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978-1-107-08120-8 - Corruption and Government: Causes, Consequences, and Reform:  
Second Edition

Susan Rose-Ackerman and Bonnie J. Palifka

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## CORRUPTION AND GOVERNMENT

The second edition of *Corruption and Government* updates Susan Rose-Ackerman's 1999 book to address emerging issues and to rethink old questions in light of new data. The book analyzes the research explosion that accompanied the fall of the Berlin Wall, the founding of Transparency International, and the World Bank's decision to give anticorruption policy a key place on its agenda. Time has vindicated Rose-Ackerman's emphasis on institutional reform as the necessary condition for serious progress. The book deals with routine payoffs and with corruption in contracting and privatization. It gives special attention to political corruption and to instruments of accountability. The authors have expanded the treatment of culture as a source of entrenched corruption and added chapters on criminal law, organized crime, and postconflict societies. The book outlines domestic conditions for reform and discusses international initiatives – including both explicit anticorruption policies and efforts to constrain money laundering.

Susan Rose-Ackerman is the Henry R. Luce Professor of Jurisprudence (Law and Political Science) at Yale University. She is one of the world's leading scholars of the political economy of corruption and one of the first economists to write on the subject. She is the author or editor of seventeen books and numerous articles. The first edition of her book *Corruption and Government* has been translated into seventeen languages. In addition to her work on corruption, she writes about public law and public policy from a comparative law and political economy perspective. Her most recent book is *Due Process of Lawmaking* (with Stefanie Egidy and James Fowkes). She has been a visiting researcher at the World Bank and a fellow at the Center for Advanced Study in the Behavioral Sciences, the Paris Institute of Political Studies, and the Wissenschaftskolleg zu Berlin.

Bonnie J. Palifka is an Assistant Professor at the Tecnológico de Monterrey (ITESM), Campus Monterrey, in Mexico. She has taught a course on corruption based on the first edition of this book since 2004 at ITESM and since 2011 at Yale University. Dr. Palifka has spoken on corruption at conferences in the United States, Mexico, Guatemala, St. Kitts, and France. Her most recent publication is "A Review of *Drivers of Corruption: a brief review*, by Tina Søreide" in the journal *Crime, Law and Social Change*.

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# Corruption and Government

*Causes, Consequences, and Reform*

Second Edition

**SUSAN ROSE-ACKERMAN**

Yale University

**BONNIE J. PALIFKA**

Tecnológico de Monterrey



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32 Avenue of the Americas, New York NY 10013-2473, USA

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Information on this title: [www.cambridge.org/9781107441095](http://www.cambridge.org/9781107441095)

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First published 2016

Printed in the United States of America by Sheridan Books, Inc.

*A catalog record for this publication is available from the British Library.*

*Library of Congress Cataloging in Publication Data*

Names: Rose-Ackerman, Susan. | Palifka, Bonnie J.

Title: Corruption and government : causes, consequences, and reform / Susan Rose-Ackerman, Bonnie J. Palifka.

Description: Second edition. | New York, NY : Cambridge

University Press, 2016. | Includes bibliographical references and index.

Identifiers: LCCN 2015038967 | ISBN 9781107081208 (hardback) |

ISBN 9781107441095 (paperback)

Subjects: LCSH: Political corruption. | Political corruption – Economic aspects. |

BISAC: POLITICAL SCIENCE / Public Policy / Economic Policy.

Classification: LCC JF1081.R675 2016 | DDC 364.1/323–dc23

LC record available at <http://lcn.loc.gov/2015038967>

ISBN 978-1-107-08120-8 Hardback

ISBN 978-1-107-44109-5 Paperback

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## Dedication

*Susan Rose-Ackerman: For my grandchildren*  
*Bonnie J. Palifka: In memory of Arthur Jefferson Boynton III,*  
*who taught by example*

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## Acronyms

AC	Anticorruption
ACA	Anticorruption Agency
ACINET	Arab Anti-Corruption and Integrity Network
ADR	Alternative Dispute Resolution
AML	Anti-Money Laundering
APA	Administrative Procedures Act, U.S.
AOC	Anti-Organized Crime
ASEAN	Association of Southeast Asian Nations
BAE	BAE Systems, a British defence and aerospace firm
BIT	Bilateral Investment Treaties
CEO	Chief Executive Officer
CCI	Control of Corruption Indicator, World Bank
CDU	Christian Democratic Union, the dominant right of center party in Germany
CIA	Central Intelligence Agency
CPI	Corruption Perceptions Index, Transparency International
CoE	Council of Europe
CPIB	Corrupt Practices Investigations Bureau, Singapore
CREW	Center for Responsibility and Ethics in Washington
EITI	Extractive Industries Transparency Initiative
EU	European Union
FAR	Federal Acquisition Regulation
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation, U.S.
FCPA	Foreign Corrupt Practices Act, U.S.
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FIFA	Fédération Internationale de Football Association

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*Acronyms*

FIU	Council of Europe's Financial Intelligence Unit
FOIA	Freedom of Information Act, U.S.
GAO	Government Accountability Office, U.S.
GCB	Global Corruption Barometer
GDP	Gross Domestic Product
GES	Global Enterprise Survey
GGM	Good Governance in Medicine, World Health Organization
GNI	Gross National Income
GPA	The World Trade Organization's Revised Agreement on Government Procurement
GRECO	Group of States Against Corruption
HBMX	HSBC Mexico
ICAC	Independent Commission Against Corruption, Hong Kong
ICB	International Competitive Bidding
ICC	International Chamber of Commerce
ICJ	International Court of Justice
ICRG	International Country Risk Guide
ICSID	International Center for the Settlement of Investment Disputes, World Bank
ICTs	Information and Communication Technologies
ICVS	International Crime Victimization Survey
IFI	International Financial Institution
ILOAT	International Labor Organization Administrative Tribunal
IMF	International Monetary Fund
INT	World Bank's Department of Institutional Integrity, set up to detect corruption and ethics violations at the World Bank
IP	Inspection Panel, World Bank
IPO	Initial Public Offering
KPMG	International consulting firms
LAPOP	Latin American Public Opinion Project
MDB	Multilateral Development Bank
NAFTA	North American Free Trade Agreement
NGO	Nongovernmental Organization
NPM	New Public Management
NRS	National Revenue Service, U.K.
OAS	Organization of American States
OCG	Organized Crime Group
OECD	Organization for Economic Co-operation and Development
OED	Operations Evaluations Department, the World Bank's oversight agency

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OPEC	Organization of the Petroleum Exporting Countries
PAC (U.K.)	Public Accounts Committee
PAC (U.S.)	Political Action Committee
PAP	People's Action Party, the party that has ruled Singapore since 1959
PEP	Politically Exposed Person
PETS	Public Expenditure Tracking Surveys
PR	Proportional Representation
PRI	Partido Revolucionario Institucional, the dominant political party in Mexico during the twentieth century
PWYP	Publish What You Pay
REDD	Reducing Emissions from Deforestation and Forest Degradation
RFD	Rural Free Delivery, U.S.
RICO	Racketeer-Influenced and Corrupt Organization Act, U.S.
STAR	Stolen Assets Recovery Initiative
SEC	Securities and Exchange Commission, U.S.
SME	small- and medium-sized enterprises
TI	Transparency International
UN	United Nations
UNAT	United Nations Administrative Tribunal
UNCAC	United Nations Convention against Corruption
UNCTAD	United Nations' Comtrade
UNDP	United Nations Development Program
UNODC	United Nations Office on Drugs and Crime
UNTOC	United Nations Convention against Transnational Organized Crime
USAID	United States Agency for International Development
WB	World Bank
WBAT	World Bank Administrative Tribunal
WBES	World Bank Enterprise Survey
WEF	World Economic Forum
WGB	Working Group on Bribery in International Business, OECD
WHO	World Health Organization
WTO	World Trade Organization
WVS	World Victimization Survey

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## Preface to the First Edition (1999)

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 1995–6 I was a Visiting Research Fellow at the World Bank in Washington, D.C. Because I previously had focused on public policy problems in the United States and Western Europe, a year at the Bank was a transformative experience. I learned a tremendous amount, not just by reading whatever was at hand, but also by making shameless use of 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 Bank staffer pointed out that complaints

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*Preface to the First Edition (1999)*

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 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 want particularly to thank Ladipo Adamolekun, William Easterly, Daniel Kaufmann, Petter Langseth, John Macgregor, Boris Pleskovic, Neil Roger, Sabine Schlemmer-Schulte, Frederick Staphenurst, 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 1997b), 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*, in the summer of 1997 (UNDP 1997a), and the UNDP has used this paper to develop its own thinking on the topic.

In 1994 I joined the board of the U.S. chapter of Transparency International (TI), an international nonprofit organization devoted to fighting corruption

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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 Chairman Peter Eigen and TI's first managing director Jeremy Pope. Their efforts in raising the issue of corruption to international consciousness have corresponded to my own scholarly and policy interests. 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 co-authors 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. As always, I want to thank Gene Coakley and the Yale Law Library staff for their help in tracking down sources and checking references. I am also very 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; Trinity College; Yale University; and the Jerome Levy Institute at Bard College. Several workshops at the World Bank and 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 Economic 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

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*Preface to the First Edition (1999)*

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 U.S. Information Agency; a meeting in Paris sponsored by the Organisation for Economic Co-operation and Development and the UNDP; a conference on institutional reform held at Instituto Tecnológico Autónomo de México 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.

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## Preface to the Second Edition

Since *Corruption and Government* was published in 1999 interest in the topic has burgeoned in both academic and policy circles. Empirical work, in particular, has flourished, with scholars and policy analysts devising clever techniques to measure and study a phenomenon that is inherently difficult to observe. My own institutional, political-economy approach to the study of corruption has, I believe, been vindicated by this newer work, and my 1999 and 1978 books have helped structure the debate. The 1999 book was translated into seventeen languages and has engaged activists and scholars worldwide. Nevertheless, even if the basic message of the book remains relevant, the text is outdated in that it reports only on scholarship and corruption scandals from before 1999. Thus, a second edition can inform the ongoing debate. In Bonnie Palifka, I have found an excellent co-author. Bonnie has taught courses based on the first edition for ten years at both Tecnológico de Monterrey in Mexico and at Yale, and she has a teacher's perspective on what needs to be expanded or better explained.

This new edition not only assesses the empirical bases for claims made in the first edition; in addition, it develops themes that were mentioned but not fully explicated in that volume. The new material deals with debates over the cultural bases of corruption, with corruption in democracies, and with reconciling corruption control and democratic values. We have added chapters on the criminal law, organized crime, and corruption in postconflict societies, and expanded the material on international anticorruption to reflect current developments. Corruption is a problem that has existed since the rise of organized states and that is not likely to disappear any time soon. However, some states and sectors have managed to become less corrupt over time. Although we cannot claim

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*Preface to the Second Edition*

to provide a comprehensive literature review, we do try to incorporate new work that asks what lessons can be learned from both successes and failures of reform.

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## Acknowledgments

*Susan Rose-Ackerman:* This new edition has benefitted from some of my published work since 1999. Excerpts from that material have been incorporated into some of the chapters, and I am indebted to Jana Kunicová, Rory Truex, Tina Søreide, Paul Lagunes, Sinéad Hunt, and Miguel de Figueiredo, who were my co-authors or research assistants on these projects. I want particularly to acknowledge the work of Tina Søreide, Paul Lagunes, and Paul Carrington for their co-editorship of volumes on corruption and for help in organizing the conferences that led to the books.<sup>1</sup> Gisela Mation, Leo O'Toole, Kyle Peyton, and Cait Unkovic provided excellent research help connected with aspects of the second edition. I am very grateful to the staff of the Yale Law Library, particularly Sarah Ryan, for excellent assistance, and to my assistant Cathy Orcutt for help in bringing the manuscript to completion. For financial help, I thank the Yale Law School and the Wissenschaftskolleg zu Berlin, where I spent the academic year 2014–15. Finally, I thank my husband, Bruce Ackerman, who was, as always, an anchor of support and patience.

*Bonnie J. Palifka:* I would like to thank Susan for her generosity. I have long admired her work; now I am honored to call her my mentor, colleague, and friend. Part of this research was conducted while I was on sabbatical from Tecnológico de Monterrey, January through December 2014, during which time I was a Visiting Research Fellow at the MacMillan Center for International and Area Studies at Yale University: I am indebted to both institutions. I am grateful to Alejandra Lee and Carlos Rojo for research assistance. I would like to thank my students at Tecnológico de Monterrey and Yale University, who are a constant source of inspiration. Finally, I thank my family and friends for supporting me throughout this project.

<sup>1</sup> The review articles are Rose-Ackerman (2010a, 2010b) and Rose-Ackerman and Truex (2013). The edited volumes are Rose-Ackerman (2006a), Rose-Ackerman and Søreide (2011), Rose-Ackerman and Carrington (2013), and Rose-Ackerman and Lagunes (2015).