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Michael Johnston

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1 Wealth, power, and corruption

Three questions

Two decades of liberalization of politics and markets, and of increasingly rapid movement of people, capital, and information across regions and around the globe, have reshaped societies in all parts of the world – in many ways for the better. But these developments have been accompanied by renewed worries about corruption. New opportunities to pursue wealth and power abound, but so do new ways to use and exchange them illicitly, and to move the proceeds across borders almost instantaneously. Corruption benefits the few at the expense of the many; it delays and distorts economic development, preempts basic rights and due process, and diverts resources from basic services, international aid, and whole economies. Particularly where state institutions are weak it is often linked to violence. In part because of corruption, for millions “democracy” means increased insecurity and “free markets” are where the rich seem to get richer at the expense of everyone else.

These problems raise fundamental questions about the ways people pursue and exchange wealth and power, and about the ways societies and their economies are governed. For a generation now we have delegated major questions of justice, accountability, and reform to markets, or have tried to reduce politics and government to market-like processes. Social and state institutional frameworks essential both to sustaining democracy and markets, and to checking their excesses, have been deemphasized or defined as problems to be solved by further liberalization. Meanwhile, developing societies are expected to attain levels of transparency and probity that advanced societies took many decades to reach, and to do so while competing in world markets and undergoing political transformation. Compounding the problem has been a “one size fits all” view of corruption as consisting essentially of bribery, varying only in degree across societies, and of reform as the process of making developing societies more like the West.

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But while affluent market democracies resemble each other in many ways, poverty and dictatorships come in many varieties – and so does corruption. Responding to these diverse problems is both an analytical and a political challenge: we need to understand the contrasting corruption problems of different societies, and to emphasize the value of government, politics, and substantive “deep democratization,” if the benefits of global political and economic change are to be more justly shared.

Contrasting syndromes

This is a book about corruption and development, with a focus upon the ways wealth and power are used and exchanged in diverse settings. I address three questions: What are the links among political and economic liberalization, the strength or weakness of state, political, and social institutions, and the kinds of corruption societies experience? What syndromes of corruption result from various combinations of those influences and how do they differ? What kinds of reform are – and are not – appropriate for contrasting corruption problems?

Like most other analysts I maintain that corruption is undemocratic and broadly harmful to economic growth. This book, however, differs from most others in four important ways. First, I argue that it makes little sense simply to array societies on a single scale ranging from high to low corruption. Instead, I identify four distinctive corruption syndromes that reflect and perpetuate deeper problems of democratic and economic participation and institutions. Second, I include the corruption problems of advanced as well as of developing societies in the analysis. Affluent market democracies have corruption problems of their own that – along with the conceptions of reform they have fostered – do much to shape the difficulties and opportunities facing developing societies.

Third, I take issue with many current prescriptions for reform by arguing that it is not enough simply to identify aspects of an ideal market-democracy model that developing societies seem to lack. Instead, we must examine the forces and interests that actually are at work there and that drive the abuses those societies experience. Doing so will produce reform strategies that differ from one society to the next, but that also draw support from lasting interests in society. Finally, a major theme of the book is the value of institutions, politics, and the state. Since the 1980s corruption has frequently been seen as an effect, and cause, of incomplete economic liberalization, and public institutions and politics treated mostly as obstructions to that process. Public-sector reforms have thus emphasized narrow goals of “good governance” while liberalization of economies and politics has proceeded without essential institutional

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foundations. I argue, by contrast, that reform is a matter not only of improved public management but of justice. It requires “deep democratization”: not just elections but vigorous contention over real issues among people and groups capable of defending themselves politically, and of reaching political settlements sustained by their own lasting interests. Such contention, and the social “ownership” of institutions it fosters, helped create democracy in societies where it is now strong (Rustow, 1970). Without that sort of social foundation even our best reform ideas are unlikely to take root.

I will develop these arguments in eight chapters. Chapter 1 takes up the nature of syndromes of corruption. Chapter 2 examines the “new consensus,” driven by economic liberalization, that has emerged regarding corruption and its links to democratization and development. In chapter 3 I propose four syndromes reflecting commonly found combinations of political and economic *participation* and *institutions*. *Influence Market* corruption involves efforts on the part of private interests to rent access and influence within well-institutionalized policy processes, often through political figures acting as middlemen. It is the sort of corruption most characteristic of advanced market democracies, but while it has shaped basic conceptions of reform it differs in important ways from that found in many other places. *Elite Cartel* corruption occurs among, and helps sustain, networks of political, economic, military, bureaucratic, or ethnic and communal elites, depending upon the society in question. It helps them defend their hegemony in a climate of increasing political competition and only moderately strong institutions. *Oligarch and Clan* corruption takes place in a risky, and sometimes violent, setting of rapidly expanding economic and political opportunities and weak institutions. It is dominated by figures who may be government officials or business entrepreneurs, but whose power is personal and attracts extensive followings. *Official Moguls* are government officials, or their protégés, who plunder an economy with impunity. Institutions and political competition are weakest of all in this category, and economic opportunities are often scarce and bitterly contested. A statistical analysis in chapter 3 uses measures of participation and institutions to assign about one hundred countries to these four categories.

Chapters 4 through 7 put the proposed syndromes to the test through a series of case studies. Influence Markets are explored in the USA, Japan, and Germany (chapter 4) while Elite Cartels in Italy, Korea, and Botswana are the focus of chapter 5. I consider the Oligarchs and Clans of Russia, Mexico, and the Philippines in chapter 6, and the Official Moguls of China, Kenya, and Indonesia in chapter 7. The corruption problems found within any one group will not be identical; indeed, some

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countries are examined because they stretch the boundaries of their categories. No more can short case studies take up all major cases or aspects of corruption in any one country. Still, the four ideal-type syndromes are clearly visible in the case studies, and contrasts among them generally correspond to those proposed in chapter 3. Finally, chapter 8 links the notion of corruption syndromes to broader questions and suggests ways in which anti-corruption strategies must be tailored to the contrasting realities of diverse societies. The results are not offered as any kind of “toolkit” for dealing with corruption; they do, however, help us understand how corruption problems vary in complex settings, and how both analysis and reform must take deeper development problems into account.

Linking two analytical traditions

Despite the boom in interest in corruption over the past fifteen years, surprisingly little of the resulting research has been broadly and systematically comparative. Much recent work has been cross-sectional, often applying statistical measures and models to large numbers of countries to account for their scores on various single-dimension corruption indices. A second tradition of longer standing describes cases or societies in rich detail with extensive attention to history, culture, and social context. Both strategies are essential: the former can identify broad contrasts and trends, and can estimate the strength of the relationships among a number of variables. The latter often tells fascinating stories about corrupt processes and reminds us that they are embedded in complex human interactions. But both approaches have their limits: cross-sectional work and corruption indices impose a common model upon all cases and are not particularly sensitive to qualitative variations. In effect those models assume that corruption is essentially the same in Denmark, the United States, Botswana, and China, varying only in extent. Descriptive case studies, on the other hand, usually do not lead to systematic comparisons transcending particular times and places; indeed, some scholars doing this sort of work resist the basic idea of comparisons. Cross-sectional work tends to overemphasize commonalities while case studies can overstate contrasts and uniqueness.

I seek a middle level of comparison – one that does not supersede those traditions but links them. The development processes behind the syndromes will be operationalized using statistical indicators, but what they suggest about corruption in specific societies will be tested against descriptive cases. Those case studies, in turn, will be compared to each other within the framework of the syndromes argument. This strategy can

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tell us whether expected patterns of corruption are found in practice, how they reflect deeper patterns of participation and institutions, and how they affect political and economic development. Those findings not only point to major reform opportunities but also help explain why some past efforts to control corruption have failed, or have even done more harm than good.

Rediscovered territory

After a generation during which it drew very little interest from scholars and policymakers, the issue of corruption shot back up the international policy agenda in the early 1990s. Possible reasons for this include, *inter alia*, the end of the cold war, which both reduced the geopolitical importance of many corrupt regimes and intensified pressures upon aid and lending budgets; growing global competition among firms, capital managers, and countries seeking investment, which made it difficult to justify corruption as an “overhead expense”; the difficulties attending most democratic and market transitions; and longer-term ideological shifts in the ways the public and private sectors are viewed (Elliott, 1997a; Glynn, Kobrin, and Naím, 1997).

There has also been a sense that corruption itself is growing rapidly. As suspect regimes lost their ideological cover and other countries moved toward democracy and open markets, many scandals came to light – some new and others of longer standing. “Corruption” is both a provocative term and an attractive *ex post* explanation for a host of development and policy problems (Sindzingre, 2005); not surprisingly those seeking action on the problem have portrayed it in dramatic terms. International corporations, and aid and lending institutions, have begun to look at corruption within target nations, and within their own programs and operations, more forthrightly. Both economic growth and failed expectations among those left out have created newly assertive social groups in many countries; particularly where dissent is risky, corruption issues are one way to take regimes to task without directly challenging their claims to rule (Johnston and Hao, 1995). Corruption has also become the focus of sustained international advocacy: Transparency International, founded in 1993, quickly expanded its reach and continues to work hard on many levels. New kinds of evidence and detection techniques also contribute to a sense that corruption is on the rise.

In fact no one knows whether corruption is actually growing (Williams and Beare, 1999). It is a secretive process in most cases, with all who know of illicit dealings having an interest in concealing them. Rose-Ackerman (1999: 4) points out that “extensive corruption” is a complicated notion: does it mean

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activity that is frequent, or open and overt, or takes place at high levels, or involves large stakes? Notions of what is or is not corrupt, and of what levels are acceptable, may change rapidly. Much of the concern has, however, reflected a keener appreciation that the costs of corruption, once widely disputed, are real and can no longer be rationalized. For these reasons and more, by the early 1990s major government, international aid, business, and civil-society organizations were committed to reform.

But while this renewed interest is welcome – indeed, overdue – the vision that has emerged over the past decade is a partial one at best. Too often corruption is reduced to a synonym for bribery or rent-seeking, and viewed primarily as a problem in economic development. But the starting points from which societies embark on development and reform can vary considerably. So can the pace of change and the range of forces backing or opposing it. Given those sorts of differences it would be surprising if corruption varied among the world's countries only in amount; yet few theories and reforms systematically address such basic contrasts. A first step toward identifying major syndromes of corruption and their implications is to understand major underlying variations in the ways people pursue and exchange wealth and power.

*The roots of the syndromes: participation, institutions,
and corruption*

That the revival of interest in corruption took place during an era of global liberalization and integration is no coincidence: the connections among those developments and heightened concern over the ways people use and abuse emerging opportunities are numerous. But the new emphasis on corruption has been limited in a variety of ways by the interests and worldviews of the organizations and interests spearheading debate and policy change. Indeed, I will argue in chapter 2 that a “new consensus” emerged during the 1990s – one that treats corruption mostly as bribery, and as both effect and cause of incomplete, uneven, or ineffective economic liberalization, with the state judged primarily in terms of the extent to which it aids or impedes market processes. The ideas underlying that consensus are not illusory, but development problems come in many forms reflecting a variety of deeper difficulties. Political liberalization – democratization – is not just a mirror image of the proliferation of markets. Neither process can succeed on its own: both require a solid institutional footing – precisely what is lacking, in various ways, in many developing countries. The pace and balance of the two kinds of liberalization can vary markedly as well. How are such differences linked to contrasting kinds of corruption, and indeed what sorts of variations are

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most important? The most fruitful comparisons, I will argue, emphasize not just perceived amounts of corruption, or various techniques such as bribery versus extortion versus patronage, or cultural variations (though the latter will be critical to our discussion of reforms). Instead, the most important contrasts are found at deeper levels – in patterns of *participation* and the strength of *institutions* in, and linking, the political and the economic arenas.

Balanced and sustained democratic and market development depend upon – and indeed, as a developmental ideal are defined by – open, competitive, but structured *participation* in politics and the economy, and legitimate, effective *institutions* that protect and restrain activities in those arenas while maintaining boundaries and paths of access between them. Vigorous economic competition, by itself, does not necessarily produce broad-based growth; sound policies and institutions that facilitate and protect property rights, investment, entry into markets, and a moderate redistribution of wealth are also a part of the mix. Similarly, political competition alone – even if expressed through elections – is not enough: elections must be legitimate and decisive as well as competitive, and access, rights, and liberties *between* election campaigns are just as important. Open, competitive participation is essential if people are to express their preferences freely and have them weighed fairly by decision-makers – for Dahl (1971: ch. 1), critical aspects of democracy – and if they are to be able to reward effective government and oust the incompetent or abusive. People who have real political and economic alternatives will be less vulnerable to exploitation and dependency; competition weakens the ability of any one economic interest or political faction to dominate its own arena. But participation must also be structured and orderly: total *laissez-faire* in the economy is likely to enrich the few and impoverish the many, while a political free-for-all among twenty or thirty parties will not yield democratic mandates. Insecurity can induce politicians, unsure of their hold on power, to enrich themselves as quickly as they can, and entrepreneurs to buy official protection while insisting on maximum short-term returns (Scott, 1972; Keefer, 1996).

Terming such a balance *a* development ideal, rather than *the* ideal, is deliberate: while powerful arguments can be mounted for a way of life guided by free political and economic choices within open, competitive processes, such a vision of society is by no means free of difficulties or shared by all. At the same time it is a view that enjoys broad-based support at many levels, and one that is the stated justification and goal of many of the policies now reshaping the global system. For most societies the practical question is not whether to join in the pursuit of that ideal but how to make the best of the changes being implemented in its name. Another point is equally important: while this ideal may seem just another

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way to mandate the affluent market democracies of the West as models for societies everywhere, it is not. As we shall see, those advanced societies, too, fall short of this ideal in significant ways – problems reflected in the kinds of corruption *they* experience. Nor, finally, is this an argument for neoliberalism by another name: while a free and open economy is a part of the picture outlined above, state, political, and social institutions strong enough to preserve the openness and fairness of economic competition, and to restrain its excesses, are equally important. So, too, is a free, competitive, and accountable political system. As I will argue in later chapters, reform – really, the pursuit of this ideal – requires careful attention to the wellbeing of ordinary citizens, and a long-term “deep democratization” enabling and encouraging those citizens to mobilize in defense of their own interests.

A complex balance

Maintaining vigorous yet balanced participation and institutions is a complicated business, even in relatively advanced societies (Weingast, 1993; Schneider, 1998). This is so in part because liberal political and economic processes are *asymmetrical* in significant ways. Democratic politics rests not only on open competition, but also on normative assumptions of equality and fair play encapsulated by the notion of “one person, one vote.” Self-interest generally drives the process, but contention among such interests must stay within certain boundaries. Ideally, democratic processes will not only express diverse private interests but also *aggregate* them¹ into broadly accepted public policies. Markets, by contrast, incorporate few presumptions of equality, either in process or outcome; such rights and accountability as exist are grounded primarily in ownership, not citizenship. Gains are presumed to be private and separable, rather than public and aggregated. Indeed, many “public” aspects of the process – externalities – are excluded from market calculations, or are taken seriously only because of government policy. Economic competition, while open to new participants, is continuous and much less structured than politics, with a wider range of uncertainty in outcomes. Losers are routinely driven out of markets, and winners enjoy advantages, in ways that lack legitimate political parallels. Political regimes hold power over a limited territory and population, while markets are increasingly integrated into global processes that can overwhelm local actors and policies.

¹ I thank Dr. Salvador Valdes-Prieto, Centro de Estudios Publicos in Santiago, Chile, for his comments on this point.

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If such asymmetries did not exist connections between wealth and power would be much less complicated issues, and corruption would not be a problem. More or less anything, including official power and resources, could be bought and sold, and public office or other political resources could be used like any other in the pursuit of private gain. Neither political interventions in the economy, nor economic influence in the political realm, would threaten fundamental values and processes. But these contrasts do exist, and thus institutions are needed both to sustain competitive participation and to restrain its excesses. Courts, for example, enforce both public laws and private contracts; standards of fair play, such as honest elections and basic rules of business transparency, require legislation and enforcement mechanisms. Clear and accepted boundaries and distinctions are needed between state and society; public and private roles and resources; personal and collective interests; and market, bureaucratic, and patrimonial modes of allocation (Johnston and Hao, 1995). Without such boundaries major economic interests may dominate politics or powerful politicians can plunder the economy.

Institutionalized paths and rules of access between the political and economic arenas are just as important as boundaries, however. They are essential for maintaining accountability of state to society, and for feedback that can send critical signals to policymakers. Still, officials need enough autonomy to carry out their work in an uncompromised, authoritative fashion, while groups in society and the economy cannot simply be the tools of top politicians and bureaucrats. Maintaining that balance is complicated enough in mature democracies; in transitional societies creating accepted boundaries and paths of access can be a fundamental challenge. Where they do not exist, or are insufficient – as in contemporary China, where new political interests unleashed by market reform have few if any legitimate outlets, and bureaucrats carve out domains for themselves in the economy (Hao and Johnston, 2002) – they will be created corruptly.

Balanced and integrated participation and institutions as outlined above embody a developmental ideal – one that will also figure into our discussions of reform. No society attains that ideal in every respect, nor is movement toward it necessarily permanent. Problems can appear in many forms: participation can be weak, restricted, or manipulated in differing ways; institutions can be too rigid, too weak, too remote, too accessible, or poorly coordinated. In some places institutions will be stronger than participation, while in others the opposite may be true (a classic account appears in Huntington, 1968). In subsequent chapters I will explore the ways such difficulties can foster characteristic kinds of corruption. But for now the point is this: high-corruption societies do not

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just diverge from the ideal but *differ from each other*. We should also remember that serious corruption problems do not mean that participation and institutions are absent in a society; rather, they may take on many forms (O'Donnell, 2001). Civil society and political parties might be weak, for example, but extended patron–client networks can dominate politics and segments of the economy. Legitimate markets might be moribund while illicit ones thrive. Courts and the police may be ineffective while private armies hold extensive power and territory. Wealth and power will still be sought and exchanged, and institutions will emerge, even if informally and in ways that serve only a few. Thus we need to understand not only how developing societies differ from the ideal – and certainly not just how they differ from affluent market democracies – but rather focus upon the forms of participation and institutions that actually are at work there.

Problems with participation and institutions not only contribute to corruption but shape it in a variety of ways. In some countries most corruption involves private wealth interests' quest for influence within state bureaucracies or legislative bodies, while in others powerful government or military officials seize portions of the economy with impunity. Electoral corruption in some countries may consist of vote-stealing and intimidation of citizens, while in others it revolves around the theft of public resources to reward followers and to buy support. Sometimes corrupt incentives are used by elites to keep elections from being genuinely competitive in the first place. Some varieties can draw elites together into more or less organized networks, while other kinds are linked to deep divisions and contention among them. In some societies corruption is closely linked to violence, but elsewhere serves as an alternative to it (Huntington, 1968), enabling excluded groups to buy their way into economic or political processes. Bribery may be the predominant form of corruption in some countries – particularly those that have done most to shape the recent revival of interest in the problem – but in others extortion, nepotism, extended patronage abuses, fraud in elections, taxation or customs, political–business collusion, or outright official theft may be the biggest challenges. I suggest in chapters to come that particular syndromes of corruption are linked, via participation and institutions, to deeper problems in development, and that understanding those origins and contrasts is critical to devising appropriate and effective reforms.

What is corruption?

Corruption is a deeply normative concern and can be a matter of considerable dispute. Indeed, in many of the countries discussed here contention over *who gets to decide* its meaning is a central fact of political life.