

Corruption and Government

High levels of corruption limit investment and growth and lead to ineffective government. Developing countries and those making a transition from socialism are particularly at risk, but corruption is a worldwide phenomenon. Corruption creates economic inefficiencies and inequities, but reforms are possible to reduce the material benefits from payoffs. Corruption is not just an economic problem, however; it is also intertwined with politics. Reform may require changes in both constitutional structures and the underlying relationship of the market and the state. Effective reform cannot occur unless both the international community and domestic political leaders support change. No single “blueprint” is possible, but the primary goal should be to reduce the gains from paying and receiving bribes, not simply to remove “bad apples.”

Susan Rose-Ackerman is Henry R. Luce Professor of Law and Political Science, Yale University, and Co-director of the Law School’s Center for Law, Economics, and Public Policy. She holds a Ph.D. in economics from Yale University and has held fellowships from the Guggenheim Foundation and the Fulbright Commission. Professor Rose-Ackerman was a Visiting Research Fellow at the World Bank in 1995–96. She is the author of *Controlling Environmental Policy: The Limits of Public Law in Germany and the United States*, *Rethinking the Progressive Agenda: The Reform of the American Regulatory State*, the landmark analysis *Corruption: A Study in Political Economy*, and joint author of *The Uncertain Search for Environmental Quality* and *The Nonprofit Enterprise in Market Economies*. She has also published widely in law, economics, and policy journals. Her current research interests include comparative regulatory law and policy, the political economy of corruption, public policy and administrative law, and law and economics.

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SUSAN ROSE-ACKERMAN



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For my mother, with love

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PREFACE

Economics is a powerful tool for the analysis of corruption. Cultural differences and morality provide nuance and subtlety, but an economic approach is fundamental to understanding where corrupt incentives are the greatest and have the biggest impact. In an earlier book, *Corruption: A Study in Political Economy* (1978), I made this point for an audience of economists and technically trained political scientists. Twenty years later I hope to broaden my audience and deepen my analysis with a new book that focuses on the way corruption affects developing countries and those in transition from state socialism.

The growing interest in institutional issues among development economists encouraged me to make this effort. The study of corruption forces scholars and policy makers to focus on the tension between self-seeking behavior and public values. Those worried about the development failures common throughout the world must confront the problem of corruption and the weak and arbitrary state structures that feed it.

In 1995–1996 I was a Visiting Research Fellow at the World Bank in Washington, D.C. Since I previously had focused on public policy problems in the United States and Western Europe, a year at the World Bank was a transformative experience. I learned a tremendous amount, not just by reading whatever was at hand, but also by using the Bank's e-mail system to track down lunch partners with complementary interests. For a scholar used to sitting alone before a computer, the year in Washington was a welcome and energizing change. It was fascinating to work on a topic – corruption – that the Bank had treated with indirection in the past. I began to collect euphemisms. People told me that when a review of a program mentioned “governance problems,” “unexplained cost overruns,” or “excessive purchase of vehicles,” this meant that corruption and simple theft were a problem. A World Bank staffer pointed

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out that complaints about “excessive capital–labor ratios” in a report on Indonesia meant that corruption was not only rife but costly.

My current work on corruption began before I arrived at the World Bank and was completed after I left, but my understanding was deepened by talking to Bank staff who were living with the problem. Among the many supportive and helpful staffers, I particularly wish to thank Ladipo Adamolekun, William Easterly, Daniel Kaufmann, Petter Langseth, John Macgregor, Boris Pleskovic, Neil Roger, Sabine Schlemmer-Schulte, Frederick Stapenhurst, and Michael Stevens. At the International Monetary Fund I also had useful discussions with Nadeem Ul Haque, Paolo Mauro, Vito Tanzi, and Caroline Van Rijckeghem. All of them were helpful sounding boards, but should not, of course, be implicated in any of my conclusions. Obviously, the World Bank itself bears no responsibility for my analysis and conclusions. I owe a special debt to Estelle James for suggesting that I apply to the Bank as a Visiting Research Fellow and to Michael Klein and his staff for providing me with a congenial institutional home at the Bank’s unit on the Private Provision of Public Services located in the Private Sector Development Department.

Soon after I arrived in Washington, James Wolfensohn, the World Bank’s new president, sought to put the corruption issue openly on the Bank’s agenda. Because my economic perspective fit well with the Bank’s own efforts to define its role in this area, I was pleased to contribute something to the internal debate – a debate that generated a 1997 paper, *Helping Countries Combat Corruption* (World Bank 1997a), stating the Bank’s position.

After leaving the Bank, I continued to work with Bank staff on the corruption section of the *World Development Report 1997, The State in a Changing World* (World Bank 1997c), and I wrote a paper entitled “Corruption and Development” for the Annual World Bank Conference on Development Economics in May 1997 (Rose-Ackerman 1998b). Both Brian Levy and Sanjay Pradhan of the World Development Report team were helpful critics and colleagues. In the spring of 1997 I presented the Philip A. Hart Memorial Lecture at Georgetown Law School on the topic of “The Role of the World Bank in Controlling Corruption” (Rose-Ackerman 1997c). I also wrote a background paper for the Management Development and Governance Division of the Bureau for Policy and Programme Support of the United Nations Development Programme (UNDP). The UNDP issued this report as a discussion paper, entitled “Corruption and Good Governance” (United Nations Development Programme 1997a), and the UNDP has used this paper to develop its own thinking on the topic. Finally, in 1998 I prepared a paper for the

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World Bank's Operations Evaluation Department (OED) to help guide its review of the Bank's anticorruption efforts. Anwar Shah and his staff at the OED provided me with helpful background information and suggestions.

In 1994 I joined the board of the United States chapter of Transparency International (TI), an international nonprofit organization devoted to fighting corruption worldwide. This association has given me a valuable opportunity to be on the inside of a growing international movement and to keep up to date on worldwide developments. TI-USA's executive director Nancy Boswell has been a strong moral supporter of my research efforts, as has Fritz Heimann, the chair of TI-USA's board. The international organization – based in Berlin, but with chapters worldwide – has become a global force and a clearinghouse for information on corruption. This is due to the tireless efforts of TI's chairman, Peter Eigen, and TI's first managing director, Jeremy Pope. Their success in raising the issue of corruption to international consciousness has corresponded to my own scholarly and policy concerns. I thank TI for its interest in my own work, but obviously do not implicate them in any of my specific proposals.

Several collaborative papers have contributed to the arguments I develop here. Within the World Bank Group, I collaborated with Jacqueline Coolidge of the Foreign Investment Advisory Service on a paper on corruption in Africa and with Andrew Stone of the Private Sector Development Department on a paper that analyzed World Bank surveys in the Ukraine and Pakistan. At Yale University, I collaborated with Silvia Colazingari, an advanced graduate student in political science, on a paper on the Italian case. I thank all three coauthors for bringing their own knowledge and insights to bear on topics that I could never have tackled on my own.

Two Yale political science graduate students, Jonathan Rodden and Sarah Dix, provided indefatigable research assistance on all manner of diverse topics. I am extremely grateful for their help, patience, and good humor. I thank my assistant, Barbara Mianzo, for excellent assistance at all stages of this project, and Gene Coakley and the Yale Law Library staff for tracking down sources and checking references. I am also grateful to my husband, Bruce Ackerman, who gave the manuscript a careful and critical reading as it neared completion.

Over the last several years, as my thinking developed, I have presented my work in a variety of places. I gave seminars at a number of universities and colleges, including the universities of Iowa, Michigan, Ottawa, and Pennsylvania; the Kennedy School at Harvard University; New York University; Northeastern University; Swarthmore College;

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Trinity College; Yale University; and the Jerome Levy Institute at Bard College. Several workshops at the World Bank and the International Monetary Fund were especially helpful. The Comparative Law and Economics Forum, of which I am a member, was a congenial place to present several early draft papers. I also presented papers at the American Economics Association Annual Meeting in San Francisco; a workshop in Dakar, Senegal, sponsored by the U.S. Agency for International Development; the Annual Meeting of the American Society for International Law in Washington, D.C.; a conference organized by the Institute for International Economics; several seminars and workshops in Santiago, Chile, and Buenos Aires, Argentina, during a visit sponsored by the United States Information Agency; a meeting in Paris sponsored by the Organization for Economic Cooperation and Development and the UNDP; a conference on institutional reform held at the Autonomous Technical Institute in Mexico City; the Latin American Law and Economics Association Meeting in Buenos Aires; and a conference at the Yale Center for International and Area Studies sponsored by the UNDP.

My research on this book was made possible by research stipends provided by Yale Law School and by the Visiting Research Fellows program of the World Bank. I am grateful to both institutions for their support without implying any responsibility for the results.