KYKLOS, Vol. 48 - 1995 - Fasc. 3, 419 - 435

A Theory of Limits on Corruption and some Applications

M.S. Alam*

I. INTRODUCTION

Why does corruption vary across government agencies within the same country and, frequently, across different functions within the same agency[1]?

Even in countries with a well-deserved reputation for widespread corruption, there is relatively little of it in their postal services or college admissions. Corruption may also vary across different functions in the same agency. Thus, post offices are almost completely free from corruption in the sale of stamps, but pilferage of letters and packages is more common. Similarly, there is little corruption in the servicing of deposits at state-owned banks, but a great deal more of it in their lending activities.

While an account of such differences might be offered in terms of differences in *potential* gains from corruption, this is obviously inadequate. For instance, the potential for illicit earnings in college admissions is considerably higher than in passport offices, yet corruption in passport offices is more common than in college admissions. A complete account of variations in corruption must be pursued in terms of differences in the *ability to realize* the potential gains from corruption; and this requires that we look at the countervailing actions (CA) which victims of corruption can take to resist their losses. An approach to corruption which turns on the concept of CA can explain both the details about

* Prof., Applied Economics Research Center, University of Karachi, Karachi, Pakistan and Department of Economics, Northeastern University, Boston, MA 02115, USA. I am grateful to Professors John Adams, Alice Amsden, Jonathan Haughton, Mancur Olson, Salim Rashid and Paul Streeten for their comments on earlier versions of this paper.

1. This paper defines corruption to include all deviations from the rules of public office, even those that are forced upon officials by outside threats: see Schenk (1989) and Wade (1982) for discussions on coercion of public officials by private agents. This is broader than Nye's (1967) definition which only includes deviations motivated by private gain.

corruption and identify the forces which account for variations in corruption across societies and over time.

Although losses are at least as reliable a spur to action as gains, there has been little systematic analysis concerning whether, and how, actions taken by losers might work to resist and set limits on corruption[2]. Curiously, the literature on corruption has been silent about its victims. Instead, it looks at corruption primarily from the perspective of winners, emphasizing the different *inducements* and *pressures* they face for engaging in corruption. As a result, variations in levels of corruption across countries and over time are generally explained in terms of the potential for illicit gains created by government interventions, although differences in value-systems and social structures also enter the analyses[3].

It is time to take the victims of corruption more seriously. Whenever corruption creates visible losses, its victims are likely to resist their losses by three broadly defined means: *evasive* CA which seek to reduce dependence on corrupt officials; *direct* CA which raise the costs to officials of engaging in corruption; and *illicit* CA which use corruption as a means of combating the losses from corruption. It is the primary task of this paper to work out the logic of these CA. The ability of losers to engage in CA depends on two types of factors. The first set of factors are *specific* to agencies and affect a society's capacity to engage in CA against corruption in those agencies. A second set of *global* factors affect the capacity of a society for engaging in CA *per se*. Variations in global factors account for differences in levels of corruption across countries and over time.

II. CORRUPTION AND COUNTERVAILING ACTIONS

The efficacy of CA in explaining variations in corruption across agencies will be examined *vis-à-vis* postal services, state-owned banks, passports, utility departments, irrigation, the police, college admissions, and a land-consolidation program; we also consider the possibility of CA against embezzlement in

2. Wade (1982) and Oldenburg (1987) have examined the actions of losers in the context of two specific programs – irrigation and land consolidation – in India.
3. Theobald (1990, ch. 4), Alam (1989) and Caiden and Caiden (1977) have reviewed this literature. More recent additions to this literature include Murphy, Shleifer and Vishny (1993) and Shleifer and Vishny (1993).

government. It may be noted that these examples are drawn from countries in South Asia[4].

Postal Services. Corruption in this agency is relatively uncommon, although it is higher in some activities than others. It is quite rare in the sale of postage stamps; more common in the processing of mail when letters may be pilfered for their mint stamps; and valuable packages are almost certain to be stolen. The reasons for these variations can be explained in terms of CA.

We should not underrate the potential for illicit gains in the sale of postage stamps. Most users of stamps would be willing to pay a considerable premium rather than go without them. The inability of postal officials to appropriate these premia can be explained by the ease of CA. Users have access to many post offices, making evasive actions easy. It is relatively inexpensive to stock up on stamps, reducing dependence on corrupt post offices. Also, post offices are generally small, and hence quite vulnerable to clients they might anger by demanding bribes[5].

Users can counter the pilferage of letters by having the stamps cancelled before they are mailed; they can substitute aerograms for envelopes; or, where this option exists, they can turn to post offices served by franking machines. On the other hand, there is little that users can do to prevent the pilferage of packages containing valuables.

Banking. While state-owned banks are notorious for corruption in their lending activities, there are few reports of corruption in the servicing of deposits. Corruption in lending is quite easily explained by its potential for large gains – with lending rates often below market-clearing levels – as well as the difficulty of mounting direct CA because kickbacks to bank officials are made in secrecy and cannot be substantiated in courts of law. Further, losers with high-yield uses for loans may prefer to respond with their own kickbacks, or turn to private banks or curb markets instead of engaging in direct CA.

The virtual absence of corruption in the servicing of deposits results from the strong CA available to depositors[6]. First, there generally exist several competing banks, each with multiple branches, ensuring that bank branches which

4. The intensity of corruption in any government agency may be defined as the *ratio* of actual to maximum gains from corruption in any activity. Although not without problems, this definition has the advantage of being consistent with our theory of CA: the *ratio* depends on the power of losers relative to winners from corruption.
5. Since postal services are a basic amenity the authorities are under pressure to service this need by opening post offices in every locality.
6. Corruption in servicing of deposits is not unknown. During his visit to Vietnam in February 1993, my colleague, Professor Jonathan Haughton, found that depositors had to pay a bribe of 5-8% on withdrawals from banks during the Tet holiday, and 1-2% after the holiday.

impose illicit taxes on withdrawals will lose their deposits to other branches and banks. If such illicit taxes were to become pervasive, they would almost certainly persuade many depositors to shun the banks altogether, leading to a serious erosion of the formal banking system, a development which most Governments would be at some pains to avoid[7].

Passports. Passport officials create the potential for illicit gains by causing delays and uncertainty in the processing of applications. Anticipating these dilatory tactics, some applicants will circumvent them by applying for passports ahead of time. Failure to do so leaves little room for evasive actions. There are few offices which issue passports; often they are located only in the big towns or cities, and frequently applications may be filed only in the province of the applicant's permanent residence. Direct CA against corrupt officials are also often difficult. The applicants do not have access to officials; they can only communicate with clerks sitting behind well-protected counters. Further, since the one-time bribe is generally small compared to the anticipated gains, most applicants will be unwilling to risk further delays by engaging in direct CA.

Utility Connections. Utility departments extract bribes in the same way as passports: by building delays and uncertainty in the procedures for receiving connections. CA are difficult for several reasons: these departments are monopolies; applicants have access to only one outlet; the bribes are one-time and small relative to losses from delays; and there are many losers, making collective action difficult[8]. However, there is generally less corruption in the servicing of utility connections such as water and gas, explainable in part by the difficulty of stopping the *flow* of these services selectively. Stopping services to an entire area – in order to collect bribes – is not without serious risks since field offices of these departments, located in the areas they service, would become vulnerable to attacks from the users.

Irrigation. This department's reputation for corruption is supported by Wade's (1982) case study of irrigation projects in an Indian state. He estimates that the rake-offs from investments in irrigation projects are at least as high as 25 percent of the total value of the project and sometimes as high as 50 percent.

The high levels of corruption in irrigation projects can be explained by the difficulties of CA. Contractors finance their kickbacks to irrigation officials by skimping on the quality and quantity of inputs used in the projects. Such skimping primarily reduces the lifespan of the projects, and hence is not

7. Government with a capitalized G refers to the decision-making elites in the executive, military and legislative branches of government.
8. There will be greater incentive for CA as housing and office construction come to be dominated by a small number of large building firms.

immediately discernible. Even when corruption is recognized to be the primary cause of the poor quality of projects, CA will be unlikely for two reasons. There are many users of an irrigation project, most of whom are small, often illiterate peasants, making it unlikely that they can organize for action. In any case, the affected peasants would prefer to lobby for quick repairs or replacements rather than organize CA against long-departed corrupt officials.

The Police. Corruption in the police is endemic. They enjoy wide powers which are used only infrequently to enforce the law; more often, they are used for extortion and to protect illegal activities. Why doesn't all this give rise to strong CA? Police corruption creates many victims, who seek legal protection, take their grievances to the press, and occasionally resort to attacks on police and police stations; but with little effect. The Government uses the police to implement strong-arm tactics against its opponents. Police corruption is, therefore, condoned as a cost of doing business with them.

College Admissions. Since professional degrees carry high – often very high – premia over alternative academic programs, the relatively low levels of corruption in college admissions is surprising[9]. This anomaly can, however, be explained by the capacity of students to engage forcefully in direct CA.

Admission to professional colleges is based on average grades: colleges announce cut-off grades at which admission begins. Since student unions can generally obtain lists of students admitted, irregularities in admissions are easily discovered. Applicants who are crowded out by backdoor admissions are unlikely to take this lying down. They will organize, seek support of student unions, take the matter to the press, the minister of education, and perhaps to the streets. Such protests will almost certainly draw support from the entire student body who will see their own chances of admission being put at risk by corruption. Governments, anxious to avoid these protests, will generally be eager to limit backdoor admissions.

Land Consolidation Program. In a study of land consolidation in the Indian state of Uttar Pradesh, Oldenburg (1987) concluded that corruption had a marginal impact on the outcome of the program. This is contrary to what one might expect, given that the program was staffed by poorly paid officials who were expected to make vital decisions about land rights in villages with high levels of illiteracy and significant inequalities of power. How, then, was corruption kept to a minimum?

9. According to Lekha Rattanani (1993, p. 49), some staffers at Bombay University estimate that 'at least 10 to 15 percent of the students who get junior college seats attached to schools and degree colleges (in Bombay) do so through money-backed backdoor admissions.'

Three related factors have been identified by Oldenburg (1987, pp. 514-519) to account for this result: the openness of the procedures followed for land-consolidation, provisions for speedy appeals, and the high stakes which each farmer has in his land. Land consolidation exercises were carried out openly, in the villages rather than in government offices, and villagers were kept informed of how the decisions affected them. Peasants had direct access to consolidation officers, ensuring that the latter were

> 'vulnerable to physical attack as they worked, exposed, in the villages; in several cases, officials are said to have been beaten or killed by enraged farmers.'[10]

All this, however, gives rise to a further question. Why were administrative procedures in this program designed to minimize the incidence of corruption? Although Oldenburg (1987) treats the official procedures as data that do not need explaining, the reasons are fairly obvious. In a democracy, where peasants have the right to vote, the discontent caused by widespread corruption in land consolidation would almost certainly be used by a radical opposition to undermine the ruling party.

Embezzlement. CA against embezzlement are difficult for two reasons: embezzlement is likely to remain invisible, and the losses it inflicts, although large, are collective[11]. Embezzlement can be checked only in countries that possess truly competitive partisan politics and a vigorous press. The scale of embezzlement one might expect in countries which lack vigorous democratic institutions is fully supported by *ex post* revelations regarding the fortunes of fallen heads of state.

In the long run, some indirect checks on large-scale embezzlement may come into play. Large and persistent drains on the treasury caused by embezzlement may invite corrective measures if they precipitate repeated economic crises which threaten the legitimacy of the Government. Multinational corporations, international banks and multilateral development agencies may add to these pressures if they find their investments and loans placed in jeopardy by the Government's corruption. Once mobilized, these institutions are capable of taking strong actions: they can pull out of the host country, refuse to make new loans, and threaten economic boycott in case of failure to service foreign debts. During the Cold War such actions were not encouraged because the host countries often provided valuable services in combatting communism. The end

10. Oldenburg (1987, p. 519).

11. Embezzlement can take many forms: loans from state-owned banks; diversion of funds from the treasury; theft of funds intended for office supplies; maintaining ghost workers on payrolls; excess billing for development expenditures; etc.

of the Cold War has greatly altered the conditions. Aid donors and creditors are now demanding political reforms as a condition for economic assistance, and increasingly they are asking for improvements in governance[12].

III. A THEORY OF COUNTERVAILING ACTIONS

The preceding examples of CA demonstrate that we have grasped an important social mechanism which, driven as it is by self-interest, acts automatically to set limits upon corruption. Our next task is to develop a theory of CA: to examine the forms of CA, their causes, and effects on corruption.

Corruption can evoke CA only if it creates losses that are visible to its victims. Although losses from corruption can be moral as well as material, this paper will only examine the latter[13]. This is because we seek to explore the dynamics of corruption in societies that have yet to internalize the norms of public office and where, as a consequence, moral losses are not strong enough to restrain corruption.

Forms. It was pointed out earlier that CA may take three forms: evasive, direct and illicit. Some additional comments are offered here on each of these forms.

When faced with corrupt demands, losers may relocate (to escape extortion), seek out officials who are not corrupt, find substitutes or private alternatives to goods or services provided by corrupt officials, forego such goods and services altogether, or take actions which alter the nature of their dependence on corrupt officials[14]. All these *evasive* CA have the effect of reducing the potential and actual gains from corrupt activities. Some of them are comparable to Hirschman's (1970) exit option.

Losers may also seek to reduce their losses by deterrent actions which raise the costs of engaging in corrupt activities. A partial list of such *direct* CA includes (i) confronting corrupt officials with evidence of their corrupt activities, (ii) taking complaints about corrupt officials to their superiors, (iii) taking corrupt officials to court, (iv) facilitating media reports about corrupt acts or officials, (v) use of violence, or its threat, against corrupt officials, (vi) voting

12. Riley (1992, p. 542).
13. Some agents may feel a *moral* loss from corruption because it is a deviation *per se* from the norms of public office; all other losses from corruption are described as *material*.
14. A farmer who grows crops which depend on timely supply of water from irrigation officials and, therefore, has to submit to their corrupt demands, may respond by switching to crops whose productivity is less dependent on timely supply of water.

against elected officials who are corrupt or tolerate corruption, (vii) picketing offices that engage in corruption, (viii) organizing strikes, boycotts or shut-downs against corruption, (ix) organizing campaigns or political parties to fight corruption, or (x) imposing sanctions against corrupt officials. These actions are comparable to Hirschman's (1970) voice option.

Illicit CA may take two forms. An individual may bribe officials to counter actual or anticipated losses from corruption. Alternatively, he may respond to actual or anticipated losses from corruption by using coercion against corrupt officials.

Factors Influencing CA. Attention may first be drawn to factors which determine the overall ability of losers to engage in CA. These *global* factors encompass (a) the state of human, political, and property rights; (b) an efficient and impartial judiciary; (d) media competition; (e) level and distribution of incomes; (f) level of education; (f) decentralization of government; (g) the state of communications technology; etc. These factors affect the ability to engage in CA *via* several channels. Most importantly, they determine the flow of information about corrupt activities and the range of instruments available for engaging in direct and evasive CA. But they also affect the ability of losers to evaluate information, to organize collective actions to resist their losses, and their bargaining powers in relation to gainers from corruption[15].

Decentralization has some interesting implications for CA. By creating multiple centers of authority, it amplifies the scope for evasive CA. Since it creates smaller units of government, it may also be expected to reduce the costs of information; not only does this reduce the cost of making trips to government offices, but it may also activate new informal flows of information about corrupt activities. Most importantly, matched against smaller units of government, the losers are likely to be more effective in their direct CA against corrupt officials.

There are several influences on CA which are likely to vary across corrupt activities: type of corruption, nature of losses from corruption, nature of transactions between officials and private agents, degree of access to corrupt officials, and characteristics of losers. The effects of these *specific* factors on incentives for engaging in CA will be examined briefly.

Losses from corruption are not always visible. Coercive corruption always creates visible losses, since coercion cannot be concealed from its direct victims. On the other hand, losses from collusive corruption, since they are borne by

15. It should be obvious upon reflection that the direct relationship between global factors and direct CA is reversed for illicit CA.

third parties, may not be visible to the losers[16]. Losses from collusive corruption can be attributed to corruption only when corruption itself is visible.

Official transactions which occur in the open, or across the counter, are less amenable to corruption: buying stamps at the post office, or tickets at the railway station, or cashing a cheque at the bank belong in this category. Most government transactions, however, occur on a one-on-one basis, making it easier to make collusive deals in secrecy. Transactions at airports, ports, immigration offices, or border crossings, which occur in enclosed spaces, or under the cover of security arrangements, are likely to facilitate coercive forms of corruption.

The character of losses from corruption may also vary across corrupt activities. Losses from corruption are *direct* when they have a direct bearing on individual rights or entitlements; they are *derived* when they are inferred from knowledge of a collective loss. Direct losses are likely to cause a stronger sense of deprivation than comparable derived losses. Similarly, the incentive for CA will vary directly with the size of losses relative to the incomes of losers. Losses from corruption may reduce present incomes or additions to incomes. Even when they are quantitatively the same, the principle of diminishing marginal utility alone ensures that welfare reductions from the first loss will be larger than those from the latter.

Various characteristics of losers – their numbers, incomes, or educational levels – also have a bearing on CA. The relationship between the number of losers and CA is not a simple one. Large numbers worsen the free-rider problem; but once losers are organized, their power is likely to increase as their numbers grow[17]. Thus, societies with a dense network of associations – whether of producers, traders, importers, exporters, workers, retirees, consumers, and neighbors – will be more supportive of direct CA.

The ability to engage in direct CA will depend on the educational levels and incomes of losers. Education is likely to deepen the understanding of rights and the ability to use them to mount CA. At higher levels of incomes, losers can draw upon a greater abundance of resources with which to organize resistance; they may also be more willing to assume greater risks in their confrontation with corrupt bureaucracies. It may be noted that educational characteristics and incomes of losers may vary systematically across government agencies. Thus, peasants in developing countries who are often both illiterate and poor will be less likely to engage in direct CA than college students who are both literate and well off.

16. A corrupt act is coercive when the official coerces an outsider for a gain, or vice versa. Corruption is collusive when the direct gainers collude in it.
17. Olson (1965, pp. 9-16, 22-65).

Effects of CA. This varies with the type of CA. Thus, the potential for evasive CA will tend to lower the 'price' of a corrupt act – or the illicit revenue it generates – though the opposite may also occur, while the frequency of corrupt transactions may go up or down. This may be illustrated with the help of a case study which involves evasive CA in response to extortion. Let P be the official price of X (goods, services or permits) sold by a government agency, with a perfectly elastic official supply of X at price P: Q is the corresponding quantity sold. Let $P^* > P$ be the price ($Q^* < Q$ is the corresponding quantity), which maximizes the *total* rent from the illicit auction of *X in the absence of evasive CA*. Now, let X be available from private sources at a price equal to $(P+m) < P^*$, creating the potential for evasive CA. Officials may respond to this potential by lowering their price to a little below $P+m$ in order to undersell the private suppliers of X; this will increase the quantity of X sold on the illicit auction.

The effects of direct CA on the price and frequency of corrupt acts are unambiguous. An inventory of direct CA, presented earlier in this section, shows that they are capable of imposing a variety of material and psychic costs on corrupt officials, including inconvenience, social censure, risk of violent action by losers, punitive action from superiors, loss of jobs for elected officials, and loss of legitimacy for Governments. An increase in these costs is likely to reduce corruption in at least four ways. First, even at unchanged levels of official anti-corruption activity, some corrupt officials will decide to reduce their corrupt activity. Second, where honest officials are in charge, they may respond to direct CA by intensifying anti-corruption activity. Third, a Government may respond to threatened loss of legitimacy by increasing their visible anti-corruption activity. Finally, in the long run, the Government may institute reforms to reduce the incentives for engaging in corruption or take actions to strengthen countervailing forces.

Most forms of direct CA may be undertaken singly or collectively. Which of them is likely to be more effective? Paradoxically, when corrupt officials are unable to engage in retaliatory actions against individuals engaging in direct CA, the sum of individual acts may often be more effective than collective action. To illustrate the point, a hundred independent court cases, or complaints, are likely to have a greater impact on corrupt officials than a single court case, or complaint, made by a single committee of a hundred losers. This paradox can be a boon in disguise. Failure to act collectively, because of free-rider problems, may well be an advantage where the same individuals are willing and able to act on their own.

Illicit CA aimed at *reversing* deviations from the rules of public office are likely to reduce – or eliminate – these deviations, whether actual or anticipated,

while the 'price' of corrupt acts may go up or down. This result will be illustrated by means of three case studies.

The first case is set in the context of rationing X (goods, services, utilities, permits, jobs, or college admissions). Some private agents use bribes to increase their shares of X, thus reducing the shares of other agents who, aware of these losses, may, in the next round of rationing, offer bribes to restore their shares of X. To the extent that they succeed, these illicit CA reduce – or eliminate – the deviations. Their effect on total illicit revenue, however, will be ambiguous. On the one hand, second-round bribes, by increasing competition, for official decisions, will increase their price. But also, the second-round bribes pay for *restoring* official rules, and since this reduces risks of detection for officials, they may be willing to eliminate – or reduce – the deviations in return for bribes lower than the ones that created them.

The next case looks at losses from corruption that are transmitted *via* technological externalities. A paper mill bribes officials to dump prohibited effluents into a river. This hurts downstream fisheries who respond with bribes of their own, and succeed in reducing or stopping the illegal dumping. Since the second round of bribes has restored the enforcement of anti-pollution laws, the corrupt officials may be willing to accept lower bribes to reflect the reduced risks of detection they now face.

In some cases, illicit CA may *create* their own deviations in order to counter losses from corruption. This may be illustrated with a case that involves negative pecuniary externalities. Some firms in the garments industry use bribes to reduce their indirect taxes; this places their competitors at a disadvantage, some of whom, in turn, use bribes to have their taxes reduced. These tax-cuts, however, cannot go on indefinitely. At some point, the missing tax revenues will become unacceptable to the Government, and provoke corrective action. To forestall this, tax officials are likely to place an upper bound on total tax-cuts traded for bribes.

IV. CORRUPTION ACROSS COUNTRIES AND OVER TIME

The explanation of why levels of corruption vary across countries can be framed directly in terms of varying combinations of global factors across these countries.

Variations in corruption across countries may be assessed at the level of particular agencies, or globally in terms of overall levels of corruption. It is the first type of comparison which is more easily undertaken. Provided that there are no important differences in the ways in which specific agencies are or-

ganized in the countries under comparison, thus ensuring uniformity in the influence of specific factors, variations in levels of agency-specific corruption may be regarded as representative of overall levels of corruption in those countries.

In the long run, the presence of democratic institutions, competitive mass media, decentralization in government, higher per capita incomes, a more equal distribution of income, urbanization and education, may be expected, as argued earlier, to work asymmetrically in favor of losers and, therefore, result in reduced levels of overall corruption. These linkages between global factors and levels of corruption can, in principle, be subjected to empirical testing. If data were available on a ranking of countries by levels of corruption in some key agencies, it would be quite easy to explore whether variations in corruption can be explained by some suitable set of global factors.

The effects of economic development on corruption can be analyzed in terms of how its correlates are likely to affect forces arrayed against and favoring corruption. A partial list of these correlates might include: (a) secular increases in wages, education and urbanization; (b) growth of mass media; (c) advances in transportation and communications technology; (d) improvements in managerial and accounting skills; (e) growth of capitalist classes, urban middle classes, and an urban labor force; and (f) upward pressures on government expenditure.

A little reflection will show that (a), (b) and (c) have the potential for increasing information flows as well as the range and effectiveness of direct CA. The spread of education increases access to information and may also lead to a growing sophistication in the understanding of individual rights and entitlements. Growth of mass media, when it is not a Government monopoly, can lead to more penetrating coverage of corruption. Telephones and faxes open up additional channels of communications to officials. The proliferation of short-wave radios and dish antennae, by providing access to international news services, can dilute the state's control over sources of information.

Some of the correlates of development listed above have the potential for reducing the costs of engaging in collective forms of CA. Tendencies listed under (b), (c) and (e) can facilitate collective action by slowly putting in place associations which aggregate the interests of various business, professional and workers' groups. Collective action may also be advanced by the formation of cooperative movements, community organizations, human rights groups, and other non-governmental organizations engaged in welfare or development work. At some point, the common interests of various subsets of these groups may be aggregated at the state or national levels by political parties. The formation of community organizations, interest groups, and their aggregation

into political parties, will also weaken particularistic demands and their tendency to promote corruption[18].

Finally, as the demand for physical and social infrastructure, social security, and regulatory activities, increases with economic development, the resulting increases in public expenditure are likely to place the Government under mounting pressures to reduce revenue losses from corruption – as an alternative to raising new taxes. The same pressures may also emerge from unexpected sources, such as wars or natural disasters. Over time, and in increments, these pressures are likely to result in the streamlining of revenue collection and public expenditures in order to reduce leakages from corruption.

An important qualification to the argument developed thus far must now be introduced. Direct CA depend crucially on respect for human, political and property rights. Where these rights are repressed, the tendency of economic development to strengthen CA, may contribute to a perverse result, increasing the severity of repression in order to close off the new opportunities for CA.

Continuing and mounting repression, however, is not compatible with economic development in the long run. In a dynamic world economy, firms can remain competitive only if they have free access to international information flows, can draw upon an increasingly sophisticated physical and social infrastructure, and can expect quick adjustment of government policies to a changing global economy. An economy that is coupled with a corrupt and repressive government is unlikely to meet these demands. It must liberalize its political system, or increasingly find itself trapped with lagging technologies and outmoded industries.

It is also important to note that in the poorest countries where corruption is deeply entrenched, poverty is likely to be perpetuated because of systematic negative feedbacks from corruption. The point has often been made that corruption can improve efficiency of resource allocation by creating illicit markets to replace bureaucratic decisions[19]. A more careful assessment of this argument, however, reveals several flaws. First, corruption motivated by nepotism and politics does not simulate markets. Second, when corruption does create illicit markets they may not be efficient for three reasons: entry to these markets will be restricted in order to reduce risks of detection; honest but efficient producers may be pushed out by inefficient and dishonest producers; there will be waste of resources used in the cover-up of illicit activities. Thus, it seems more likely that corruption may undermine instead of improving static

18. Scott (1967).
19. The most comprehensive statement of this argument is to be found in Leff (1964).

efficiency. More to the point, corruption is also likely to retard growth by reducing the quantity and quality of public investments in physical infrastructure, education, health, or soil conservation; by increasing uncertainty in the provision of publicly provided inputs, such as utilities, irrigation water, fertilizers, or seeds; by crowding out honest and efficient enterpreneurs; and, by undermining property rights, thus reducing the incentives for savings, innovations, investment and effort[20]. Clearly, where these negative feedbacks are severe, it is unlikely that a country will be able to pull itself out of poverty – or experience the therapeutic effects of sustained economic development on corruption.

V. SUMMARY AND POLICY IMPLICATIONS

Starting from a simple premise, this paper has proposed a framework that is at once capable of explaining variations in levels of corruption across governments, their subunits, and over time.

The simple premise is that corruption nearly always creates losers who may take CA to reduce their losses. The incentives to engage in CA depend on two sets of factors, global and specific. Global factors, such as human, political and property rights, education, income levels and income distribution, have across-the-board effects on the ability to engage in CA; variations in levels of corruption across countries and over time can be explained, among other things, in terms of these factors. Specific factors, such as the type of corruption, number of losers, and the size of their losses, may vary across government agencies within the same country and, therefore, can explain different levels of corruption across these agencies.

This paper has argued that corruption is a contest between two parties: those who gain and others who lose from corruption. The outcome of this contest depends upon political, economic, legal and cultural institutions which determine the relative power of the two contestants. Since corruption is embedded in the matrix of society's institutions, any quick resolution to the problems of corruption may not be possible. The relative power of the two contestants in any country depends on the nature of its global factors – broadly, its system of rights – which are correlated to its level of economic development, but are also products of its history. Shifts in corruption generally result from shifts in the

20. Many of these points have been made in Alam (1989, 1991), Wade (1985) and Murphy, Shleifer and Vishny (1993).

system of rights which determine the relative power of the two contestants. All this has several interesting implications.

First, corruption in any country is not likely to be altered by changes in Government which do not result from changes in the relative power of the two contestants. The Government is not a *deus ex machina*: it generally mirrors the relative social power of the two contestants. Frequent changes in Government, which merely reflect shifting alliances amongst winners over distribution of the loot from corruption, may actually intensify corruption, as each new cohort of winners which rises to the top seeks to capture its share of the spoils.

Second, this theory suggests that a Government which contains some forces that are opposed to corruption may, without directly challenging the winners, slowly be able to alter the balance of power in favor of the losers? These anti-corruption forces may be able to implement selective measures that increase the visibility of losses from corruption, lower the costs of engaging in evasive or direct CA, or reduce incentives for engaging in corruption. Where these anti-corruption forces are stronger, they may even direct their reforms to strategic nodes of law enforcement, such as the courts and police.

Third, this theory suggests that the balance of social power between winners and losers from corruption can be altered by actions taken by members of civil society. Through greater activism, greater use of existing channels of resistance and widening these channels by organizing sports clubs, libraries, local committees, charities, associations encompassing interest groups, or political parties, the balance of power can be altered, at least in some activities, in favor of the losers.

REFERENCES

Alam, M. S. (1989). Anatomy of Corruption: An Approach to the Political Economy of Underdevelopment, *The American Journal of Economics and Sociology*. 48: 441-456.

Alam, M. S. (1991). Some Economic Costs of Corruption in LDCs, *Journal of Development Studies*. 27: 89-97.

Caiden, Gerald E. and Naomi J. Caiden (1977). Administrative Corruption, *Public Administration Review*. 37: 301-309.

Hirschman, Albert (1970). *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*. Cambridge (Mass.): Harvard University Press.

Leff, Nathaniel J. (1964). Economic Development through Bureaucratic Corruption, *American Behavioral Scientist* 8. 3 (November 1964): 8-14.

Murphy, Kevin M., Andrei Shleifer and Robert W. Vishny (1993). Why Is Rent-Seeking So Costly to Growth, *American Economic Review*. 83: 409-414.

Nye, Joseph S. (1967). Corruption and Political Development: A Cost-Benefit Analysis, *American Political Science Review*. 61: 417-427.

Oldenburg, Philip (1987). Middlemen in Third World Corruption: Implications for an Indian Case, *World Politics*. 39: 508-535.

Olson, Mancur (1965). *The Logic of Collective Action.* Cambridge (Mass.): Harvard University Press.

Riley, Stephen P. (1992). Political Adjustment or Domestic Pressure: Democratic Politics and Political Choice in Africa, *Third World Quarterly.* 13: 539-551.

Schenk, Hans (1989). Corruption ... What Corruption? Notes on Bribery and Urban Dependency in Urban India, in: Peter M. Ward (ed.), *Corruption, Development and Inequality.* London: Routledge.

Scott, James C. (1967). An Essay on the Political Functions of Corruption, *Asian Studies.* 5: 501-523.

Shleifer, Andrei and Robert Vishny (1993). Corruption, *Quarterly Journal of Economics.* 108: 599-617.

Rattanani, Lekha (1993). Backdoor admissions, *India Today.* September 15: 49.

Theobald, Robin (1990). *Corruption, development and underdevelopment.* Durham (N. C.): Duke University Press.

Wade, Robert S. (1982). The System of Administrative and Political Corruption: Canal Irrigation in South India, *Journal of Development Studies.* 18: 287-328.

Wade, Robert S. (1985). The Market for Public Office: Why the Indian State Is Not Better at Development? *World Development.* 13: 467-497.

SUMMARY

Starting from a simple premise, this paper has proposed a framework that is at once capable of explaining variations in levels of corruption across governments, their subunits, and over time. The simple premise is that corruption nearly always creates losers who may take countervailing actions (CA) to reduce their losses. The incentives to engage in CA depend on two sets of factors, global and specific. Global factors, such as human, political and property rights, education, income levels and income distribution, have across-the-board effects on the ability to engage in CA; variations in levels of corruption across countries and over time can be explained, among other things, in terms of these factors. Specific factors, such as the type of corruption, number of losers, and the size of their losses, may vary across government agencies within the same country and, therefore, can explain different levels of corruption across these agencies.

ZUSAMMENFASSUNG

Ausgehend von einer einfachen Prämisse schlägt dieser Aufsatz einen Rahmen vor, mit Hilfe dessen unterschiedliche Korruptionsniveaus unter Regierungen, ihren Unterabteilungen als auch über die Zeit erklärt werden können. Die einfache Prämisse ist: Bei Korruption gibt es fast immer auch Verlierer, die je nachdem Gegenmassnahmen ergreifen, um ihre Verluste zu reduzieren. Die Anreize, Gegenmassnahmen zu ergreifen, hängen von zwei Gruppen von Faktoren ab: globalen und spezifischen. Globale Faktoren, wie zum Beispiel Menschen-, politische und Eigentumsrechte, Ausbildung, Einkommensniveaus und Einkommensverteilung, haben allgemeine Auswirkungen auf die Fähigkeit, Gegenmassnahmen zu ergreifen. Unterschiedliche Korruptionsniveaus unter Ländern und über die Zeit können unter anderem mit diesen Faktoren erklärt werden. Spezifische Faktoren, wie beispielsweise die Korruptionsart, Anzahl Verlierer und Höhe ihrer Verluste, können zwischen den Regierungsstellen innerhalb des gleichen Landes variieren und deshalb deren verschiedene Korruptionshöhen erklären.

A THEORY OF LIMITS ON CORRUPTION AND SOME APPLICATIONS

RÉSUMÉ

Partant d'un prémisse simple, cet article propose une grille d'analyse capable d'expliquer immédiatement les variations dans les niveaux de corruption qui traversent, en tout temps, les gouvernements ou leurs administrations. Ce prémisse simple est que la corruption crée presque toujours des perdants qui doivent prendre des actions compensatoires pour réduire leurs pertes. Les raisons pour engager de telles actions compensatoires dépendent de deux séries de facteurs: globaux et spécifiques. Les facteurs globaux, comme les droits de l'homme, politiques ou de propriété, l'éducation, les niveaux et la distribution des revenus, ont des effets généralisés sur la capacité d'engager des actions compensatoires; les niveaux de corruption qui traversent, en tout temps, les pays peuvent s'expliquer, entre autres, par ces différents facteurs. Les facteurs spécifiques, comme le type de corruption, le nombre de perdants, et le poids de leurs pertes, peuvent varier parmi les agences gouvernementales dans un même pays et, par conséquent, peuvent expliquer les niveaux différents de corruption constatés dans ces agences.