
Corruption and Development

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That corruption is widespread, and growing, in the poorer parts of the world (and perhaps not only there) needs no demonstration, and in recent years much discussion has been directed to its effect on development. Some would contend that it is very harmful not only directly, but also indirectly by weakening political stability. Others see some virtues in it. It may be of interest to consider these arguments.

There is little ambiguity about the nature of corruption. Simply put, it is the use of one's office for private advantage. This can occur in both State and private office, but the public is naturally more interested in the former, and we shall limit ourselves to it.

The most frequent and obvious charge against corruption is that by directing the flow of resources away from state projects into the pockets of individuals, it hinders development. This argument assumes, of course, that the bureaucracy and its political masters know best what makes for development. But however one defines this process, whether in terms of a richer country, or of lesser differences of wealth among its subjects, the evidence for this proposition is not convincing. On the contrary, it is clear that not all official projects do in fact assist development, and even when they do, it is not always the case that they are the best use of resources, as much melancholy evidence goes to show.

A more sociological argument against corruption is that it often involves the creation of patron-client links, and certainly does not make for the impersonality and universality said to accompany development. However, even in the West there are sufficient examples of particularistic social arrangements, such as family firms of great standing, both old and new, to suggest that the requirement of universalism may be confusing the contingent with the necessary.

One way or another corruption does not seem to have greatly impeded the development of many now fully industrialised countries; Britain, the United States, and the Soviet Union¹ are cases in point. In the present day Iran, developing rapidly, has much the same reputation. Indonesia knew considerable corruption under the

system of 'Guided Democracy' from 1959 to 1965, a period of economic decline; it has, by all accounts, considerably more now under the 'New Order', but is developing more rapidly than at any time since the 1930s.

However, it is sometimes argued that a new consideration should be borne in mind with regard to most poor countries. For them, the role of foreign investment is crucial, and corruption may well discourage it. Further reflection, however, suggests that this is so only when corruption is capricious and unpredictable. So long as it is known and fixed, the investor simply regards it as a tax which he can throw into his calculus. Of course, corruption, being of its nature secret, is often capricious; but even then it is no more discouraging than is the amiable custom followed by certain governments of changing the rules for foreign investment after it has been made.

Often cited as evidence for the charge that rampant corruption may destroy confidence in government is Republican China in its latter years, and its subsequent overthrow by the Communist insurgents. This argument seems to overlook the weakening of government by the long struggle against the Japanese invaders on the one hand and the Communists on the other, not to mention the accompanying inflation. If corruption played a part, military debility and monetary devaluation played even larger, and perhaps more decisive ones. Certainly, corruption in nineteenth-century Britain and the United States does not seem to have affected confidence in their governments. In present-day Indonesia the government appears more stable than at any time since Independence in 1945. On the other hand, it is not difficult to think of governments without a taint of corruption who have lost support.

Is it then true that corruption helps development? Certainly, a bribe that cuts through red tape may result in the more rapid execution of a project; whether this makes for development is a matter for further examination. Equally, to divert funds from the state sector into the private does not necessarily make for development; it depends what they were intended for, and how they will now be used. If, as sometimes happens, they find their way into bank accounts in Switzerland,

they may well contribute to development (as well as financial difficulties) there, but most indirectly to that of the country of origin or, more accurately, of appropriation.

Some might argue that the most prevalent form of corruption, that of bribes to minor clerks, policemen, doorkeepers and the like, has the effect of redistributing income to an extent which many governments would like to achieve, but are too weak to do. So, if one defines development as involving a reduction of differences in wealth, corruption assists the process. It is obvious, however, that this is a highly discriminatory redistribution, benefiting only those with the ability to extort. While it is not altogether unknown, even in advanced countries, for extortion to be used as a lever of redistribution, this method is not generally regarded as desirable. Even less can it be assumed that income so redistributed will be channelled into productive enterprises; it is just as likely that it will be used to increase consumption.

In brief, then, little conviction is carried by the arguments that corruption in itself impedes or encourages development; these consequences depend on conditions which should be further specified. In any case, corruption is a moral, not an economic, category. To take an analogy, the corrupt person is similar to the farmer who diverts to his own fields irrigation water which is intended for use elsewhere. He is engaged in theft, pure and simple; whether the water develops his crops, and whether this is more 'developmental' than the intended use of the water, is an open question; even if the answer is positive on both counts, it should not be taken to legitimise the initial theft.

Funds obtained through corruption are no different from others dubiously acquired. It is known, for instance, that Mafia money is 'laundered' by being invested in legitimate enterprises. Whether these prosper or not is irrelevant to the means by which the money was obtained, nor does it provide an indication whether these means assist development. In Indonesia recently an official who had diverted to his own use a considerable amount of state money was found to have invested it in several highly 'developmental' enterprises. This did not legitimise his corruption, nor show that other corrupt officials similarly helped development.

What, however, of the reverse relationship, that between development and corruption? To discuss this aspect, we should bear in mind not the

future goal, but the present reality of development; in other words, not the end, but the means. Throughout most of the Third World, these comprise the encouragement and control of economic activities by means of grants, subsidies, contracts, licences, and permits, authorised by government and administered by the state administration. In such countries both government and bureaucracy have poor systems of internal control, as one would perhaps expect, and in most cases have successfully insulated themselves from the external control of public opinion by muzzling the press. Often, even academic criticism is silenced by ensuring that all university teachers are civil servants, or are otherwise dependent on official goodwill. It is only the students, who are not so placed, who are free to voice their condemnation of corruption, and governments are not slow to act against them when their demands become embarrassing. The objects, at least in theory, of these developmental activities are a peasantry who live in a different cultural world from that of their masters, whose aims they hardly understand. They in any case have little choice either of development objectives or of the methods to be used in their pursuit.

These conditions, one may fairly say, are virtually guaranteed to generate corruption. The power to license and permit by itself encourages the disease. The recent Poulson case in Britain showed the great temptations which face officials charged with authorising building projects. It would be unwise to assume the case was exceptional. It is well known that Mr. Poulson was convicted only because of his passion for hoarding documents; not everybody has such strongly developed archival propensities. And this instance of corruption, it should be noted, occurred in a bureaucracy which is under constant vigilance by both press and public.

In the Third World, India has the very great asset of a well-established bureaucracy and, (apart from the recent period of so-called 'Emergency') a vigilant press; corruption is widespread, not only among politicians, as testified by the recent revelations of ill-gotten wealth by some of Mrs. Gandhi's ministers, but also among officials, especially perhaps the minor.

In most other poor countries, the bureaucracy is far less developed, so that there are few, if any, formal constraints to inhibit corruption. In many poor countries the informal ones are frequently lacking; for the tradition of government may be not of service to the public, but of personal en-

richment, and no censure attaches to those who take advantage of their official opportunities. The same person who is scrupulously honest in his tribal or caste association may not hesitate to use government office for his own advantage; it does not command his moral allegiance in the same way.

Whether a poor country is governed autocratically, as is usually the case, or democratically, ordinary people have little opportunity to affect the framing of legislation that is to be applied to them. Some at least may well be affected adversely by the new activities being encouraged. Not surprisingly, they attempt through bribery to influence the implementation of legislation; the officials concerned may often share their sympathies as they do their money.

As more officials deal with the public, so the opportunities for corruption multiply. They are not limited, say, to approval of a licence or permit, but involve all the preceding stages, from the point where the door-keeper has to be bribed to allow the applicant to pay 'speed money' to the clerk who has to pass his application up for consideration, and so on to the Minister himself. But the great volume of corrupt money is perhaps raked in by those state employees in the intermediate grades, in contact with the public and able to levy a toll, often in the form of the ubiquitous 'speed money' or 'dash', on the traffic, whether of persons, goods, or applications. Some politicians and senior officials do indeed make spectacular corrupt gains, but these probably represent only a small proportion of the vast, continuous, hidden flow at lower levels.

And as development widens and deepens, so does corruption. The current policy of concentrating development effort in the rural areas is a case in point. The flow of resources will pass through the bureaucracy to, usually, illiterate and powerless peasants; the outcome is predictable. For confirmation one need look no further than India after the nationalisation of the banks in the early 1970s. One of the objectives of this exercise was to make credit facilities more readily available to rural cultivators. In the

process, several bank officials enriched themselves. Similarly, in Indonesia in the late 1960s a rural credit scheme was undoubtedly successful in stimulating increased rice production; however, it also provided second homes for some of the officials concerned. In neither case was this perhaps the redistribution which had been intended, but any other result would, in Third World circumstances, have been surprising.

To the temptations generated by state intervention in the economy one must add those offered by foreign aid and investment, often themselves closely controlled by the host government. Some politicians and officials can compel the foreign investor to pay them a levy on the investments they publicly solicit, while aid, necessarily passing through government officials, can be induced without much difficulty to acquire a certain adhesiveness. In recent months, some Western governments have begun applying pressure on multinational companies not to bribe, willingly or unwillingly, unscrupulous officials in Third World countries. It is to be hoped that this will have salutary effects; though it may be unwise to be too sanguine.

None of the preceding should be read as arguments against either interventionism or aid as methods of development. Rather developers, local and foreign, should view corruption as an unavoidable cost, to be calculated as far as possible. The irrigation analogy may again be useful. A newly dug water channel in arid areas will certainly lose some water through seepage, but most will reach its destination. The limited amount lost is not an argument against digging the channel. When resources permit, it may be made more impermeable. In similar fashion, corruption in the Third World is simply a fact of life of state development, to be accepted for the time being while taking energetic measures (such as those in India, Hong Kong and, most recently, Indonesia) to reduce it to a minimum.

¹ The cases of Britain and the United States are fairly well known. For the Soviet Union see Fainsod, M., *Smolensk under Soviet Rule*, 1956.