Perspective Paper

The Challenge of Poor Governance and Corruption

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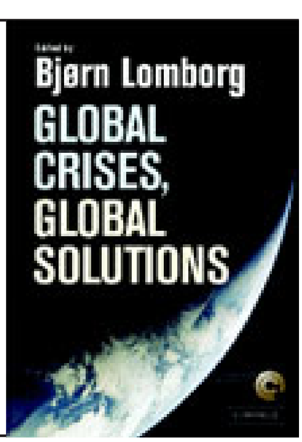
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Copenhagen Consensus Opponent Notes on Poor Governance and Corruption

From the State of the Question to the Question of the State

Jean Cartier-Bresson[1]

Susan Rose-Ackerman's Challenge Paper perfectly charts the current state of the literature in economics on corruption and governance in countries undergoing development or transition. It deals less with the issue of corruption in market democracies. The paper responds to three traditional questions: What are the causes of corruption? What are its consequences? And what are the available means for an efficient and credible campaign against this very old and universal phenomenon? A fourth question has emerged out of the framework of the Copenhagen Consensus: What are the stakes of the fight against corruption for the other challenges considered by this conference?

To a large extent, we share Rose-Ackerman's approach, as summarized in the following four points:

- Institutionalized corruption is a symptom of a dysfunctional state that must be understood within a larger conceptual framework than that of poor governance. In effect, this concept enables a broadening of the subject by integrating problematics concerning: a) the nature of the political regime; b) the processes of the exercise of power and of exchanges between the public and private spheres; c) the capacity of governments to prepare, formulate, and administratively implement social and economic policy (World Bank, 1997). This approach is clearly institutional and proposes reforms enabling state-(re)building (Abed and Davoodi, 2002).

- It is impossible to propose a global, empirical cost-benefit analysis for at least two reasons. Firstly, the illegal nature of the transactions (corruption) or acts (misappropriation of funds, extortion), as well as the character of the actors concerned (mainly elites in the case of high stakes corruption), seriously limits access to the kind of hard data needed to determine the direct costs of specific phenomena (the sums in question) and their subsequent distortions; without such data, it is impossible to ascertain the marginal benefits of a reduction in such phenomena. What was the contribution of poor governance or exchange rate policy to the

Asian financial crisis? Was a small bribe paid to inspectors the cause of the Chernobyl disaster? Moreover, in regard to the second part of the calculation, the widely shared hypothesis that the battle against corruption involves a multi-pronged approach (World Bank, 2000a, p. 154) precludes any rigorous accounting of the very diverse costs involved in the improvement of governance. What is the cost of implementing deregulation, democratization, and efficiency wage within an administration? In the case of a state reform agenda, or even one of political regime change, one encounters the problem of imputing costs related to a wide range of objectives. Secondly, it is necessary to take into account the distortions that lead to these forced transfers, which, in turn, encourage agents to adapt (flight to the informal sector, brain drain, disappearance of innovative entrepreneurs), and it is impossible to stick to the traditional rent-seeking approach focused on the waste of time and money.

- Methodologically, Rose-Ackerman (1999, pp. 3-4) remains skeptical on the pertinence of using cross-country research for overcoming problems of data. She privileges, instead, bottom-up analyses and case studies.
- Theoretical and empirical analyses of the causes and consequences of, as well as the means of fighting against, corruption have reached a certain level of maturity. The functionalist currents, which viewed corruption as a system that lubricates the cogs of the bureaucratic machine, have disappeared. Economists have reached a consensus on the very negative effects of the phenomenon and on its primary importance for a number of development projects (namely, the challenges elaborated in this conference). Unfortunately, this maturity has still not paved the way for a meaningful advance in the improvement of governance, for the political barriers erected by the losers of such reforms are formidable.

Despite these points of concurrence, Susan Rose-Ackerman Challenge Paper tends to understate some significant areas of disagreement that continue to persist among economists on the causes of corruption and the means for combating it. These dissensions parallel two classic debates. The first opposes the partisans of state failures to those of market failures, and the second opposes proponents of universalist policies to adherents of institutional compromises specific to each environment. While I share Rose-Ackerman's disappointment concerning both the lack of political will for waging the anti-corruption battle and the consequent lack of results, analysis of the obstacles to international coordination and of the national barriers to state reform is progressively becoming the new challenge. Our

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contribution thus takes shape around two issues that are essential to the political feasibility of the battle at hand: first, the obstacles to global governance; and second, the fragility of various models of institutional transition, as well as uncertainty as to their relative costs.

1. Good Governance: A Global Public Good

It seems important to review briefly the international origins of the agenda for good governance (Glynn, Kobrin, Naim, 1997), its stakes, and the actors that have promoted it. Up until the 1990s, corruption was a taboo subject for international organizations, and the vast majority of political and economic observers underestimated the ways in which the phenomenon undermined democratization, competition, micro and macroeconomic policies, and international exchanges. Four factors explain the recent international mobilization:

- Globalization has forced the establishment of international norms guaranteeing the security of transactions for international firms;
- The new role of the United States, which seeks to harmonize the agreed upon terms of competition between American and either European or Japanese firms, the latter of whom are reputed to be the most corrupt;
- The willingness of the World Bank and the IMF to reconstruct political institutions capable of applying structural adjustment policies, and improving the productivity of their loans in order to prevent international aid donors from becoming discouraged;
- The end of the Cold War and the triumph of the Western model have led to both the reduction of aid resource allocation based on geopolitical considerations and the universal affirmation of the market democracy model.

The fight against corruption is thus a question on the agenda of global governance, insofar as: (i) the central issue is the stability and security of international economic transactions (trade and direct foreign investments), and the risks arising from the spread of problems are systemic; (ii) it involves a common structure for negotiation, decision-making, and policy implementation. The fight against corruption can thus be defined as a public imperfectly global good (see Kaul, Grunberg, Stern, 1999) that poses the typical problems of collective action (free rider and prisoner's dilemma). It is imperfectly global, since, while it tends to be universal over the long term, it creates winners and losers in the short term: countries,

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in Yvelines, France.

politico-economic regimes, generations, and social groups. If the international process is geared towards the harmonization of norms for the benefit of all concerned, in reality, the reformers (see below for further explanation of the importance of the concept) of the less powerful countries in the field of international relations have the feeling that international cooperation is inequitable and only tends to reinforce the power of the wealthier countries. These reformers usually complain that the wealthier countries continue to defend their own national self-interests. Therefore, within the sectors symbolizing international corruption structured by multinational firms (arms, oil, aerospace, public works, etc.), two constants prevail. To begin with, multinational firms, always linked to a particular country, have not concretely demonstrated a strong willingness to leave behind a system that still seems to serve them well. They seek primarily to maintain their traditional clientele (even through illegal payments). Moreover, the governments of the "North" continue to support their "strategic" firms with all the resources at their disposal (diplomacy, restrictive standards, informally conditional forms of aid). In actuality, these governments continue to tolerate international and national corruption, failing to set an example of sound governance, and have been reluctant to undertake diagnostic studies on international and national corruption, as developing countries have done. Even if they have little scientific reliability, the appearance over the past few years of indices designating the most corrupt countries (Transparency International, 2001) has at least managed to open the debate on the culpability of developing countries in major international corruption. In the same sense, the corporate accounting and stock market scandals of the last several years have reoriented perceptions of unethical behavior and the costs of these fraud cases towards developed countries. These fraudulent acts are always accompanied by corruption or, at the least, exchanges of favors to advance shadowy lobbying practices. On this point, the agenda intersects with that of corporate governance.

The questions of international political economy are thus: Who profits from international anti-corruption conventions? Given that their application brings about an improvement in local governance, who should finance these programs? Who negotiates the options and controls their implementation?

A cost-benefit assessment at the international level is thus indispensable. Moreover, cross-country analyses, we should also note, run the risk of giving a distorted image. The wealthy, democratic countries facing lower costs in terms of investment and growth would thus have little motivation to finance this fight. On the other hand, in adopting a broader but less rigorous perspective, it is easy to see how the collapse of states and widespread poor governance pose risks for the functioning of the world economy.

International cooperation requires the effectiveness of strategies of reciprocity. The key to success rests in the exchange of reliable information making it possible to foresee the concrete effects of this cooperation. In developing countries, despite a display of enthusiasm for new governance, the reality is completely different for socio-political reasons. Whether they are dictators—kleptocratic or well intentioned—or reformers, the leaders in these countries achieve their power through clientelist relations that tend to be arbitrary. The fight against corruption and poor governance is thus either in conflict with their mode of domination or very risky. Perhaps most alarming is the fact that the actors comprising this movement are few, and that hidden agendas are always present (the fight against corruption as a means for eliminating competitors, for example). It is for this reason that Rose-Ackerman favors prevention (reform) over repression. The withdrawal of international organizations and NGOs supporting this cause, however, has diminished any chance of progress. In effect, the governments of the "South" have not yet been convinced that they will receive an equal share of the fruits of cooperation. In the absence of any guarantee of the assistance required for state reform, the fight against corruption will remain political suicide (Klitgaard, 1998).

As Rose-Ackerman argues (Chap II, E), the jurisdictional deficit tends to diminish (for example, due to the proliferation of conventions), but deficits in participation and motivation remain very important since moral and economic arguments do not carry much weight in the field of politics. The impact of such arguments is all the more weak since the system of power legitimation is not primarily based on the performance of and respect for the law (as in the case of a non-democratic regime). These arguments are further weakened in regimes undergoing democratic transition, when results are deteriorating in the initial period following reforms, before they have the chance to make a turnaround. For example, it is, unfortunately, possible that the application of the OECD Convention could, by limiting corruption in international contracts, have effects quite contradictory to those intended. The reduction of illegal rents paid by multinational firms to the leaders of developing countries may diminish the clientelist redistribution that these leaders engage in, without the official system necessarily being capable of replacing them. The cunning of reason could, then, bring about a moralization of international flows, but also a deterioration of living conditions for the most vulnerable populations linked to clientelism, and, ultimately, to a situation of political instability that would limit the possibility of future growth.

When dealing with non-democratic regimes, ex ante conditionality (aid in exchange for governance reforms) remains a possibility, even though, as Rose-Ackerman reminds us, the poorest countries, and especially the marginalized people within those countries, will bear the burden of it. For countries experiencing a process of democratization, reformers must be able to draw clear-cut advantages from international cooperation to show their electorates. What is more, they must be able to demonstrate that the results constitute new conditions of fairness, and that their point of view, which most often diverges from that of the major powers, was heard and taken into account in the final compromise. Indeed, only national governments themselves are up to the task of finding solutions adapted to a range of environments. From our perspective, the inability of international organizations to consider the feasibility of reform constitutes the first obstacle to this governance agenda. There can be no improvement of national governance without an improvement in global governance, more sensitive to the diversity of internal political processes. One final remark must be made. We must stop the strategic and diplomatic use of governance norms (for instance, the arbitrary designation of rogue states) or else the program risks losing its ethical dimension.

In conclusion, the collective mobilization of international NGOs and institutions gave rise to the good governance agenda. The local relays, however, are still fragile. In order to strengthen these local relays, global governance must prove that it serves the interests of developing countries, and the model of local governance must be adapted and made credible. The cost of this evolution (or the benefit, depending on one's point of view) is the development of a new balance in favor of developing countries.

2. The State, Social Capital and the Costs of Institutional Transition

If international institutions understand that improving governance entails improving world governance (fairer negotiations), they are often unaware that their proposed governance agenda would amount to political suicide for many ruling governments. An underestimation of the stability of clientelism and the potential costs of transition to market democracy (the cost of disillusionment for Rose-Ackerman) detracts from the credibility of the current discourse. Besides, the governance program gives a restrictive definition, and a very specific view, of state-(re)building, which is not necessarily adapted to fragile institutional environments and situations of acute distributive conflicts.

There has been an excessive use of cross country analysis to demonstrate the negative effects of corruption and the need to undertake reforms which would address its causes. The method was to present the results of dozens studies (World Bank 2000b, p103-109) in the form of lists. This aggregative method did not reflect divergences in the microeconomic basis of the studies, the discrepancies between their results, and, finally, the persistent disagreements over recommended policies.

For instance, some of the studies suggest that protectionist and certain industrial policies favor the creation of rents, and therefore rent-seeking, and hence corruption, whereas others demonstrate that structural adjustment policies are faulty. The decrease in civil service salaries, the rise of inequalities, the degradation of social services, as well as the opening to international competition, the reduction of industrial policies, and privatization are seen as encouraging the agents' adaptation to the new constraints through corruption. Trade liberalization, in itself, is not seen as having reduced corruption, but as having fostered growth. In the cases where openness reduced performance, corruption often increased. In this sense, Harris-White and White (1996) have demonstrated how, in many countries, democratization and liberalization have led to more disorganized and destructive forms of corruption, according to the Shleifer and Vishny typology (1993). There is, thus, an older corruption (issuing from rents) and a new form of corruption (stemming from liberalization), which unfortunately often coexist (Cartier-Bresson, 1998). It is, therefore, necessary to determine, on a case by case basis, the credibility of the recommendations for fighting corruption in light of the institutional context, and to verify whether the necessary conditions are present to enable an improvement in governance, in the short term, through democratization and liberalization. In general, the answer depends primarily on the objectives of elites and the norms that structure their negotiations. Since redistributive conflicts figure prominently in the stakes of governance, and since the evolution of these conflicts has potentially dramatic consequences for certain vulnerable segments of the population, political economic analyses are essential. As in the literature on conflicts and civil wars, the contributions of sociology, history, and political science must be addressed and confronted (Andvig et al. 2000, Cartier-Bresson 1992), as the necessary complements to economic formalization.

The ruling political regimes in many developing countries articulate, to varying degrees, forms of neo-patrimonialism and clientelism. Order is based on personalized transactions, the overlapping of both public and private spheres, and formal and informal positions. Strategies for accumulation of economic and political resources are conjoined, and, according to some political scientists, this is unavoidable over the medium term (Hibou, 1999). The scope of analysis should not be limited to studies of bribery, but rather should extend to the networks of clientelist redistribution (Wade 1985 ; Cartier-Bresson, 1997) with their multiple resources (bribes, patronage, favors, public service employment, ballots, rents). Poor governance is therefore a form of government that rests on micro-legitimacies, and the stability of the system significantly increases economic performance, provided the dictator maximizes it over the long rather than the short term (plunder). This explains why so many studies have recorded a negative correlation between democratization and growth. There are, roughly, two models of market democracy transition that continue to coexist: Public Choice and neo-institutionalism (Cartier-Bresson 2000).

According to Public Choice theory, public powers trade rents to pressure groups in exchange for political support. The classic typology distinguishes between: a) autonomous states (guardian or predator) who, because they are deeply rooted, can pursue their objectives without being subjected to pressure from an opposition; and, b) factional states (democratic or authoritarian) which must, in order to make decisions, engage in collective processes with pressure groups. The latter's decisions are constrained by the need to satisfy the demands of its supporters according to an Olsonian logic. The democratic faction state limits predation, but often leads to state paralysis. According to this logic, in countries where the private sector is too weak to counterbalance the state, only an autonomous state of technocrats can 'force' the implementation of shock therapy (like that of an anti-corruption fight). This hypothesis holds that shock therapy (the liberalization of all markets at once) is the only means to avoid triggering the perverse collateral effects linked to the liberalization of only a single market. Its application entails either rapid growth and more or less immediate adherence (an unlikely scenario), or a situation in which the short term costs (decreased growth, increased taxes, and decreased subsidies) do not compensate for future uncertain benefits (growth and employment). In the latter case, social resistance will block the implementation of further reforms. This hypothesis lends relative support to certain kinds of pro-market dictatorships and sees all democratization as accentuating the power of factions. The solution is a strong and autonomous political regime and the drastic reduction of state intervention in the economy.

The main limitation of the rent-seeking approach is that the results of exchanges between the political and economic spheres vary considerably, depending on public policies that are: a) only the outcome of the influence of powerful pressure groups; b) the outcome of state power alone; or, finally, c) the outcome of an interaction between these two components combined with their multiple subcomponents (Meier, 1991). If rents have not had a negative effect in Korea, as compared with Pakistan, it is because the political-economic networks that managed the transfers in Korea possessed a kind of legitimacy in a minimally polarized society, the rents were offered to capitalist sectors, and the state was powerful and autonomous enough to demand efficiency (Khan, 1998). The objectives of elites and mediators, then, become a determining factor, and it becomes counter-productive not to take into account the diversity of exchanged resources and their more or less contradictory effects in the joint construction of the state and the economy. As Bardhan (1997) has remarked, the mistake of studies of rent-seeking and the predatory state is that they do not explain the differences in levels of corruption between similar countries, and why identical levels of corruption allow for different levels of performance. Some African states have become predatory after being weakened, whereas strong states in East Asia with interventionist policies and networks mixing private and public sectors have not prevented administrations from functioning relatively efficiently. This finding calls for an explanation of how social order and trust (resolution of the Hobbesian conflict) can emerge in countries with no democratic traditions and where Weberian norms are not rooted. In any case, it is necessary to make exchanges between political and economic powers (since it is indeed power we are dealing with) more efficient (virtuous?) and not to stigmatize them in a model that axiomatically reduces the effectiveness of the political sphere. In many countries, the reduction of rents will not result in a spontaneous emergence of innovative entrepreneurs, and state intervention in the productive system will remain necessary.

According to the neo-institutional analysis of governance (Coase and Williamson), the state is both the problem and the solution. The state is too big for small problems and too small for big ones. Thus decentralization, regional integration, and private ordering offer means to circumvent the bureaucratic state through tripartite negotiations (state, NGO, and private sector). At the international and regional levels, one must add to this framework international organizations and soft law procedures. This strategy, which requires the adhesion of all parties, can only be incremental. The legal system (to be reformed first and foremost) must provide guarantees for the execution of contracts, including those coming from private negotiations and which involve compensatory transactions. Increasing social capital (for instance, through peer pressure) reduces transaction costs and improves the efficiency of the system. The feasibility of such a scenario requires a civil society mature enough to not highjack the network coordination of negotiations for the purposes of fraud and corruption. The potential dangers are similar to those of decentralization (see Rose-Ackerman, Chap. II, A). This post-Weberian logic requires an institutional architecture few developing countries possess. Furthermore, for the transaction costs of negotiations to be low and, thus, for consensus to be quick, one would need an understanding, which does not exist, of the redistributive effects of political choices. The social polarization of developing countries does not favor the success of the governance scenario, since it has not yet been demonstrated that Coasian negotiation can be applied to political stakes while respecting the ability of the weakest parties.

Therefore, it seems to me that Public Choice offers an analysis of political conflict without a sufficiently refined institutional framework, and that the neo-institutionalists offer an institutional framework without politics. The improvement of "governance" (state-building) nonetheless requires maintaining these two dimensions simultaneously.

Conclusion

The five alternatives proposed by Susan Rose-Ackerman seem to me to move in the right direction. They are well chosen, necessary, and economically—or "technically"—credible. However, their political feasibility is uncertain, the short-term secondary social effects are very ambiguous in the absence of a significant increase (that is not misappropriated!) of international aid, and the right timing is difficult to determine.

The pessimistic tone of this paper on the feasibility and credibility of policies aiming at the improvement of governance should not cause us to overlook the fact that the stakes are as big as the challenge at hand. Indeed, the state often remains both the problem and the solution, and the difficulties involved in its reform are both political and financial. If rigorous, global cost-benefit analyses are impossible, it is still essential to continue to quantify—sector by sector—the potential costs and benefits of the reforms to be implemented, and to evaluate the initial results of implemented policies. The diagnostic inquiries being undertaken by the World Bank move in this direction (World Bank, 2000b), but must now be used as the basis for local discussions on state reform.

The funding of democratization (of which no evaluation currently exists to my knowledge), will have to pave the way for an improvement in public services sufficient to making clientelist relations less attractive or necessary. It is only under such conditions that the power and legitimation of reformers will no longer come simply from their words (charisma), but will result from concrete transformations in the relationship between society and the state. This relationship will finally offer a certain security to citizens in exchange for their confidence and their loyalty to the new rules. We are currently in a period of experimentation, and only over the medium term will the empirical evidence become available to determine the good from the bad economic recipes.

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