Corruption: The Facts
by Daniel Kaufmann

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> *[The King] shall protect trade routes from harassment by courtiers, state officials, thieves and frontier guards…[and] frontier officers shall make good what is lost....Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the King's wealth.*
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> *—From the treatise The Arthashastra, by Kautilya (chief minister to the king in ancient India), circa 300 B.C.–150 A.D.*

Main Text:

This citation attests to the ancient nature of corruption, which amounts to the abuse of public office for private gain. Yet it also illustrates that even then corruption was regarded as corrosive to the development of the state and that specific measures were therefore needed in response. The king's adviser perceptively hinted at the link between illiberal trade, bureaucratic harassment at the border, and corruption. And he understood that corruption encompassed far more than bribery: The theft of public revenues was explicitly addressed.

By contrast, in more recent times a revisionist view has held that corruption may not be inconsistent with development and at times may even foster it. In the late 1970s, Nathaniel Leff of Columbia University argued, for example, that "corruption may introduce an element of competition into what is otherwise a comfortably monopolistic industry....[and] payment of the highest bribes [becomes] one of the principal criteria for allocation....Hence, a tendency toward efficiency is introduced into the system." Likewise economist Francis Lui, in a 1985 issue of the Journal of Political Economy, asserted that "bribing strategies...minimize the average value of the time costs of the queue....[and the official]...could choose to speed up the service when bribery is allowed."

While this coarse variant of the revisionist view is less frequently proposed today, more subtle versions still abound. These contemporary versions wrap corruption in a cloud of ambiguity. Ambiguity, for example, is said to cloud corruption's meaning in different cultures, implying that what is viewed as corruption in the West would be interpreted differently within the customs of emerging economies. Ambiguity also characterizes the revisionist assessment of corruption's effects on economic growth, fueled by the fact that some of the Asian tigers have both phenomenal growth and high levels of corruption. Then there is ambiguity about the "true commitment" of élites to root out corruption in their country, as well as about whether anything can really be done to eliminate corruption. Finally, ambiguity emerges in discussions of the effects of market reforms on corruption.

Nobody disputes the ethical failings associated with corruption. Yet the ambiguities about corruption, its causes, its effects, and its cures cause many to wonder whether fighting it should be a true priority or merely a rhetorical one. Not in dispute is the fact that fighting corruption has become a rhetorical priority. In recent years, an explosion of papers, conferences, and newspaper articles has covered this topic. Many writings suggest that corruption has acquired epidemic proportions in a vast number of countries. Civic society is clamoring to address the issue in many places. Nongovernmental organizations such as Transparency International provide Web sites full of information on cross-country corruption indices. Yet important questions remain unanswered. Is corruption good, bad, or irrelevant for economic growth? Are market-oriented reforms a cure for or a cause of corruption? Should an economy achieve a certain level of affluence before widespread corruption can be contained? What does the most recent research and data reveal about possible answers to these questions?

Corruption: Curse or Blessing?

A central theme of the "grease-the-wheels" argument is that bribery can be an efficient way of getting around burdensome regulations and ineffective legal systems. This rationale has not only inspired sophisticated academic models but has legitimized the behavior of private companies that are willing to pay bribes to get business. On closer examination this argument is full of holes. First, it ignores the enormous degree of discretion that many politicians and bureaucrats can have, particularly in corrupt societies. They have discretion over the creation, proliferation, and interpretation of counterproductive regulations. Thus, instead of corruption being the grease for the squeaky wheels of a rigid administration, it becomes the fuel for excessive and discretionary regulations. This is one mechanism whereby corruption feeds on itself.

In addition to some academic writings, one school of "corruption apologists" argues that bribery can enhance efficiency by cutting the considerable time needed to process permits and paperwork. The problem with this "speed money" argument lies in the presumption that both sides will actually stick with the deal, and there will be no further demands for bribes. In India, one high-level civil servant who had been bribed could not process an approval any faster given the multiple bureaucrats involved in the process, yet he willingly offered his services to slow the approval process for rival companies.

Even in societies where myriad counterproductive regulations have been created in order to extract bribes, there should be a core of laws and regulations that serve productive social objectives. Simple and transparent building codes, sensible environmental regulations, clear regulations to assure the soundness of the banking system, and stringent regulations on the trading of nuclear materials are necessary in any society. The corruption "grease" argument is particularly insidious in this context, since bribes will serve to override such regulations and harm social aims. For instance, illegal logging in tropical rainforests can be the result of illicit payments to officials. Another factor that contributes to bribery is politicians' discretion in limiting the access of potential competitors to the market of the briber—as in the recent scandals in the gas and telecommunications sectors in Russia and Ukraine. Unprecedented amounts of "grease" in these cases strengthen gigantic monopolistic structures. The corrupt practices inherent to unsupervised financial systems have contributed to the recent macroeconomic crises in Albania and Bulgaria.

A sophisticated economic variation of the "grease-is-positive" argument is the notion that bribery allows supply and demand to operate. This rigorously held view maintains that under competitive bidding for a government procurement contract the highest briber will win—and the lowest-cost firm will be able to afford the highest bribe. That is theoretically elegant, but wrong. First, by focusing solely on bribery, this argument fails to take into account that corruption represents a theft of public resources. These bribes end up being diverted from treasury revenues, which impairs macroeconomic stability. And the recipient of the bribe will tend to siphon these funds into overseas accounts, negating any potentially productive use of such funds in the country. Nigeria, for example, has seen billions siphoned out of its budget over the past decades. Second, it is wrong to presume that the highest bidding capability stems from cost-efficiency; instead, it is often associated with substandard quality. Furthermore, the politician rarely subjects the object of an illegal payoff to competitive bidding; rather, he or she will carefully select whom to trust to get bribes discreetly, given the need for secrecy in the corrupt partnership. In Ukraine, a construction firm submitted a bid of US$10 per square meter for tiling a major public building; the official disqualified it immediately, because the contractor had "dared" to submit a bid for less than the "minimum" bidding cost of

US$30 per square meter. The winner of the bid was hardly the most cost-effective firm!

Viewing bribes as a mechanism for equalizing supply and demand also misses the fact that many public goods ought not to be allocated to the highest bidder. The aim of many social and antipoverty programs is to allocate resources according to the needs of the recipients; this goal is subverted where bribes prevail as an allocating mechanism. Corruption has impaired the provision of social programs to the intended target populations and, more generally, corruption has hurt the poor. Finally, the supply-and-demand view of corruption presumes that the briber gets the good once he has paid for it. This is often not the case, for corrupt transactions cannot be enforced through a court of law.

Bribing and rent-seeking also exact a significant economic cost. Talent is misallocated, as the jobs with the potential to collect lucrative graft attract people who otherwise would accept the more modest financial rewards of truly productive occupations. Poor technological decisions are taken by corrupt bureaucrats, who tend to favor nonstandard, complex, and expensive capital-intensive projects that make it easier to skim significant sums. A large defense or infrastructure contract may thus be favored over the construction of hundreds of primary schools and health clinics. Even more detrimental to development are the many unproductive "white elephant" projects that enrich public officials and suppliers—the recent commission of four incinerators in Lagos, none of which works properly, is one example. Further, enormous time is lost by entrepreneurs and officials engaged in corrupt activities. Queuing, negotiating, ensuring the secrecy of the deals and illicit payments, and guarding against the ever-present risk of nondelivery of the promised signatures and permits are time-intensive activities—as is the frequent need to renegotiate or pay an additional bribe to another bureaucrat. All of these activities come at the expense of productively running firms and governments.

Indeed, evidence from various countries indicates that a positive relationship exists between the extent of bribery and the amount of time that an enterprise's manager spends with public officials. A 1996 enterprise survey showed that within Ukraine firm owners who pay a lot in bribes have to spend almost one-third more time with officials than firm owners who pay less in bribes. Those high-bribing firms also need to spend 75 staff weeks per year of (nonowner) administration time in dealing with officials, as compared with a yearly average of 22 staff weeks for low-bribing firms. Using data compiled by the World Economic Forum's Global Competitiveness Report 1996, which surveyed 2,000 enterprises across 49 countries, we have calculated that in settings with higher regulatory and state-bureaucratic interference in business, the incidence of corrupt practices is significantly higher. Further, the higher the degree of regulatory discretion, the higher the incidence of bribery of officials. Surveys in countries of the former Soviet Union show that high regulations and taxes are associated with the need to pay high bribes in order to survive. That situation generates a high cost of doing business. Further, the evidence from the 49 countries surveyed by the World Economic Forum reflects that where corruption is more prevalent, the costs of capital and investing for firms tend to be higher.

Data and research showing the deleterious effects of corruption on growth have been mounting. A recent empirical study by economist Paolo Mauro found that a corrupt country is likely to achieve aggregate investment levels of almost 5 per cent less than a relatively uncorrupt country and to lose about half a percentage point of gross domestic product growth per year. Mauro also found that corruption is likely to distort public expenditures: Corrupt countries appear to spend less on education. The harm to development of underinvesting in education is well known. Yet the effects of illiteracy on corruption are underappreciated and are studied less often.

There is evidence that corruption slows foreign direct investment; a recent study by economist Shang-Jen Wei showed that investing in a relatively corrupt country, as compared with an uncorrupt one, is equivalent to an additional 20 per cent ("private") tax on the investment. The statistical relationship between corruption and lower foreign investment is valid across all regions. Contrary to conventional wisdom, there is no evidence that foreign investors are any less susceptible to corruption in East Asian economies than in other countries in the world. This finding also challenges the contention that the East Asian experience shows that corruption does not hurt investment and growth. That argument ignores the reality that corruption is only one of a number of factors explaining growth and development; even the few East Asian countries that are considerably corrupt have developed a credible rule of law, maintained decent macroeconomic management, limited the pervasiveness of corruption, and prevented corrupt practices from encroaching on their export-oriented policies.

Corruption is negatively associated with developmental objectives everywhere. Opportunistic bureaucrats and politicians who try to maximize their take without regard for the impact of such perdition on the "size of the overall pie" may account for the particularly adverse impact corruption has in some countries of Africa, South Asia, and the former Soviet Union.

Surveying high-level officials from emerging economies offers complementary evidence. Public sector corruption was rated as the most severe developmental obstacle facing their country, and no significant differences exist across regions. Everywhere, policymaking élites opined that corruption, far from being a lubricant of development, was a most formidable impediment to it.

Do Reforms Fuel Corruption?

In recent years, academics and commentators in the mass media have argued that in transition economies (particularly in the countries of the former Soviet Union and Eastern Europe) market liberalization and privatization have significantly increased corruption. They maintain that these reforms respond to the vested interests of corrupt élites. Even highly respected academics are ambivalent on this particular issue, advising extreme caution in initiating economic reforms when legal institutions are not yet developed. And in the Winter 1996–97 issue of this magazine, Robert Leiken wrote that "where corruption is systemic, market and administrative reforms...may even become counterproductive....Loosening government controls can facilitate illicit...economic activity. Moreover, bureaucrats have been known to compensate for lost revenues by exacting new 'fees' in other areas."

The problem with such perspectives is that what passes for economic reform often is not. Half-baked, poorly designed, inadequately implemented market reforms may indeed boost corruption. Well-designed and properly executed market reforms do not. A public monopoly that, through obscure insider deals, becomes a private monopoly controlled by few shareholders (as happened in prereform Argentina) is certainly not an example of progress in the fight against corruption. Instead, a public monopoly, when demonopolized and followed by privatization through an international, transparent bidding process, will improve matters. Thanks to deregulation and trade liberalization, bureaucrats cannot extract as many bribes as before, and stiff competition will become less a source of corruption. Yet, lowering import tariffs does little to curb corruption if the rules that give customs officials the discretion to decide the amount of import tax on each container are not changed.

Further, analysts who see market reforms as sources of corruption often fail to consider the amount of corruption that would occur in the absence of well-implemented economic reforms. A lack of economic reform can help to perpetuate corruption, since élite interests become more entrenched as their financial might accumulates through monopolistic structures. This "war chest" becomes a major weapon to impede or distort reforms.

By contrast, fewer regulatory and trade interventions; macroeconomic stability; and moderate, simple tax regimes with little discretion will do much to reduce the opportunities for corruption. Analyzing data from many countries, economists Alberto Ades and Rafael Di Tella found that trade openness and product competition reduce corruption and that liberalizing an economy delivers even more corruption-reduction where judicial institutions are not yet well developed.

Survey responses from élites in emerging economies also reject the notion that economic reform fuels corruption. The vast majority of respondents report that corruption would be ameliorated by further economic reform in the areas of deregulation and liberalization, the budget and the tax regime, and privatization.

Can The Corruption Fight Be Won?

The "fatalist" camp often points out the dearth of successes in anticorruption drives. More generally, they stress that few countries have significantly reduced corruption in less than a century. Recently, Hong Kong and Singapore are the countries that have shifted—and quickly—from being very corrupt to being relatively clean. Earlier, Britain needed many decades to improve its relatively corrupt structures.

Yet the relative successes are ignored in this absolutist approach to the issue: Countries have managed to reduce the incidence of corruption relatively quickly, even if they are far from rendering it irrelevant. In addition to Hong Kong and Singapore, Botswana is regarded as one of the least corrupt countries; Chile, Malaysia, and Portugal have undergone significant improvements over the past dozen years or so; and Bolivia, the Philippines, Poland, and Uganda, to name a few, have also scored successes recently.

What are the most common features of these successes? Anticorruption bodies, such as the Independent Commission Against Corruption in Hong Kong and smaller institutional variations thereof in Botswana, Chile, Malaysia, and Singapore are credited with progress in fighting corruption. Bolivia and Uganda exemplify success through a broader institutional approach. In Bolivia, the reformist mayor of La Paz initiated a major institutional overhaul of the city's institutions in the mid-1980s. In Uganda, the Museveni government, which came to power in 1986, implemented a strategy that encompassed reforming the civil service, strengthening the auditor general's office, empowering a reputable inspector general to investigate and prosecute corruption, and implementing an anticorruption public information campaign.

The survey responses provide a more nuanced perspective, however, since most respondents did not think highly of such anticorruption bodies. To be credible, they felt, such institutions had to go hand in hand with a good example set by honest leadership. Otherwise anticorruption bodies are easily rendered useless or, worse, misused for political gain. Further, respondents emphasized the importance of complementary economic reforms; there is no point in creating anticorruption agencies where bureaucrats and politicians intervene at will to apply regulatory restrictions.

The cleanup of the Philippine tax inspectorate (the Bureau of Internal Revenue, or bir) in the 1970s, under the charismatic and squeaky- clean leadership of Judge Efren Plana, and the ongoing overhaul of Argentina's bloated social security system (ANSES) are strong illustrations of effective institutional reform. In both cases the process included the immediate firing of corrupt personnel, the professionalization of the staff, new control systems, and modern incentive and performance assessment systems. Even then, economic reforms played an important role. In the Philippines, tax reforms were implemented simultaneously with the institutional revamping of the bir; tax rates were simplified, and exemptions were significantly reduced. These measures severely curtailed the incentives and discretion to extract bribes. In the case of ANSES, competition is aiding in the internal cleanup and reform effort: ANSES is ceasing to be the state monopoly provider of social security; instead, private pension institutions are being set up. Many of the other "institutional" success stories, in places such as Botswana, Chile, Hong Kong, Malaysia, Poland, Singapore, and Uganda, have also involved economic liberalization and reduced discretionary regulations.

The contrast with some countries in the former Soviet Union is stark. The president of Ukraine, concerned about growing corruption, has ordered various institutional initiatives to address the problem.

Yet at the same time regulations continue to proliferate. For instance, the Kiev province recently decreed that any firm selling goods within the 14 different counties of the province must have a trading permit. No anticorruption drive can succeed in such a policy framework.

More Reform, Less Corruption

The evidence clearly points to promoting economic reform as a way of addressing corruption. The economic reform agenda in many countries is far from finished, and its anticorruption potential often has been underemphasized and even maligned.

In designing reform programs, it is important to identify the discretionary control rights at the disposal of politicians and bureaucrats. The majority of politicians are clean, civic-minded citizens, but a significantly corrupt minority can take a large toll on an economy. Typically, the main activities in need of reform are those that involve discretion, including:

the issuance of licenses, permits, quantitative import restrictions (quotas), passports, customs and border-crossing documentation, and banking licenses;

the implementation of price controls;

the blocking of entry to new firms and investors and the provision of monopoly power;

the awarding of public procurement contracts;

the granting of subsidies, soft credits, tax exemptions, and inflated pensions and the allowing of tax evasion;

the imposition of foreign-exchange controls resulting in multiple exchange rates, the overinvoicing of imports, and the flight of capital;

the allocation of real estate, grain storage facilities, telecommunications, and power infrastructure;

the discretionary application of socially desirable regulations such as those that apply to public health and the environment; and

the maintenance of obscure or secret budgetary accounts as well as other "leakages" from the budget to private accounts.

The discretionary control rights of officials can be sharply curtailed through a package of economic reforms. Where some regulations ought to stay because of their social desirability, transparent market mechanisms can be used to limit abuses (auctions of pollution quotas, for example). Yet many other economic regulations need to disappear altogether. Conventional economic reforms can have a significant impact via macroeconomic stabilization, which removes the discretion to provide subsidies and soft credits; via privatization, with its depoliticization of state-owned enterprises; and by the building of a constituency that favors competition and broad market liberalization.

Yet simply reforming macroeconomic policies is insufficient. Further emphasis must be placed on fuller liberalization; microeconomic deregulation; tax reform (creating simple, moderate, and uniform tax rates and regimes without exemptions and with determined enforcement); government and budget reform (establishing transparent, financially sound revenue and expenditure mechanisms); and, over the long haul, institutional reform (revamping customs and eliminating redundant ministries and agencies) and civil service and legal reform. Setting up an improved civil service pay system, with adequate salary incentives and enforceable penalties for malfeasance, is also critical. Countries that have established a system of rewards for civil servants that is competitive with the private sector have also reduced corruption. Many countries also need to give additional focus to developing the financial sector, because market-determined interest rates, improved banking supervision, reserve-requirement compliance, and payment systems all reduce the opportunities for fraud-driven financial crises. They also limit the loopholes through which money-laundering grows out of control.

These two pillars of the next stage of reform—government and regulatory reform—have been neglected in many developing and transition economies. The "state of the art" in these fields is not as advanced as in macrostabilization or trade liberalization, where the "jury has long been out" on what to do and how to do it. Emerging economies and the international community need to elevate the priority of these reform areas. The payoff on these difficult and time-consuming measures will be substantial: Virtually all economic, deregulation, and government-reform measures would not only help to curb corruption but also to sustain national growth strategies.

Time for Action

While the respondents to the survey of élites believe that corruption in their own emerging economies can be addressed through domestic reforms, they also feel that industrialized countries need to reduce the incentives for engaging in corrupt practices abroad. For example, industrialized nations could cease to allow tax deductions for bribery expenses (where they exist), take steps to criminalize bribery internationally, and enact measures to prevent money-laundering by international financial centers.

Civil society and much of the public sector in these emerging economies appear ready to welcome the support of international financial institutions (IFIs) in spearheading anticorruption reforms in their own countries. Many survey respondents would even back explicit anticorruption conditionality in IFI lending programs.

A clear signal from the international community would be sent if it withdrew financial support from egregiously corrupt countries. In relatively corrupt countries, pressures could also be brought to bear by pulling out from corrupt industries, since often particular sectors are especially afflicted, and their identification is relatively straightforward. The gas industry in some countries of the former Soviet bloc comes to mind; there are examples elsewhere as well. Corruption in a specific industry often relates to rules that inhibit competition; in state-dominated sectors, it results from practices that obscure procurement procedures. A resolute and coordinated stance by the World Bank, the International Monetary Fund (IMF), and other multilateral and bilateral agencies—as well as moves by investment and export-promotion agencies and banks to withdraw support from such sectors until they become competitive and transparent—would make a difference.

A collaborative approach among all the relevant international organizations and the member nations of the Organization for Economic Cooperation and Development (OECD) is critical. The IMF, the World Bank, the World Trade Organization, the Organization of American States (OAS), the OECD, the United Nations agencies, and the regional development banks need to regard the challenge of fighting corruption as a common development objective. The corruption issue ought to gain a prominent place at the annual Group of Seven summits, which would send a strong message about the industrialized countries' resolve and responsibility on this issue.

Yet, so far, corruption has mostly inspired analyses, conferences, and writings rather than action in the international arena. The major anticorruption speech by the president of the World Bank at the recent IMF/ World Bank annual meetings and the OAS antibribery convention are commendable first steps, as is the OECD's recommendation to its members to criminalize the tax deductibility of bribery expenses. The time is ripe for a revolution: Many emerging economies are now prepared for the international community to deliver concrete support in the fight against corruption. Public education efforts and training programs in investigative journalism, accounting, and auditing can all get a boost with the international community's support.

The World Bank, which is poised to take concrete action, can also deliver technical assistance programs to help reorganize customs institutions, develop transparent and effective treasury departments, and spearhead procurement and auditing reform within governments. Pilot programs could be initiated rapidly, in collaboration with

Transparency International and domestic institutions that want to take the lead in a cleanup effort. Supporting Transparency International's public education and information role in publicizing individual countries' track records on corruption is also likely to have high payoffs.

Finally, international institutions should take steps to encourage participatory approaches in these countries in order to build consensus for anticorruption drives and associated reforms. Civil society is likely to be a major ally in resisting corruption. More and more, it is this ally that seeks concrete support from Western agencies and countries in actively combatting corruption.

Box 1: Are Poorer Countries Corrupt While Richer Countries are Clean?

"Cultural relativist" rationales that explain away the differences in corruption across countries are being discredited (and are seen as paternalistic). Even in traditional settings, the cultural norms of gift-giving are distinguishable from what would be regarded as abusive corrupt practices anywhere. The view that controlling corruption comes about only when a country is fully industrialized is also being challenged. While there is a correlation between a country's level of development and the degree to which it is experiencing corruption, it is also the case that there are large variations in the incidence of corruption among groups of countries at similar stages of development. The data goes even further: The Transparency International corruption index ranks Chile, the Czech Republic, Malaysia, Poland, and South Africa as "cleaner" than industrialized countries such as Greece and Italy.

More generally, the determinants of corruption in developing countries are manifold and complex. Institutions (including the rule of law), civil liberties, governance, and economic policies, as well as other specifics about the country, do matter. Given corruption's complex nature, the focus here is on understanding the effects of economic policies on corruption, while underscoring that other factors also play a role. Yet the economic and noneconomic factors are not independent of each other: The implementation of economic reforms often strengthens those constituencies that spearhead legal and institutional reforms.

Box 2:Market Reforms in Eastern Europe

Market reforms are frequently blamed for increased corruption in the former communist countries of Central and Eastern Europe. But with further investigation of these economies a different picture emerges. While most of the economies in Central and Eastern Europe and the Baltics implemented far-reaching economic reforms (macrostabilization, privatization, liberalization, deregulation, and the development of market institutions) through the first half of the 1990s, some in the former Soviet Union lagged behind. The extent of underground activities has diverged markedly. As illustrated on the next page, countries that implemented comprehensive economic reforms have reversed the initial boom in the underground economy after communism. At the same time, incomplete reforms that create either opportunities for discretionary decisions by government officials or monopolistic structures further fuel preexisting corruption.

What has driven much of the economy underground in the less-reformist economies? Enterprise surveys shed light on this question. Consider the share of the enterprise owner's (or senior manager's) time that is spent dealing with public officials instead of productively running their firms. In Chile, El Salvador, and Uruguay, that share is 8 to 12 per cent; in Lithuania, 15 per cent; while in Russia and Ukraine (which have the largest unofficial economies in nonwar transition countries) it amounts to 30 to 40 per cent of their time. The inordinate amount of time spent with officials is the result of the myriad regulations and licenses that are required for a firm to operate and trade. Considerable bargaining also occurs over highly discretionary and onerous tax regimes. Firms are forced to bribe in order to cut their tax and regulatory burdens—so they can survive.

Finally, aggregate empirical evidence indicates that privatization can help: Privatization transactions have been less corrupt than others, and most countries that delayed privatization saw the relative size of their underground economy skyrocket.

Box 3:What Do Elites in Developing Countries Think About Corruption?

The author surveyed 150 members of the élite from 63 developing and formerly communist countries who attended mid-career training programs and other summer courses at Harvard University during 1996.

Almost one-half of the respondents thought that corruption has increased in their country over the past 10 years, and another one-third believed that it had stayed roughly the same. Corruption in the public sector was seen as significantly more prevalent than in the private sector. When asked to rate the severity of possible impediments to development and growth in their country among a list of 11 choices, public sector corruption was rated as the most severe obstacle (see bar chart on page 126).

The survey respondents support the notion that corruption and lack of economic reform go hand in hand. They are of the view that their country ought to have made more progress in implementing economic reforms, and they blame corrupt interests as one important reason for inaction. At the same time, they believe that economic reforms—particularly deregulation and liberalization, modernizing the budget and the tax regime, and privatization—can play a key role in alleviating corruption (see bar chart on page 127).

While the respondents emphasized the domestic causes of corruption, about two-thirds of them also regard foreign corruption as at least as great a problem. A majority believes that OECD member states should implement anticorruption measures targeting their traders and investors abroad and that international institutions should make curbing corruption a priority and a precondition of assistance to their countries.

Want to Know More?

The literature on corruption is expanding in tandem with the awareness of its incidence and ill effects throughout the world, as discussed in Moisés Naím's article, "The Corruption Eruption," in The Brown Journal of World Affairs 2, no. 2 (Summer 1995). Yet there are very old writings on the role of the state that address the issue of corruption as well, as exemplified by The Arthashastra by Kautilya, circa 300 B.C. to 150 A.D. (L. N. Rangarajan, ed., Calcutta: Penguin Books, 1987). The classic analytical book in the modern economic literature is

Susan Rose-Ackerman's Corruption: A Study in Political Economy (New York: Academic Press, 1978). Andrei Shleifer and Robert Vishney's article "Corruption," in The Quarterly Journal of Economics 108, no. 3 (August 1993), presents a more recent typology of corruption with an analysis of its consequences. Robert Klitgaard addressed specific cases of corruption in developing countries in his book Controlling Corruption (Berkeley: University of California Press, 1988). Paolo Mauro showed econometrically the negative effects of corruption on investment and growth utilizing cross-country data in "Corruption and Growth" in The Quarterly Journal of Economics 110, no. 3 (August 1995). Pranab Bardhan provides a survey of the recent literature in his University of California, Berkeley, working paper, "The Economics of Corruption in Less Developed Countries: A Review of Issues" (Berkeley: Center for International and Development Economics Research, February 1996) and so does Susan Rose-Ackerman of Yale University in recent draft papers.

For more details on some of the author's research, see "The Missing Pillar of a Growth Strategy for Ukraine: Reforms for Private Sector Development," in Ukraine: Accelerating the Transition to Market (Peter K. Cornelius and Patrick Lenain, eds., Washington, D.C.: International Monetary Fund, 1997); "Integrating the Unofficial Economy into the Dynamics of Post-Socialist Economies," coauthored with Aleksander Kaliberda in Economic Transition in Russia and the New States of Eurasia (B. Kaminski, ed., Armonk, New York: M.E. Sharpe, 1996); and "Privatization and Corruption in Transition Economies," with Paul Siegelbaum, in the Journal of International Affairs 50, no. 2 (Winter 1996). For further details on the survey of élite stakeholders from emerging economies, contact the author at DKaufmann@hiid.harvard.edu. Transparency

International, which generates a corruption perception index for individual countries based on business surveys, has a Web site that can be accessed through the FOREIGN POLICY site at www.foreignpolicy.com. Finally, the World Development Report 1997 (Washington, D.C.: World Bank) to be released in June 1997, will address and provide new evidence of corruption.