain that such forms vary across different development contexts, and the nature of available rents as Michael Johnston argues when describing his “syndromes” of corruption (Johnston, 2005).

Two important conclusions arise from here, none without contesters. Firstly, social scientists increasingly agree that particularism, and not ethical universalism, is the humanity’s default condition. Particularism has overwhelmingly predominated in governance throughout human history. Societies based on open and equal access and public integrity, far from being some certain historical endpoints, have in fact been the exception. This did not deter the promoters of the United Nations Convention against Corruption (UNCAC), however. More than 180 countries are party to this pledge of allegiance to the ethically universalistic treatment of citizens, governance delivered impersonally by a state that is not beholden by private interests. Secondly, there is also clear agreement between the authors cited in Table 1, although not always acknowledged, on the primacy of institutions over economic development, or what Acemoglu and Robinson call “the primacy of politics.” Good “inclusive” institutions or “open access,” which need their separate explanation, precede economic development. This is the core of the contemporary “corruption and development” argument.

This brief introduction is not complete without a mention of limitations. Both “corruption” and “development” are ambiguous and historically sensitive concepts. Development was hardly used as a term before World War II: Its predecessors were “material progress” or “civilization” (Arndt, 1989). The absence of a political development producing impersonality and public-private separation, so a modern state based on formal, not informal institutions is frequently called “corrupt” as such in development literature. Corruption thus might actually be seen as endogenous to both economic and political development rendering a discussion between their relationship quite absurd. The social sciences do not have an equivalent to the hierarchical classification system of species, invented by Swedish scientist Carl Linnaeus (b. 1707–d. 1778) in the 18th century to allow us to rank governments as more or less evolved. There is no agreed-upon scale of modernity, and we find only partial correlations between progress in economic development, good governance, freedom, and human happiness, among others. Modernization theorists have long argued for some progressive stages of development, and this belief still informs behavior in development agencies, although it is largely discredited in academia. This being said, the different theories on how to generate good governance and economic development, or rather development by way of good governance, have amassed some empirical evidence by now, and we shall review the more recent ones and the evidence in their favor in the next sections.

Corruption in the Grand Theories of Development

There is no unified and universally acknowledged theory of development that integrates an answer to the problem of institutional quality, although recent works by Acemoglu and Robinson (2012), Collier (2008), Diamond (1999), Fukuyama (2004), and North, Wallace, and Weingast (2009) have shown some—not always acknowledged—convergence. In the postwar development theory very little was discussed about corruption. The linear stages of growth model of Rostow (1959) focused on capital and investment and the Marxist theories of development, such as dependency theory, structuralism, and world-system theory, largely ignore the possibility of government failure and are concerned with the asymmetry of economic relations on the global stage (Prebisch, 1959; Wallerstein, 1974). Modernization theory is the only one which concerned itself with corruption, whose rise in developing societies it could not fail to notice, but it saw it rather as a side product or even an enabler of development. In terms of change, this school of thought, which cuts across disciplines, argues for the primacy of economic versus institutional development.

Corruption as an Enabler of Development

In the 1960s and 1970s, many scholars concerned with political development challenged the condemnation of corruption on moralistic grounds and argued for a more development-sensitive approach. They shared the belief that corruption is a natural feature of every state at an early stage of modernization and development. The so-called revisionists argued that corruption could, at least occasionally and at times systematically, have a positive impact on processes of modernization and development (Heidenheimer, 1978). These theorized mechanisms link the occurrence of corruption to positive changes in various outcomes including economic development (Leff, 1964; Leys, 1965; Nye, 1967), state-building (McMullan, 1961), and political development (Huntington, 1968; Scott, 1969).

Leff (1964) argued that corruption can be beneficial for economic development in contexts in which government and bureaucracy lack interest or capacity to promote economic activities. In such contexts, entrepreneurs would use corruption to steer bureaucratic support (e.g., issuance of licenses, credit, etc.) toward the areas with most potential for economic growth. Furthermore, Leff (1964) contends that corruption introduces an element of competitive bidding, because scarce public resources such as government contracts and permits are allocated to the entrepreneur offering the highest bribe. It is assumed, then, that allocation efficiency is maintained since only the lowest-cost enterprises will be able to pay the highest bribe. Similarly, Leys (1965) rejects the notion that bribery is an obstacle to development per se, arguing that where

bureaucracy is both elaborate and inefficient, personal incentives to bureaucrats to cut red tape may be the only way of speeding up the establishment of new enterprises. In addition to cutting red tape and helping entrepreneurship, Nye (1967) highlighted the function of corruption as a means for governments to acquire capital. In contexts of low tax revenue and scarce private capital, he argues, corruption may be an important source of capital formation for governments.

The revisionists also discussed the positive impact of corruption on social integration and state-building processes. Particularly influential for this line of reasoning was the seminal sociological study “Social Theory and Social Structure” by Robert K. Merton, published first in 1949. In this study, Merton argues that corruption associated with political machines in the United States enabled social integration because it fulfilled important functions neglected by official structures and helped “humaniz[e] and personaliz[e] all manner of assistance to those in need” (1968, p. 128). Later on, others built on Merton’s ideas of corruption when studying the societal consequences of corruption in developing country contexts (Heidenheimer, 1970). For example, focusing his analysis on West Africa, McMullan contends that low-level corruption can help soften the relations between officials and people, since “the greater the corruption the greater the harmony between corruptor and corruptee” (1961, p. 197). Similarly, Shils notes that low-level corruption would not be detrimental to the development of states that gained independence in the 1950s and 1960s in Africa and Asia “since it introduces a certain, amount of flexibility, . . . [and] ‘humanizes’ government” (1960, p. 385). Corruption would not only facilitate non-elite integration into newly established states by softening the relations between officials and people, but it would also boost elite integration by helping overcome divisions in ruling elites that might otherwise result in open conflict. For instance, McMullan observes that high-level corruption “throws a bridge between those who hold political power and those who control wealth, enabling the two classes, . . . , to assimilate each other” (1961, p. 196). Referring to England and the United States in the 18th century and Mexico in its consolidation phase after the revolution, Needler contends that in those cases corruption “facilitated the transition to a more stable and orderly politics” (1961, p. 311). Bayley (1966) also pointed out that corruption provides a stake in the system for groups potentially disaffected as a result of exclusion from power. Summarizing the potential role of corruption, particularly in the early phase of state-building processes, Leys writes that it “is to serve as a cement—‘a *hyphen* which joins, a *buckle* which fastens’ the otherwise separate and conflicting elements of a society into a body politic” (1965, p. 219).

Huntington (1968) also argued that some forms of corruption could contribute to political development by helping to strengthen political parties. In particular, “patronage from above . . . has contributed directly to the building of the most effective political parties and most stable political systems” (p. 70). Similarly, Scott finds that “the growth of corruption surrounding elections in developing nations may in fact indicate the growing effectiveness of popular democracy” (1969, p. 332). Scott’s argument is that in most developing countries voting behavior would be driven by “the desire for immediate, particularistic gains” rather than “class consciousness and ideological concerns” and therefore “in the short run, at least, competitive political parties are more likely to respond to the incentives that motivate their clientele than to transform the nature of these incentives” (1969, p. 332). Furthermore, Scott argued that in environments where particularistic interests capture de jure policy formulation, corruption provides “an alternative means of interest articulation” (1969, p. 326) that allows political demands originating outside elite circles to influence de facto policy implementation. Scott’s analysis thus contains a conceptual redefinition of corruption as “one of many processes of political influence [rather] than as simply the misuse of office in violation of community norms” (1969, p. 325).

Despite discussing different forms and functions of corruption, revisionists are united in the view that corruption is a natural aspect of the development process and that it would wither away as states reach higher stages of modernization. Economic growth has always been regarded as the single most important component of the modernization process and its promotion the primary objective of most proposed interventions. Assuming that economic development takes precedence over institutional development, the most promising theory of change in the fight against corruption would be the promotion of economic growth by way of reducing red tape and strengthening competition, and indeed the early Bretton Woods literature stressed that.

Since the late 1970s, the idea of corruption serving a functional role in the development process has been criticized by many scholars who pointed to several limitations of such arguments in favor of the detrimental effects of corruption (Bardhan, 1997). Despite occasional publications by scholars such as Lui (1985) or Méon and Weill (2010), who discuss positive consequences of corruption, the view that corruption hinders rather than enables development has gradually come to dominate the discourse in both development research and practice ever since. It should also be noted that a new generation of independent states, in particular in Africa, brought to power kleptocracies that were less present when Huntington and Nye were observing development 10 to 20 years earlier, when many newly independent states were run by nationalist dictators supported by bureaucracies largely left over from colonial times, which were later replaced.

Corruption as an Obstacle to Development

Earlier studies that can be related to this view had their grounds in culturalist theories. Anthropologists such as Edward Banfield observed that the lack of development of a small town in Italy was largely due to “amoral familism,” a term he coined to describe the stress on the immediate family over the common good. He argued that “amoral familism” was the main obstacle to development as it prevented people from engaging in group action to improve community conditions, such as problems related to the education and health infrastructure, thus also hindering development in the long run (Banfield, 1958).

A few years later, Olson (1965) applied an economist’s perspective to analyze the underlying reasons for the observed lack of collective action for common interests. Olson argued that when individuals believe they can receive the benefits of cooperation without having to contribute to the cost, they will rather free-ride and leave the cooperation to others. This tension between individual and collective best interest is the central problem of collective action. According to Olson, a society will never be able to overcome it unless deliberate measures are put in place that incentivize groups to engage in collective action for the common interest, and not just self or group interest.

Although very different in academic backgrounds, Banfield and Olson share a common pessimistic view. They both grant a central role to institutions but see little potential for a change of practices, since incentives for change are difficult to come by. They both received criticism on various grounds, but the main commonality in their approach is the difficulty of building a theory of change on their work. There is clearly some primordial element in their explanation of the persistence of poor institutions, which seems problematic to both rational choice economists and policy activists. The difference between Basilicata, the region that Banfield studied, and any given northern Italian region has not gone away in more than half a century. However, although Basilicata, of course, has evolved, even if below expectations, there is still considerable room for empirically testing both Banfield’s and Olson’s theories, and their warnings should be considered when designing good governance policies.

A more direct connection between associativity and good governance, already implicit in Olson’s work, came with Robert Putnam, who finds that the lack of associative life in a community has severe detrimental consequences for the quality of its governance, and ultimately for its development. Comparing across Italian regions, Putnam (1994) argued that associative life in the form of networks of civic engagement would give rise to “social capital” (i.e., norms of reciprocity and trustworthiness) that could improve the efficiency of society by facilitating coordinated actions. However, there is no recipe in Putnam on how to stimulate collective action and generate association in areas of poverty and low trust in order to break the vicious cycle. Rather, a certain primordialism persists, as again the differences between northern and southern Italy he observed seem to come from completely different histories for centuries, resulting in quite dissimilar social structures and political cultures.

While the research finding that rule of law and corruption are tied to growth is somewhat older, the rise of the “institutional quality” paradigm occurred only after the first generation of Washington consensus reforms did not deliver the results expected in the 1990s. Critics such as Dani Rodrik (Rodrik, 2006) or Joseph Stiglitz (Stiglitz, 1999) then made the argument

that policies matter less than the institutional environment, and classic growth recipes such as privatization may underperform in the wrong context. In this view centered on institutions, “What matters are the rules of the game in a society, as defined by prevailing explicit and implicit behavioral norms and the ability to create appropriate incentives for desirable economic behavior” (Rodrik & Subramanian, 2003, p. 31). The IMF economists Mauro (1995) and Tanzi and Davoodi (1998) established the first connections between corruption and growth, on one hand, and corruption and government spending, on the other. Meanwhile, La Porta, Lopez de Silanes, Shleifer, and Vishny (1998) found prosperity associated with rule of law, particularly in Anglo-Saxon systems. North, Wallis, and Weingast (2009), Acemoglu and Robinson (2012), and Rodrik, Subramanian, and Trebbi (2002) developed evidence-based theories that strengthened the primacy of institutions argument, thereby also implicitly increasing awareness about the role of corruption in the development process. This latest set of theories by economists, however, is different from earlier culturalists insofar as they presume that change is possible. For example, it has been suggested that the quality of institutions could be altered either endogenously by way of democratization (Acemoglu & Robinson, 2006) or reducing the size of the state (Becker, 1994), or exogenously through competition-inducing trade (Ades & Di Tella, 1999). The historical European mechanism of change seems to have been the gradual “inclusiveness,” as first the monarchs then the elites reacted to changes in the fabric of society or existential threats, implementing reforms in order to control contentious politics or avoid popular uprisings such as the French Revolution (Acemoglu & Robinson, 2006; North et al., 2009; Fukuyama, 2015).

Implications of Corruption Theories on Development

Following the gradual erosion of the taboo in researching corruption as a topic in its own right, after the so-called augmented Washington consensus (which acknowledged the importance of rule of law for development), numerous studies appeared that explicitly addressed the issue of corruption and concluded that societies incur substantial economic and social costs as a result of corruption.

In the first systematic cross-country empirical analysis relating measurements of corruption to development outcomes, Mauro (1995) found that corruption significantly lowers investment, thereby reducing economic growth. Subsequent studies found that corruption also leads to lower quality of public investment (Tanzi & Davoodi, 1998; Iliopoulos & Arnone, 2007) and less private investment, both domestic (Al-Sadig, 2010) and foreign (Zurawicki & Habib, 2010; Godinez & Liu, 2015). Lambsdorff (2003) found that corruption reduces productivity, and Gupta et al. (1998) found that corruption increases income inequality and poverty. Other studies have shown that corruption negatively affects both public revenues (Besley & Persson, 2014; IMF, 2015; Aghion, Akcigit, Cage, & Kerr, 2016) and public expenditures (Mauro, 1998), thus limiting the state’s ability to carry out its functions. What is more, corruption can contribute to poor social and environmental outcomes. It causes inefficiencies in public service provision (Reinikka & Svensson, 2006) and can deprive a country of its human capital by fostering emigration to places that are being perceived as more meritocratic (Cooray & Schneider, 2016). Corruption can undermine the enforcement of environmental regulations leading to increased pollution (Pellegrini, 2011) and over-extraction of natural resources (OECD, 2012). An article in the scientific journal *Nature* shows that corruption is associated with low investment in education and research, poor innovation capacity, and brain drain—so corruption tends to subvert major growth sources (Mungiu-Pippidi, 2015A). Corruption has been labeled a “regressive tax,” as numerous studies found that corruption is a major source of inequality (Khagram & You, 2005). Based on these findings about negative correlations between corruption and key development factors, the interrelation between corruption and underdevelopment is widely acknowledged in the current academic discourse. The gain from addressing the issue directly and treating it as a dependent variable (explicitly investigating the causes and consequences of corruption) was somewhat offset, however, by the lack of a general theory in many such studies and their firm anchoring at the individual level, which deprived them of a link with development. Most corruption theory is insensitive to development context as it presumes that incentives for either integrity or corruption are to be found at the individual level and can be addressed by policies at that level. This led to the

dominance of principal–agent mechanism as an explanation for corruption behavior, as well as for the exploration of anti-corruption mechanisms by more recent studies by behavioral economists. This last section focuses on the criticism of this approach as both a mechanism and a theory of change potential for developing contexts and argues for a development sensitive approach in corruption studies.

Corruption as a Principal–Agent Problem

The principal–agent theory, which emerged in the 1970s from the fields of economics and institutional theory, was extended to the study of corruption, most notably by Rose-Ackerman (1978) and Klitgaard (1988). Since then, the principal–agent view on corruption has shaped most corruption research. A systematic review of evidence on the economic growth impacts of corruption concluded that all of the 39 theoretical studies included in the review “either adhered to an explicitly-stated principal–agent approach to corruption, or their account was closely related to that approach” (Ugur & Dasgupta, 2011, p. 43).

Through the lens of the principal–agent framework, corruption in the public sector is viewed as an agency loss problem, in which agents betray their principals reaping private gain at the expense of public interest. There are multiple layers of principal–agent relationships in every political system, which run from voters to politicians to bureaucrats. Depending on the research perspective, who is given the role of principal or agent may differ. When studying political corruption, for example, voters would be modeled as principals and elected politicians as agents (Tanzi & Davoodi, 1998; Adserà, Boix, & Payne, 2003; Besley, 2007). When discussing bureaucratic corruption, elected politicians would be modeled as principals and bureaucrats as agents (Acemoglu & Verdier, 2000; Van Rijckeghem & Weder, 2001; Blackburn, Bose, & Emranul Haque, 2010). Due to information asymmetry, the principal is unable to fully monitor the actions of the agent, allowing the agent more discretion to pursue his or her own self-interest. Corruption thus occurs as a form of moral hazard when the interests of the principal and the agent are not aligned, and the agent pursues his or her own self-interest at the expense of the interest of the principal.

Principal–agent theory builds on the rational-choice assumption that an agent will only decide to engage in corruption if the expected net benefits outweigh the net costs, or the principle of “deterrence,” as outlined by Nobel Prize–winning economist Gary Becker in a seminal paper on the cost-benefit analysis on crime and punishment (Becker, 1968). When making the decision of whether to engage in corruption or not, a rational agent will compare the benefits resulting from corruption, for example, the amount of the bribe, with the costs, which primarily depend on the probability of getting caught and penalized. Klitgaard (1988) pointed out that this cost-benefit calculation should also consider the “moral cost” of corruption, which depends on the agent’s own ethical, cultural, and religious standards and may approach zero for “an unscrupulous person in a corrupt subculture” (p. 69). Consequently, Klitgaard (1988) presumed that a rational agent would engage in corruption only if:

$$\textit{bribe} - \textit{moral cost} - (\textit{probability of detection} \times \textit{penalty}) > \textit{salary} + \textit{moral benefit}$$

The direct implication of this formula is, or should be, that in an environment of institutional corruption, incentives for regulators to detect and penalize corruption are low, so the problem might well be insoluble if approached at this level. Policy interventions based on the principal–agent model remain, however, relegated to the realm of individual cost-benefit manipulation: attempts to raise the cost of corruption for agents mainly by way of expanding monitoring mechanisms by the principals, increasing penalties, and raising public sector wages. Nevertheless, over the last decades, policy implications stemming from principal–agent theory have fundamentally shaped international anti-corruption policy (Marquette & Peiffer, 2015).

Criticism of Principal–Agent Theory

Most of the policies promoted by the international anti-corruption regime have fallen short of expectations, with minimal change across the developing world after 1996, when corruption measurements became available (Norad, 2011; Johnson, Taxell, & Zaum, 2012; Mungiu-Pippidi, 2015B). Some scholars observed that in some countries corruption has even increased along with the efforts to curb it (Levy, 2004; Johnston, 2005; Lawson, 2009). One explanation for the poor track record of anti-corruption interventions may be precisely their grounding in a conceptualization of corruption as a principal–agent problem, which treats the problem as an individual one, while in contexts of systemic corruption a systemic approach would be needed. Some scholars (Mungiu-Pippidi, 2011; Rothstein, 2011; Persson, Rothstein, & Teorell, 2013) argue that, in developing contexts, corruption should rather be viewed as a collective action problem and suggest using Elinor’s Ostrom collective action theory (Ostrom, 1990) as an alternative analytical tool.

For instance, they argue that corruption is a social dilemma, because where corruption is systemic, it becomes a social norm to which individuals conform rather than diverge—individual behavior is constrained by what is perceived as a common practice or an institution (World Bank, 2014). Public resources also present a common pool problem because they are being spoiled by everyone (and why refrain when everyone else is doing it), and this is why corruption creates public deficits and debt in developing countries, pushing reformers (for instance in Chile, Brazil) to radical proposals, for instance constitutional bans on spending decisions by members of parliament (Mungiu-Pippidi, 2015B; Benfratello, Del Monte, & Pennacchio, 2018). Finally, even when constant losers from and dissenters of corruption exist (which is not mandatory, as societies based on clientelism have different networks most people belong to, according to Eisenstadt & Roniger, 1984), they just do not combine forces to challenge the rules of the game; as Olson (1965) predicted, cooperation is low, and people prefer either to join the existing patronage networks when possible or to exit altogether (brain drain). The *absence of collective action* (among challengers) and the *selective collective action* present (as self-serving networks operate, for instance the Mafia) thus combine to subvert any agency oriented toward a change in the status quo.

The principal–agent model suggests that the problem of corruption lies primarily with the agent. While the agent in the model is constantly tempted to engage in corruption, it is assumed that the principal is not corrupt and willing to enforce integrity rules. But what if the principal too is corrupt and does not hold agents accountable for corrupt activities because the government itself is actually not accountable? Most anti-corruption interventions take place in contexts of systemic corruption where, arguably, it is rather the rule than the exception that political decision makers engage in corruption. Furthermore, anti-corruption interventions are generally decoupled from policies seeking to increase accountability, especially political accountability, as they rely firmly on the presumption that the defective character with the deviant behavior lies with the agent and takes for granted the commitment to integrity of the principal. In such contexts, anti-corruption measures based on the principal–agent model are likely to remain ineffective or even have detrimental effects, for example, if they provide corrupt principals with instruments to use against political opponents.

The difference between the two approaches is most apparent in concepts such as “bureaucratic corruption,” a widely used term in development literature with thousands of citations. In pure linguistic terms, “bureaucratic corruption” is an oxymoron. The *Oxford Dictionary* defines the oxymoron as a figure of speech in which apparently contradictory terms appear in conjunction. Now bureaucracy is, according to the same source, a system of government in which most of the important decisions are taken by state officials rather than by elected representatives. Max Weber argued in *Economy and Society* (Weber, 1978) that bureaucracy is defined by written formal rules of operation, organized by strict hierarchy and labor division, with recruitment and advancement based on skills and merit evaluation; furthermore, it is efficient and concerned with efficiency and, above all, operates in an impersonal environment that it creates. Bureaucracy allegedly rationalizes government by the elimination of personalistic and particularistic features related to any private interest—so it is, in other words, autonomous from any private interest. The interests of the bureaucrats are aligned with the interest of the state’s. That means that, by definition, bureaucracy is inimical to favoritism, as it operates by rules blind to the claimant’s

background and not by personal connections or family loyalties, as previous forms of governance (feudalism or patriarchy) have done. Weber explains why bureaucracy appeared in Europe in the 19th century but also discusses other types of historical bureaucracies.

Leff defines bureaucratic corruption as “the practice of buying favors from the bureaucrats responsible for formulating and administering the government’s economic policies. Typical examples are bribery to obtain foreign exchange, import, export, investment or production licenses, or to avoid paying taxes” (1964, p. 8). Leff explains that corruption is the result of government intervention in the economy that assigns some resource allocation responsibilities to a bureaucratic structure. It is in this bureaucratic discretion, he argues, that the source of corruption is to be found. The model presumes weak policymakers and strong bureaucrats, who no longer control just policy implementation but social allocation itself—the distribution of costs and benefits in a society. This implies that policymakers (whether autocrats or democrats) are powerless and the bureaucrats untouchable and immovable. In the even more popular variant of the model advanced by Rose-Ackerman, the focus is on the bribery of bureaucrats by companies in the government contracting process, and the presumption is that factors shaping the incidence of such phenomena are endogenous to the bureaucracy or, at maximum, to the government itself (Rose-Ackerman & Palifka, 2016).

Both models allude to discretionary legislation, which encourages favoritism, but we do know that bureaucracies cannot pass laws—although they may contribute to their writing. Bureaucrats may have some discretion, but they do not make the rules—they implement the rules. Is it not too much neglect in these models for those who make rules allocating costs or rewards? And equally, to those who appoint or remove bureaucrats? A further, third model, “the grabbing hand” of Shleifer and Vishny takes a step further, acknowledging that the rules might be purposely crafted to extract rents: “Heavy and arbitrary taxes retard investment, regulations [that] enrich corrupt bureaucrats, state firms [that] consume national wealth” (2002, back cover copy), but still they attribute it rather to “public sector institutions” than plainly to government. Once acknowledging that the rules, including the rules giving discretion to bureaucrats, are what matter, the necessary next step is to acknowledge that politics (and not some form of government organization) is what empowers or deters corruption. Corruption is about power, and governments in which the bureaucracy is stronger than the politicians or the heads of state are difficult to find in developing countries. These administrations can hardly be called “bureaucracies,” as they are entirely dependent on the rulers (in neo-patrimonial regimes), or the elected officials (where free and fair elections coincide with systematic corruption such as in environments of competitive particularism [see Mungiu-Pippidi, 2015B]). In other words, when speaking about “bureaucratic corruption” the presumption of autonomy for bureaucracy from the political factor must—at least to some extent—be satisfied. Or on the contrary, as the majority of literature on the developing world states, the evidence tilts toward a lack of autonomy from administrations characterized by nepotism, patronage, politicization, and high turnover: In sub-Saharan Africa for many decades only two countries qualified as having a bureaucracy reasonably autonomous from the political factor, both at the appointment level and for the rest of the bureaucrats’ career: Botswana and Mauritius. In post-EU accession eastern Europe, except for the Baltic countries, politicization has continued to be rule of the game (Goldsmith, 1999; Meyer-Sahling, 2011). Furthermore, evidence exists of collusion between politicians and their bureaucrats in promoting “perverse economic policies, which while impoverishing most of society, provide concentrated and significant benefits to the national elites and interest groups,” (i.e., in rent creation) (Mbaku, 1996). Most “bureaucratic corruption” literature seems simply unaware of the possibility that a civil servant does not operate autonomously in a framework of institutional corruption but rather is a soldier in a greater public resource spoiling army. The assumption does not bother to test this relatively simple empirical question: Does an autonomous bureaucracy even exist? Little contextualization exists in corruption literature, with a few exceptions (Huther & Shah, 2000), and terms such as “bureaucratic,” “grand,” or “petty” corruption are instead prevalent, although their fit outside the developed world is poor. Still, there has always been a consistent tradition in empirical, and increasingly theoretical studies as well, to approach corruption as a practice, in a more sociological way. Eisenstadt and Roniger (1984), Johnston (2005), Mungiu-Pippidi (2006), North et al. (2009), and Acemoglu and Robinson (2012) offer deeply researched societal-level governance models, from which individual behavior can be presumed or deduced rather than the other way around.

In short, principal–agent models are a better fit for developed and modern contexts, which have already reached rule of law and enjoy autonomous bureaucracies, appointed by merit and tenured, and do not fit developing or simply poor countries. We can thus distinguish between a context A, where corruption is an exception, bureaucracy is autonomous, and the elected principal is non-corrupt by default—so principal–agent model applies—from context B, where the goal of the ruler is the particularistic allocation of resources, the bureaucrat is a tool or an accessory to reach this goal, and the rest of the world is made up of clients with different patrons or exploitable human resources. In the former context, the corrupt agent is just a deviant and can be sanctioned by the principal if exposed. In the second, the principal colludes with the agent, corruption being exercised through a pyramidal organization that extracts resources disproportionately in favor of the most powerful group. So, anti-corruption implies solving power discretion and collective action problems. The developing countries are, obviously, closer to context B, and the Nobel Prize question is what makes them evolve into A.

Historically, a strong bureaucracy developed as an answer to another problem, that of absolutist monarchs who needed to improve either their tax capacity or the efficiency of their military: Where its birth was ulterior to broad suffrage, as in the United States or France, the problem of bureaucratic corruption proved resilient over the years (Heidenheimer, 1996). The existence of an autonomous bureaucracy is so much a part of the definition of control of corruption that it should be considered to be part of the dependent variable and not a truly independent factor, if we are to avoid the vicious cycle of “when the solution is the problem” described by development scholars (Pritchett & Woolcock, 2004). In corrupt countries, bureaucracies are entirely part of the problem through politicization, nepotism, or patronage, and working to improve bureaucracy separately from the issue of broader government accountability is problematic. Development agencies need to understand corruption as a social practice or institution, not just as a sum of individual corrupt acts, and acknowledge its political character as well.

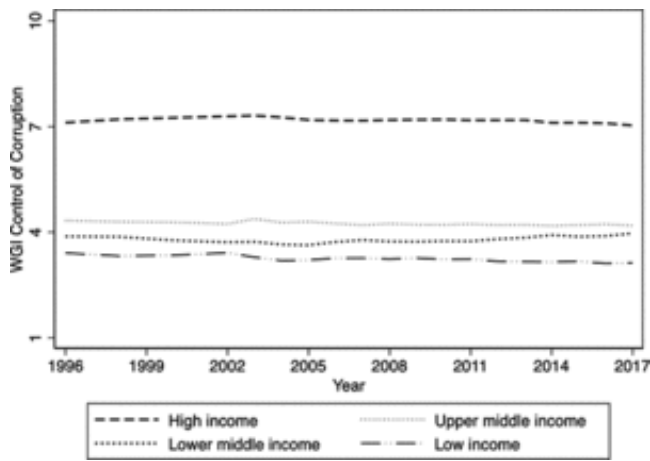
Furthermore, presuming that ethical universalism is the default norm is wrong from a development perspective, since even countries in which ethical universalism is the governance norm presently were not always this way: From sales of offices to class privileges and electoral corruption, the histories of even the cleanest countries show that good governance is the product of evolution, and modernity is a long and frequently incomplete endeavor to develop bureaucracy autonomy in the face of private group interests. Neither historical sociology nor anthropology have ever made the claim that the kind of impersonal and objective bureaucratic relations that Max Weber described as informing modern states are some sort of final unavoidable stage in a long chain of evolution. Andvig and Moene (1990) developed an empirical model of bureaucratic corruption that focuses on the demand as well as the supply side and on finding multiple equilibria, which highlights the context differences across countries and possibly across time as well.

The consequences of addressing corruption in systematically corrupt countries by principal–agent approaches copied from countries where corruption is a deviation are not negligible, as tools that aim to build norms may be different from tools needed to maintain norms. It is well established that merit-based bureaucracies are essential for both development and government capacity (Rauch & Evans, 2000; Dahlström, Lapuente, & Teorell, 2012; Dahlström & Lapuente, 2017), but how to rebuild the western European virtuous sequence of modernity creating autonomous and accountable bureaucracies? The question is particularly tough for democracies, since most historical or contemporary success cases have been monarchies, more or less autocratic (Denmark, Germany, Japan, Bhutan, Qatar) or other forms of enlightened “strong” leader-driven regimes (South Korea, Singapore, Taiwan). Few exceptions exist (Mungiu-Pippidi & Johnston, 2017).

The Theories of Change in Corruption and Development

Governance at national level is notoriously difficult to change. While that can be blamed partly on lagging perception indicators, the difficulty of real change also has to be acknowledged. Simply put, governance regimes seem more difficult to change than political regimes, and corruption is a pattern of social allocation deeply engrained in a society. Corruption

depends on intrinsic power structures and therefore tends to be stable (Mungiu-Pippidi & Dadašov, 2016). Even when we consider the more recent objective indicators of corruption, their evolution from year to year is not significant. In 2017 for instance, the world scored 6.64 on average in the Index for Public Integrity up from 6.57 in 2015 (the first year covered). Moreover, there was little significant change in any of the six components of public integrity: judicial independence, freedom of the press, digital empowerment (“e-citizenship”), administrative burden, fiscal transparency, and trade red tape.⁵ If we calculate the average change over the longer time series of the World Bank’s Control of Corruption (CoC) perception indicator, covering 20 years and across the six income groups of countries, we notice that change is only incremental, with most countries stagnating and no visible trend of convergence or divergence across income groups can be discerned (see Figure 1). The presumption of the revisionists—that economic development take primacy over institutions—has weak evidence in the recent past since we have data, but institutionalists do not find much support, either: on the average, the world developed, but control of corruption stagnated (see Figure 2). The countries that have grown in this interval are not exactly famous for their anticorruption (China is the most notorious example). The exceptions are Taiwan and South Korea, two countries where gradual development, as modernization theory would predict, has led to more political inclusiveness and more demand for good governance, which finally triggered a governance evolution (Mungiu-Pippidi & Johnston, 2017). The use of different proxies and the packaging of complex realities in simplified hypotheses makes it unlikely that this kind of quantitative approach can ever do justice to the complex multivariate origin of economic development.

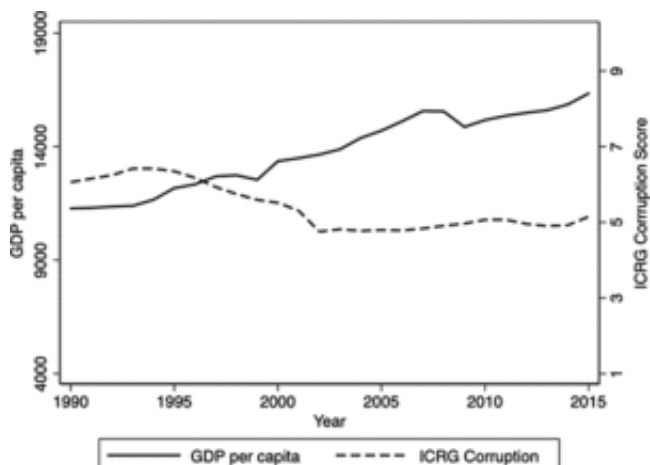


Click to view larger

Figure 1. Evolutions on control of corruption by income group, 1996–2017.

Legend: World Governance Indicator on Control of Corruption (recoded 1 to 10 best); countries assigned to income groups as per June 2018 World Bank income group classification.

Source: World Bank Open Data.



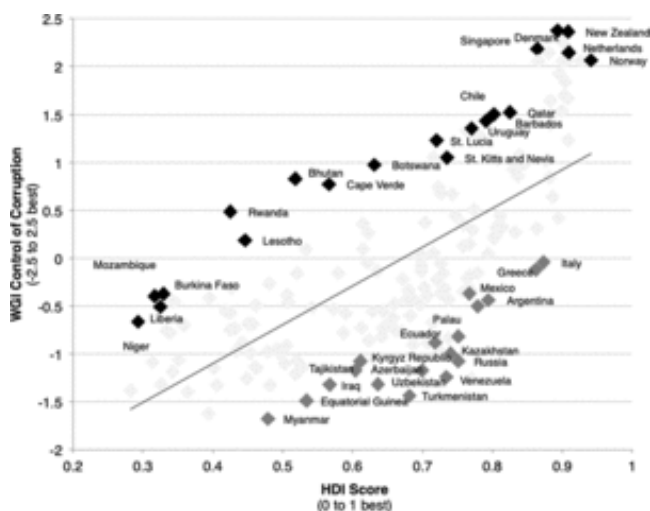
[Click to view larger](#)

Figure 2. Trends in corruption and economic development.

Legend: GDP per capita in constant 2010 USD, N=150;
World Governance Indicator on Control of Corruption (recoded 1 to 10 best), N=130.

Source: World Bank Open Data; International Country Risk Guide (ICRG).

The main change theory in development—modernization—is fraught with causal ambiguity. Factors such as inequality, education, and urbanization explain both corruption and prosperity directly. Development agencies invest in these areas in hopes of achieving both. Causality runs both ways, however, frequently resulting in vicious circles: the best governed countries are those that have historically reached mass literacy first, whereas present corrupt governments tend to underinvest in education (Uslaner & Rothstein, 2016; Mauro, 1995). Modernity, however, or human capital, as captured in the human development index, explains only a little more than half the variation in control of corruption (Mungiu-Pippidi, 2015B). The association of control of corruption with human development index shows that some countries over-perform, and others under-perform on governance in view of their human development, while in most of the countries we find a close correspondence (see Figure 3). Countries that seem to have found the virtuous circle of development by political agency are New Zealand, Norway, Denmark, Singapore, Chile, Uruguay, Georgia, Estonia, Costa Rica, and Botswana (positive outliers). Countries that under-perform are Argentina, Azerbaijan, Greece, Italy, Venezuela, Zimbabwe, and Central Asian countries. Countries that perform on governance as expected considering their human development index (confirming modernization theory) are grayed out in Figure 3, which shows only positive and negative outliers. How an optimal balance was reached or was missed in such countries is a source of useful lessons (Mungiu-Pippidi & Johnston, 2017). The presence among such achiever countries, with a poor fit to a classic modernization model by the time they started their transformation (Chile, South Korea, Georgia, Botswana, Singapore), also shows that transitions from one governance order to another can be engineered and steered despite structural constraints, although this is not frequent (Mungiu-Pippidi, 2017).



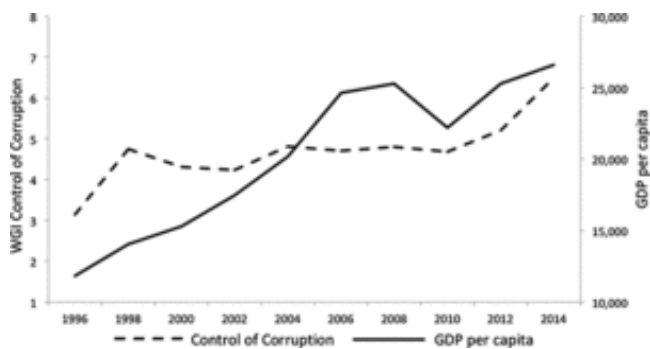
[Click to view larger](#)

Figure 3. Human development and control of corruption: The outliers.

Legend: Bivariate regression with outliers featured;
N=188.

Source: UNDP for Human Development Index (2015);
World Bank for World Governance Indicator on Control of Corruption (2015).

The primacy of politics over development, as put forward by Acemoglu and Robinson (2012), also has mixed evidence or better explains the lack of change rather than the change itself. The free, partly free, and above rule-of-law-average countries (on the World Bank rule of law indicator) have registered stagnation on average or a very slight progress over the last fifteen years in the World Bank control of corruption indicator (Johnston, 2005; Mungiu-Pippidi & Dadašov, 2017). Of the few countries that have managed to progress significantly on governance in the past 30 years, it has been reported (Mungiu-Pippidi, 2015B; Mungiu-Pippidi & Johnston, 2017) that Chile, Uruguay, Costa Rica, Estonia, Georgia, and Botswana present clear evidence of the primacy of politics, as political reforms clearly preceded economic take off, such as with the creation of a strong independent auditor/judicial review agency (the general controller) in Chile. Among these few successful, present-day transitions from particularism, Estonia emerges as the case that managed to strike the right balance in a relatively short time—about a decade. Its example was emulated by Georgia, a country with greater structural problems (partial control over its territory, refugees, territorial, and economic conflict with a powerful neighbor country). Both countries experienced full-fledged revolutions, with civil societies taking over government overnight and political liberalization accompanied by free-market reforms aimed at taking away the old elites’ rents. In both Estonia and Georgia, there was an alternative elite committed to ethical-universalist ideas. In Estonia this was the group around the young nationalist historian Mart Laar (later an adviser for the Georgian reforms as well), who was able to engineer eastern Europe’s most successful transition. During his first stint as prime minister (1992–1994), he replaced almost every judge left over from Soviet times with either very young or very old magistrates (who had not been first socialized into Communist habits), simplified administration, and uprooted much of the “resource base” for corruption by removing legal privileges for public companies, passing a flat tax, and cutting red tape. Mart Laar replaced the Communist-era bureaucracy with a merit-based recruited one and respected its autonomy. When he returned to the premiership from 1999 until early 2002, he furthered the cause of good governance by initiating what has by now become the most advanced e-government system in the world (a single ID card is used for paying taxes, public parking, and voting, etc.). Grasping that in a post-Communist context it matters a great deal who the first capitalists are, the Estonians prevented the Communist-holdover networks of enterprise managers, secret police bureaucrats, and other nomenklaturists from emerging as the transition’s big winners and controllers, thereby sparing Estonia the crony capitalism that has blighted Ukraine and Russia for the past 20 years. In both Estonia and Georgia growth followed political reforms (see Figure 4).



[Click to view larger](#)

Figure 4. Trends on growth and good governance in Estonia.

Legend: World Governance Indicator on Control of Corruption (recoded 1 to 10 best); GDP per capita in constant 2011 PPP dollars.

Source: World Bank Open Data.

Why do we have so few cases of successful evolution? Persson, Rothstein, and Teorell (2013) argued that “in a context in which corruption is the expected behavior, monitoring devices and punishment regimes should be largely ineffective since there will simply be no actors that have an incentive to hold corrupt officials accountable” (p. 457). In other words, the principal-agent tools are inadequate for developing contexts. But collective action theorists have been so far more

successful in proving this than offering solutions of their own. Social dilemmas are notoriously difficult to solve, and the cases cited here (e.g., Estonia and Georgia) had exceptional leaders. Changing the governance order in a society from one in which corruption is the norm to one in which corruption is the exception may require a “big bang” involving all major political, economic, and social institutions (Rothstein, 2011). For a coalition to be successful in creating a lasting change of societal trust and norms, it should change the suboptimal equilibrium that particularistic societies rely on by reducing resources for corruption, as Laar did, simultaneously with increasing constraints (Mungiu-Pippidi, 2015B). The tools that deliver cut across state and society, as they rely for their implementation on more than just the state. For instance, financial disclosures for officials work only in the presence of a free press, and freedom of information acts only when civil society is strong and activist (Mungiu-Pippidi and Dadašov, 2016; Vargas & Schlutz, 2016); so while there is little development without control of corruption, there is also no progress on control of corruption without significant civil society development.

References

- Acemoglu, D. (1995). **Reward structures and the allocation of talent**. *European Economic Review*, 39(1), 17–33.
Find this resource:
- Acemoglu, D., & Robinson, J. A. (2006). *Economic origins of dictatorship and democracy*. New York, NY: Cambridge University Press.
Find this resource:
- Acemoglu, D., & Robinson, J. A. (2012). *Why nations fail: The origins of power, prosperity and poverty* (1st ed). New York, NY: Crown.
Find this resource:
- Acemoglu, D., & Verdier, T. (2000). **The choice between market failures and corruption**. *The American Economic Review*, 90(1), 194–211.
Find this resource:
- Ades, A., & Di Tella, R. (1999). Rents, competition, and corruption. *The American Economic Review*, 89(4), 982–993.
Find this resource:
- Adserà, A., Boix, C., & Payne, M. (2003). **Are you being served? Political accountability and quality of government**. *Journal of Law, Economics, and Organization*, 19(2), 445–490.
Find this resource:
- Aghion, P., Akcigit, U., Cagé, J., & Kerr, W. (2016). **Taxation, corruption, and growth**. No. w21928. Cambridge, MA: National Bureau of Economic Research.
Find this resource:
- Al-Sadig, A. (2010). **Corruption and private domestic investment: Evidence from developing countries**. *International Journal of Economic Policy in Emerging Economies*, 3(1), 47.
Find this resource:
- Andvig, J. C., & Moene, K. O. (1990). **How corruption may corrupt**. *Journal of Economic Behavior & Organization*, 13(1), 63–76.
Find this resource:
- Aristotle, Barker, E., & Stalley, R. F. (1998). *Politics*. In *Oxford World's Classics*. New York: Oxford University Press.

Find this resource:

Arndt, H. W. (1989). *Economic development: The history of an idea*. Chicago, IL: University of Chicago Press.

Find this resource:

Banfield, E. C. (1958). *The moral basis of a backward society*. Glencoe, IL: The Free Press.

Find this resource:

Bardhan, P. (1997). Corruption and development: A review of issues. *Journal of Economic Literature*, 35(3), 1320–1346.

Find this resource:

Bayley, D. H. (1966). The effects of corruption in a developing nation. *Political Research Quarterly*, 19(4), 719–732.

Find this resource:

Becker, G. S. (1968). **Crime and punishment: An economic approach**. *ResearchGate*, 76(2), 169–217.

Find this resource:

Becker, G. S. (1994). To root out corruption, boot out big government. *Business Week*, 31(1), 18.

Find this resource:

Benfratello, L., Del Monte, A., & Pennacchio, L. (2018). **Corruption and public debt: A cross-country analysis**. *Applied Economics Letters*, 25(5), 340–344.

Find this resource:

Bentham, J. (1996). *The collected works of Jeremy Bentham: An introduction to the principles of morals and legislation*. Oxford, U.K.: Clarendon Press.

Find this resource:

Besley, T. (2007). *Principled agents? The political economy of good government*. Oxford, U.K.: Oxford University Press.

Find this resource:

Besley, T., & Persson, T. (2014). **Why do developing countries tax so little?** *Journal of Economic Perspectives*, 28(4), 99–120.

Find this resource:

Blackburn, K., Bose, N., & Emranul Haque, M. (2010). Endogenous corruption in economic development. *Journal of Economic Studies*, 37(1), 4–25.

Find this resource:

Buchanan, J. M., Tollison, R. D., & Tullock, G. (1980). *Toward a theory of the rent-seeking society*. College Station: Texas A&M University.

Find this resource:

Cicero. (1994). **Oxford Classical Texts: M. Tulli Ciceronis: De Officiis** (M. Winterbottom, Ed.). Oxford University Press, New York.

Find this resource:

Collier, P. (2008). *The bottom billion: Why the poorest countries are failing and what can be done about it*. Oxford, U.K.: Oxford University Press.

Find this resource:

Confucius. (2010). *The analects of Confucius*. Auckland, NZ: Floating Press.

Find this resource:

Cooray, A., & Schneider, F. (2016). **Does corruption promote emigration? An empirical examination**. *Journal of Population Economics*, 29(1), 293–310.

Find this resource:

Dahlström, C., Lapuente, V., & Teorell, J. (2012). **The merit of meritocratization: Politics, bureaucracy, and the institutional deterrents of corruption**. *Political Research Quarterly*, 65(3), 656–668.

Find this resource:

Dahlström, C., & Lapuente, V. (2017). **Organizing Leviathan: Politicians, bureaucrats, and the making of good government**. Cambridge, U.K.: Cambridge University Press.

Find this resource:

Dawson, M. M. (Ed.). (2002). *The Ethics of Confucius*. Honolulu, HI: University Press of the Pacific.

Find this resource:

Diamond, L. (1999). *Developing democracy: Toward consolidation* (new). Baltimore, MD: Johns Hopkins University Press.

Find this resource:

Eisenstadt, S. N., & Roniger, L. (1984). *Patrons, clients and friends: Interpersonal relations and the structure of trust in society*. Cambridge, U.K.: Cambridge University Press.

Find this resource:

Engels, F. (1948). *Herrn Eugen Dührings Umwälzung der Wissenschaft: ("Anti-Dühring")* (Vol. 3). Dietz.

Find this resource:

Fukuyama, F. (2004). *State-building: Governance and world order in the 21st century*. Ithaca, NY: Cornell University Press.

Find this resource:

Fukuyama, F. (2015). *Political order and political decay: From the industrial revolution to the globalization of democracy*. New York, NY: Macmillan.

Find this resource:

Godinez, J. R., & Liu, L. (2015). **Corruption distance and FDI flows into Latin America**. *International Business Review*, 24(1), 33–42.

Find this resource:

Goldsmith, A. A. (1999). **Africa's overgrown state reconsidered: Bureaucracy and economic growth**. *World Politics*, 51(4), 520–546.

Find this resource:

Gupta, S., Davoodi, H., & Alonso-Terme, R. (1998). **Does corruption affect income inequality and poverty?** *IMF Working Papers*, 98(76), 1.

Find this resource:

Hayek, F. A. (2011). *The constitution of liberty: The definitive edition*. Chicago, IL: University of Chicago Press.

Find this resource:

Heidenheimer, A. J. (1970). *Political corruption: Readings in comparative analysis*. New York, NY: Holt.

Find this resource:

Heidenheimer, A. J. (Ed.). (1978). *Political corruption: Readings in comparative analysis*. New Brunswick, NJ: Transaction Books.

Find this resource:

Heidenheimer, A. J. (1996). **The topography of corruption: Explorations in a comparative perspective**. *International Social Science Journal*, 48(149), 337–347.

Find this resource:

Huntington, S. P. (1968). *Political order in changing societies*. New Haven, CT: Yale University Press.

Find this resource:

Huther, J., & Shah, A. (2000). **Anti-corruption policies and programs: A framework for valuation**. ResearchGate, 2501. World Bank Policy Research Paper, Washington, DC.

Find this resource:

Ibn Khaldun, A. al-R. ibn M. (1987). *The Muqaddimah: an introduction to history*. (F. Rosenthal, Trans.). London, U.K.: Routledge and Kegan Paul.

Find this resource:

Iliopoulos, E., & Arnone, M. (2007). **The cost of corruption**. Milan, Italy: V&P.

Find this resource:

IMF. (2015). **Current challenges in revenue mobilization: Improving tax compliance (IMF Policy Paper)**. IMF Policy Paper, Washington, DC, USA

Find this resource:

Johnsøn, J., Taxell, N., & Zaum, D. (2012). *Mapping evidence gaps in anti-corruption: Assessing the state of the operationally relevant evidence on donor's actions and approaches to reducing corruption* (U4 Issue No. 7). Bergen, Norway.

Find this resource:

Johnston, M. (2005). *Syndromes of corruption: Wealth, power, and democracy*. New York, NY: Cambridge University Press.

Find this resource:

Khagram, S., & You, J.-S. (2005, February). Inequality and corruption. *American Sociological Review*, 70, 136–157.

Find this resource:

Klitgaard, R. E. (1988). **Controlling corruption**. Berkeley: University of California Press.

Find this resource:

Krueger, A. O. (1974). The political economy of the rent-seeking society. *The American Economic Review*, 64(3), 291–303.

Find this resource:

La Porta, R., Lopez de Silanes, F., Shleifer, A., & Vishny, R. W. (1998). **Law and finance**. *Journal of Political Economy*, 106(6), 1113–1155.

Find this resource:

Lambsdorff, J. G. (2003). **How corruption affects productivity**. *Kyklos*, 56(4), 457–474.

Find this resource:

Lawson, L. (2009). **The politics of anti-corruption reform in Africa.** *The Journal of Modern African Studies*, 47(1), 73.

Find this resource:

Leff, N. H. (1964). **Economic development through bureaucratic corruption.** *American Behavioral Scientist*, 8(3), 8–14.

Find this resource:

Levy, B. (2004). **Governance and economic development in Africa: Meeting the challenge of capacity building.** In B. Levy & S. Kpundeh (Eds.), *Building state capacity in Africa: New approaches, emerging lessons* (pp. 1–42). Washington, DC: World Bank.

Find this resource:

Leys, C. (1965). What is the problem about corruption? *The Journal of Modern African Studies*, 3(2), 215–230.

Find this resource:

Lui, F. T. (1985). An equilibrium queuing model of bribery. *Journal of Political Economy*, 93(4), 760–781.

Find this resource:

Marquette, H., & Peiffer, C. (2015). *Corruption and collective action*. Research Paper No. 32. Birmingham, U.K.: University of Birmingham.

Find this resource:

Mauro, P. (1995). **Corruption and growth.** *The Quarterly Journal of Economics*, 110(3), 681–712.

Find this resource:

Mauro, Paolo. (1998). **Corruption and the composition of government expenditure.** *Journal of Public Economics*, 69(2), 263–279.

Find this resource:

Mbaku, J. M. (1996). Bureaucratic corruption in Africa: The futility of cleanups. *Cato Journal*, 16(1), 17.

Find this resource:

McMullan, M. (1961). **A theory of corruption.** *The Sociological Review*, 9(2), 181–201.

Find this resource:

Méon, P.-G., & Weill, L. (2010). **Is corruption an efficient grease?.** *World Development*, 38(3), 244–259.

Find this resource:

Merton, R. K. (1968). *Social theory and social structure* (3rd ed.). London, U.K.: Collier Macmillan.

Find this resource:

Meyer-Sahling, J.-H. (2011). **The durability of EU Civil Service policy in central and eastern Europe after accession: The Durability of EU Civil Service Policy.** *Governance*, 24(2), 231–260.

Find this resource:

Mulgan, R. (2012). **Aristotle on legality and corruption.** In M. Barcham, B. Hindess, & P. Larmour (Eds.), *Corruption: Expanding the focus*. Australian National University Press, Canberra.

Find this resource:

Mungiu-Pippidi, A. (2006). Corruption: Diagnosis and treatment. *Journal of Democracy*, 17(3), 86–99.

Find this resource:

Mungiu-Pippidi, A. (2011). **Contextual choices in fighting corruption: Lessons learned**. Norwegian Agency for Development Cooperation. Oslo, Norway.

Find this resource:

Mungiu-Pippidi, A. (2015a). **Corruption: Good governance powers innovation**. *Nature News*, 518(7539), 295.

Find this resource:

Mungiu-Pippidi, A. (2015b). *The quest for good governance: How societies develop control of corruption*. New York, NY: Cambridge University Press.

Find this resource:

Mungiu-Pippidi, A. (2017). **Corruption as social order**. In *WDR governance and the law*. Geneva, Switzerland: World Bank.

Find this resource:

Mungiu-Pippidi, A., & Dadašov, R. (2016). **Measuring control of corruption by a new index of public integrity**. *European Journal on Criminal Policy and Research*, 22(3), 415–438.

Find this resource:

Mungiu-Pippidi, A., & Dadašov, R. (2017). **When do anticorruption laws matter? The evidence on public integrity enabling contexts**. *Crime, Law and Social Change*.

Find this resource:

Mungiu-Pippidi, A., & Johnston, M. (Eds.). (2017). *Transitions to good governance creating virtuous circles of anticorruption*. Edward Elgar Publishing, Cheltenham, U.K.

Find this resource:

Needler, M. C. (1961). **The political development of Mexico**. *The American Political Science Review*, 55(2), 308.

Find this resource:

NORAD. (2011). *Joint evaluation of support to anti-corruption efforts 2002–2009: Synthesis*. Oslo, Norway: Norwegian Agency for Development Cooperation.

Find this resource:

North, D. (1993). **The new institutional economics and development**. St. Louis, MO: EconWPA.

Find this resource:

North, D. C., Wallis, J. J., & Weingast, B. R. (2009). *Violence and social orders: A conceptual framework for interpreting recorded human history*. New York, NY: Cambridge University Press.

Find this resource:

Nye, J. S. (1967). **Corruption and political development: A cost-benefit analysis**. *The American Political Science Review*, 61(2), 417–427.

Find this resource:

OECD. (2012). **Illegal trade in environmentally sensitive goods**. OECD Publishing. Paris, France.

Find this resource:

Olson, M. (1965). *The logic of collective action: Public goods and the theory of groups, second printing with new preface and appendix*. Cambridge, MA: Harvard University Press.

Find this resource:

Ostrom, E. (1990). *Governing the commons: The evolution of institutions for collective action*. New York, NY: Cambridge University Press.

Find this resource:

Pellegrini, L. (2011). **Corruption, democracy, democracy and environmental policy: An empirical contribution to the debate**. In L. Pellegrini (Ed.), *Corruption, development and the environment* (pp. 75–99). Dordrecht: Springer Netherlands.

Find this resource:

Persson, A., Rothstein, B., & Teorell, J. (2013). **Why Anticorruption Reforms Fail-Systemic Corruption as a Collective Action Problem**. *Governance*, 26(3), 449–471.

Find this resource:

Plato. (2018). *The republic*. (B. Jowett, Trans.). New York, NY: Clydesdale Press.

Find this resource:

Prebisch, R. (1959). Commercial policy in the underdeveloped countries. *The American Economic Review*, 49(2), 251–273.

Find this resource:

Pritchett, L., & Woolcock, M. (2004). **Solutions when the solution is the problem: Arraying the disarray in development**. *World Development*, 32(2), 191–212.

Find this resource:

Putnam, R. D. (1994). *Making democracy work: Civic traditions in modern Italy*. Princeton, NJ: Princeton University Press.

Find this resource:

Rand, A. (1957). *Atlas shrugged*. New York, NY: Random House.

Find this resource:

Rauch, J. E., & Evans, P. B. (2000). Bureaucratic structure and bureaucratic performance in less developed countries. *Journal of Public Economics*, 75, 49–71.

Find this resource:

Reinikka, R., & Svensson, J. (2006). **How corruption affects service delivery and what can be done about it**. In S. Rose-Ackerman (Ed.), *International handbook on the economics of corruption*. Cheltenham, U.K.: Edward Elgar Publishing.

Find this resource:

Riley, S. (1998). **The political economy of anti-corruption strategies in Africa**. *The European Journal of Development Research*, 10(1), 129–159.

Find this resource:

Rodrik, D. (2006). Goodbye Washington consensus, hello Washington confusion? A review of the World Bank's 'Economic Growth in the 1990s: Learning from a Decade of Reform.' *Journal of Economic Literature*, 44(4), 973–987.

Find this resource:

Rodrik, D., & Subramanian, A. (2003). The primacy of institutions. *Finance and Development*, 40, 31–34.

Find this resource:

Rodrik, D., Subramanian, A., & Trebbi, F. (2002). **Institutions rule: The primacy of institutions over geography and integration in economic development**. Working Paper no. 9305. Cambridge, MA: National Bureau of Economic Research.

Find this resource:

Rose-Ackerman, S. (1978). *Corruption: A study in political economy*. New York, NY: Academic Press.

Find this resource:

Rose-Ackerman, S. (1998). Corruption and development. In *Annual World Bank conference on development economics 1997* (pp. 35–57). Geneva, Switzerland: World Bank.

Find this resource:

Rose-Ackerman, S., & Palifka, B. J. (2016). *Corruption and government: Causes, consequences, and reform* (2nd ed.). New York, NY: Cambridge University Press.

Find this resource:

Rostow, W. W. (1959). **The stages of economic growth**. *The Economic History Review*, 12(1), 1–16.

Find this resource:

Rothstein, B. (2011). **Anti-corruption: The indirect ‘big bang’ approach** *ResearchGate*, 18(2), 228–250.

Find this resource:

Rothstein, B., & Teorell, J. (2008). **What is quality of government? A theory of impartial government institutions**. *Governance*, 21(2), 165–190.

Find this resource:

Scott, J. C. (1969). **The analysis of corruption in developing nations**. *Comparative Studies in Society and History*, 11(3), 315.

Find this resource:

Shils, E. (1960). **Political development in the new states (II)**. *Comparative Studies in Society and History*, 2(4), 379.

Find this resource:

Shleifer, A., & Vishny, R. W. (2002). *The grabbing hand: government pathologies and their cures* (2. print). Cambridge, MA: Harvard University Press.

Find this resource:

Smith, A. (2007). *An inquiry into the nature and causes of the wealth of nations*. Petersfield, U.K.: Harriman House.

Find this resource:

Stiglitz, J. E. (1999). **Keynote address: More instruments and broader goals: Moving toward the Post-Washington consensus**. Presented at the Villa Borsig Workshop Series. German Foundation for International Development (DSE). Berlin, Germany.

Find this resource:

Tanzi, V., & Davoodi, H. (1998). **Corruption, public investment, and growth**. In H. Shibata & T. Ichori (Eds.), *The welfare state, public investment, and growth* (pp. 41–60). Tokyo: Springer Japan.

Find this resource:

Transparency International. (2017). **No sustainable development without tackling corruption: the importance of tracking SDG 16**.

Find this resource:

Tullock, G. (1967). The welfare cost of tariffs, monopolies, and theft. *Western Economic Journal*, 5(3), 224–232.

Find this resource:

Ugur, M., & Dasgupta, N. (2011). *Evidence on the economic growth impacts of corruption in low-income countries and beyond: A systematic review*. London, U.K.: EPPI-Centre.

Find this resource:

Uslaner, E. M., & Rothstein, B. (2016). **The historical roots of corruption: State building, economic inequality, and mass education**. *Comparative Politics*, 48(2), 227–248.

Find this resource:

Van Rijckeghem, C., & Weder, B. (2001). **Bureaucratic corruption and the rate of temptation: Do wages in the civil service affect corruption, and by how much?**. *Journal of Development Economics*, 65(2), 307–331.

Find this resource:

Vargas, G. A., & Schlutz, D. (2016). **Opening public officials' coffers: A quantitative analysis of the impact of financial disclosure regulation on national corruption levels**. *European Journal on Criminal Policy and Research*, 22(3), 439–475.

Find this resource:

Von Mises, L. (2005). *Liberalism: The classical tradition*. Indianapolis, IN: Liberty Fund.

Find this resource:

Wallerstein, I. (1974). *The modern world system: Capitalist agriculture and the origins of the European world economy*. New York, NY: Academic Press.

Find this resource:

Weber, M. (1947). *The theory of social and economic organization*. (A. M. Henderson & T. Parsons, Trans.). New York, NY: Free Press.

Find this resource:

Weber, M. (1978). *Economy and society: An outline of interpretive sociology*. Berkeley: University of California Press.

Find this resource:

Wilson, J. Q. (1993). **The moral sense**. *American Political Science Review*, 87(1), 1–11.

Find this resource:

World Bank. (2014). **World Development Report 2015: Mind, society, and behavior**. Geneva, Switzerland: World Bank.

Find this resource:

World Economic Forum. (2010). **The Nordic way**. Davos, Switzerland: World Economic Forum.

Find this resource:

Zurawicki, L., & Habib, M. (2010). Corruption and foreign direct investment: What have we learned? *The International Business & Economics Research Journal*, 9(7), 1.

Find this resource:

Notes:

(1.) See Transparency International (2017).

(2.) See Mungiu-Pippidi (2015a), chapter 3.

(3.) Presently we have come to see it as “Scandinavian” or “the Nordic way” as framed by a World Economic Forum report: see World Economic Forum (2010).

(4.) See Engels (1948), Part 3, chapter 2.

(5.) Index of Public Integrity.

Alina Mungiu-Pippidi

European Research Centre for Anti-Corruption and State-Building (ERCAS), Hertie School of Governance

Till Hartmann

Hertie School of Governance

PRINTED FROM the OXFORD RESEARCH ENCYCLOPEDIA, ECONOMICS AND FINANCE (oxfordre.com/economics). (c) Oxford University Press USA, 2019. All F prohibited (for details see Privacy Policy and Legal Notice).

Subscriber: Hertie School of Governance; date: 31 July 2019

Log out