

Part III

Rent-Seeking and Corruption

10 Corruption and Rent-Seeking

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1 INTRODUCTION

In recent years, social scientists have become increasingly interested in the study of the political dimension of economic growth and development. Part of this interest can be found in the belief that traditional constructs have not been policy-relevant, especially since they usually fail to emphasize the importance of laws and institutions to economic growth. For example, the neo-classical economics model deals only with choice-through-markets, whereas its policy recommendations are usually implemented through non-market processes by a bureaucracy whose behaviour is not within the model. The state is treated as the 'exogenous, omni-competent and costless instrument for the implementation of policies promoting "economic efficiency"' (Wiseman, 1990, p. 105). In recent years, the public-choice model has emerged as a more intellectually satisfying approach to the study of public policy.

Public choice involves the application of economic theory to the study of politics. In evaluating and explaining public policy, public-choice theorists apply the voluntary exchange paradigm of economic theory in which the individual is assumed to maximize his own self-interest. The design of rules to regulate socio-political relations and the functioning of these rules is affected by the activities of individual political actors within the country, including legislators and other politicians, voters, civil servants and political coalitions. Public choice emphasizes several issues that are important to public policy. First, individuals usually find it efficient and convenient to accept *rules* regulating their socio-political relationships. Second, these rules form the foundation for the social arrangements within which these individuals will interact and make their choices. In other words, choices are made in a post-constitutional society within rules chosen during constitutional deliberations in an earlier period. Thus the outcomes that emerge from social interaction in the post-contractual society are determined by the nature of the rules chosen earlier. It is important to emphasize

that the rules that govern socio-political relationships in a society are themselves the product of choices made earlier. Finally, once elected, governments should not be expected to be obedient and passive servants of the median voter. Instead, they are expected to seek to maximize their own objectives and as a result, governments should be constitutionally constrained to the extent desired by members of society. Basically, public choice gauges the efficiency of social organizations by the 'ability of the citizen to constrain government-as-Leviathan in a context of multi-level choice' (Wiseman, 1990, p. 101).

Interest in the study of institutions and their role in economic growth and development has resulted in an increase in studies devoted to the behaviour of bureaucrats. The bulk of this research has dealt primarily with bureaucratic compensation (Mbaku, 1991; Couch, Atkinson, and Shugart, 1992) and bureaucratic corruption. Civil servants usually attempt to maximize their total compensation package through their influence on the political system. The civil servant's compensation consists of the salary paid by the state, any income (legal or illegal) obtained from outside activities, and the perks of his office. Civil servants who are able to derive more of their income from external sources – that is, from interest groups seeking government favours – than from their regular (public) employment, may pay more attention to the needs and demands of these groups than to the effective and efficient implementation of public policies and the enforcement of state regulations. If civil service salaries are relatively low, then more of the returns to bureaucratic positions may be derived from external activities. The nature of a polity's laws and institutions has a significant impact on the ability of a public employee to seek and secure outside compensation, either legally or illegally (see, for example, Brennan and Buchanan, 1985). Kimenyi (1987) has shown that bureaucrats in autocratic political systems are less constrained in their use of public resources to influence legislators with direct responsibility for determining civil service compensation levels. Like competitive interest groups, civil servants attempt to influence the political system in order to maximize their compensation package.

In this chapter, we survey the recent literature on bureaucratic corruption, with special emphasis on Africa. It is shown that bureaucratic corruption is primarily a rent-seeking behaviour that is related to the scope and extent of government intervention in private exchange. In addition, current corruption clean-up strategies in developing countries are examined, and an alternative and more effective strategy is advanced to rid society of endemic corruption.

2 THE CONCEPT OF RENT-SEEKING

After constitutional rules have been adopted and the apparatus of state established in a country, there exists an incentive for citizens to capture the government and use its redistributive powers to enrich themselves. Each political choice has a distributional effect, and participants in political markets have preferences about these effects and about public policy outcomes. Consequently, these individuals are willing to expend resources to influence these outcomes. Quite often, individuals will organize themselves into special-interest groups in order to improve their ability to affect distributional outcomes. The process of expending resources in an attempt to influence public policy outcomes is called *rent-seeking*. The resources expended create no social product and as a result are regarded as a social waste (Tullock, 1967 and 1993; Krueger, 1994).

Politicians, interested in maximizing votes and thus, re-election, seek contributions from interest groups to finance their campaigns for public office. Interest groups, eager to influence policy outcomes, willingly provide the campaign contributions with the hope that, once elected, the law-maker will support special-interest legislation to create rents and to improve the ability of the interest group to extract those rents from the economy. Rent-seeking can thus result in the adoption of perverse economic policies that impose significant costs on a large and poorly organized population while at the same time effecting a significant transfer of wealth from the economy to a few well-organized groups. For example, in many developing countries, small urban groups have succeeded in getting the government to enact price control regimes which force foodstuff prices below their (free) market equilibrium levels, resulting in a transfer of wealth from the larger, but poorly organized, rural sector to the politically-volatile and relatively well-organized urban sector.

Civil servants, whose job it is to implement national economic policies, and consequently serve as the agents of politicians and voters, may also attempt to maximize their self-interest. There is a strong incentive for bureaucrats to behave opportunistically and to maximize their budgets at the expense of executing public policies efficiently and effectively. The absence of competition among government bureaus and agencies, as Niskanen (1975) and Lowenberg (1992) show, usually results in output that is significantly larger than that which would have been produced in a competitive environment under similar circumstances. Society as a whole would be better off if all individuals

cooperated – that is, no one engaged in opportunism, and rent-seeking did not exist. However, non-cooperating individuals often garner for themselves a level of wealth that is above and beyond what they would have obtained in the absence of opportunism. Consequently, as discussed by Wiseman (1990), unless the ability of the government to intervene in private exchange is sufficiently constrained by the constitution, a democratic society with a majority voting rule can deteriorate into a Leviathan state whose regulatory powers will be used by special-interest groups to effect inefficient wealth redistribution in their favour.

Although most studies on rent-seeking emphasize the efforts made by special-interest groups to capture transfers created by government intervention in private exchange, it is important to note that the concept also encompasses attempts to get legislators to create transfers through special-interest legislation. To an economy, the costs of rent-seeking must include the resources expended to have the state pass laws to create artificial scarcities, and those spent to capture them once they have been created (Buchanan, 1980). Rent-seeking imposes significant costs on the economies of many countries. First, monopolization of certain economic sectors made possible by rent-seeking results in a loss of consumer and producer surplus. Second, the resources spent on competing for the rights to the contrived scarcity created by state intervention in private exchange are a loss to society since they produce no social product. Wenders (1987) has argued that if the costs suffered by entrepreneurs to defend their monopoly positions are added to those of capturing these positions, the social costs of monopolization would appear to be higher than stipulated by some researchers.

It is important to note that the rights to the artificial scarcity created by government regulation of economic activity are usually won or captured by the most effective and efficient rent-seeker and not necessarily by the most efficient entrepreneur or producer. Thus, in countries with politicized resource allocation systems, inefficient producers can remain in the marketplace indefinitely. Mbaku (1992) shows how the success of such entrepreneurs is not based on their ability to service the market efficiently but on how successful they are at rent-seeking.

3 RENT-SEEKING IN DEVELOPING COUNTRIES

The most important rent-seeking behaviours include the *underwriting of the campaigns of legislators, bribery, lobbying, and political violence*. In societies with democratic political systems, lobbying, bribery

and campaign contributions represent the primary methods used to influence the government or affect policy outcomes. In many developing countries, legislatures either do not exist, or function poorly. Incumbents rule by decree, with the legislature serving at their pleasure. The bulk of rents created are channelled by civil servants – the majority of whom are members of the politically-dominant group – to group members. Since the incumbent ruler and the civil service strictly control the allocation of rents, competitive interest groups often do not invest directly in the creation of rents, as is common with groups in democratic societies. Instead, interest groups in developing countries invest their resources either in capturing the rent-creating apparatus of government or in influencing the civil servants whose job it is to channel the rents to the incumbent's supporters. The two most important rent-seeking behaviours in the developing countries, then, are *political violence* and *bureaucratic corruption*. The latter involves the paying of bribes and the use of other forms of pressure to persuade bureaucrats to grant entrepreneurs access to economic sectors closed by government regulation, to minimize the burden of government regulation on an individual's enterprise, and to receive a public subsidy, or a transfer from the state. Mbaku (1992) argues that basically, entrepreneurs pay bribes to the bureaucrat in exchange for benefits they would not have otherwise received.

Bureaucratic corruption involves several kinds of activities. In addition to accepting bribes from individuals and groups seeking government favours, bureaucratic corruption also includes theft or the illegal appropriation of public resources by the civil servant, nepotism, illegal taxation by the bureaucrat, and other types of activity that illegally increase the bureaucrat's compensation package. Some of these activities, however, do not qualify as rent-seeking. Bribery of a civil servant by an entrepreneur in order to receive an important permit represents an incidence of bureaucratic corruption and is rent-seeking behaviour. Although the conversion of public resources by a civil servant to his own private use is bureaucratic corruption, it is not rent-seeking behaviour. If, on the other hand, civil servants lobby legislators in an effort to secure legislation raising bureaucratic compensation levels, such behaviour is rent-seeking, but it is generally not considered a form of corruption. Thus, not all types of bureaucratic corruption are rent-seeking behaviour. The extent of bureaucratic corruption, of course, is determined by the laws and institutions of a country and how effectively those rules constrain the ability of the government to intervene in private exchange.

4 INDEPENDENCE, THE ADOPTION OF INEFFICIENT RULES AND BUREAUCRATIC CORRUPTION IN DEVELOPING COUNTRIES

Independence offered Africans an opportunity to choose new laws and institutions to provide an enabling environment for sustainable development in the post-independence society. The opportunity made possible by the departure of the Europeans was not used effectively to provide African societies with the types of institutional arrangement that would have maximized individual participation in national development. Instead, the rules adopted at independence were weak, inefficient, and not particularly viable. As a consequence, they were easily subverted by interest groups seeking opportunities to enrich themselves at the expense of the rest of the people. Political economy in most post-independence African societies has been characterized by high levels of opportunism, promoted by groups seeking to redistribute wealth and income in their favour. Opportunism includes bureaucratic corruption, political violence and other behaviours designed to help groups subvert the rules for their own benefit (Mbaku, 1995).

Colonies, as Fatton (1990, p. 457) notes, were established in Africa through force and, as a result, colonial institutions were primarily structures of exploitation. Force was used regularly to maintain colonial hegemony. In the colonies, Africans lived under rules that were imposed on them by the Europeans. When it became clear that the colonies would be granted independence, the Europeans began a hurried institutional reform programme that failed to address fundamental issues associated with the effective participation of the indigenous peoples in post-independence development. In addition to the fact that there usually was not enough time to develop an independent indigenous elite capable of providing the leadership to manage effectively the transition to post-independence liberal democracy and competitive markets, the process of decolonization was, to quote Fatton (1990, p. 457), 'reluctant, repressive, and opportunistic'.

The laws and institutions of the new countries were not developed to reflect domestic realities, needs, traditions or aspirations. The rules selected lacked legitimacy, which usually comes as Sundhussen (1991, p. 108) states from the 'understanding and voluntary acceptance of the constitution by the people as the prescription for settling conflict within society'. Most African constitutions were based on European models and quite often were not sufficiently adjusted either to reflect African realities or to meet the needs of the people. In addition, conferences to

design these rules were held primarily in Europe, with the interests of the African peoples represented by urbanized indigenous elites, most of whom had been educated in the metropolitan countries, and had accepted European culture and political norms and beliefs. These indigenous elites were not well informed on conditions in the rural areas of their respective countries and did not share the same objectives and interests as those of their peasant countrymen. Since constitutional deliberations generally excluded a significant part of national political opinion, the result was an inefficient and inappropriate set of rules, as discussed in, for example, Cowen (1961) on the design of South Africa's first constitution; and LeVine (1964) for the writing of Cameroon's first constitution.

An important feature of post-independence political economy in the developing countries has been the rise of statism as a preferred development path. Statism has produced many outcomes, most of which have contributed significantly to rent-seeking, including bureaucratic corruption. First, state control of the economy has placed under the direct control of civil servants a significant portion of national resources, allowing these individuals to manipulate public policy to enrich themselves at the expense of society. Second, massive state intervention in private exchange has produced politicized resource allocation systems in which returns to factors of production are not determined by the marginal productivity of the resource but by the rent-seeking activities of the resource owner. Consequently, many entrepreneurs in these countries devote a significant amount of resources to finding ways to influence distributional outcomes. Fewer resources are devoted to the actual production of goods and services. The subsequent distortion of economic incentives made possible by massive state regulation has become an important obstacle to development. Finally, statism has raised the cost of operating in the formal sectors of the economies of many of these countries. In order to minimize the cost of state regulation on an individual's enterprise, many entrepreneurs have either taken their activities underground or must pay bribes to civil servants in order to continue to have access to markets in the formal sector (Mbaku, 1992). An excessive exodus of enterprises from the formal sectors of several developing countries has eroded the tax base of these countries and resulted in significantly lower public revenues.

5 THE CONCEPT OF CORRUPTION

Most definitions of corruption relate the concept of the performance to the duties associated with a public office and deviations from the norms or rules that govern the behaviour of civil servants. Some researchers argue that corruption in the developing countries derives from the clash between traditional values and the foreign norms that usually accompany modernization. These scholars believe that corruption is an unavoidable consequence of the process of social and economic development. Bayley (1966, p. 720) argues that 'corruption, while being tied particularly to the act of bribery, is a general term covering misuse of authority as a result of considerations of personal gain, which need not be monetary'. In Africa and many other Third-World societies, bureaucratic corruption is viewed as a practical issue involving, as Harsch (1993, p. 33) puts it, 'outright theft, embezzlement of funds or other appropriation of state property, nepotism and the granting of favours to personal acquaintances, and the abuse of public authority and position to exact payments and privileges'.

Bureaucratic corruption allows civil servants to raise their total compensation above and beyond the legal limit. In addition, it provides opportunities for a few entrepreneurs to capture and maintain privileged positions in the economy. Politicians, who act as wealth brokers, also benefit from corruption. Corruption provides the resources needed to purchase regime security and also serves as a framework for channelling resources to supporters of the government (Mbaku, 1992). Generally, the loser from corruption is society as a whole.

In analysing corruption, it is important to emphasize the supply side. Without the supply of bribes by entrepreneurs seeking government favours, the bulk of bureaucratic corruption would be restricted to the illegal appropriation of public resources, nepotism, and illegal taxation. For most bureaucrats in developing countries, bribes by entrepreneurs seeking to capture scarcities created by government regulations, and those intended to minimize the burden of regulations on private business, and to gain access to free or subsidized public goods, represent important sources of extra-legal income. Through these activities, the private sector contributes significantly to corruption. Bureaucratic corruption, as examined above, is related to the extent and scope of government regulation of private exchange. Thus the laws and institutions in a society have a significant impact on the level of corruption in that society. Both Mbaku (1992) and Harsch (1993) suggest that corruption can be seen as a survival mechanism for cost-recovering entrepreneurs faced with ruinous state regulations.

Since the main emphasis in this chapter is on the type of corruption that involves the purchase of favours from civil servants charged with formulating and implementing the government's economic agenda, activities of interest include payment of bribes to secure import and export licences, foreign exchange permits, and investment and production licences, as well as gaining access to subsidized or free goods. Moreover, entrepreneurs may pay bribes to civil servants to minimize the taxes that they owe the state or to generally reduce the burden of government regulation on their enterprises. The resources squandered on bribes represent an unlawful tax on private exchange.

6 BUREAUCRATIC CORRUPTION AS RENT-SEEKING BEHAVIOUR

In societies with politicized resource allocation systems, the civil service becomes the principal mechanism for the allocation of resources, and not the market. Consequently, entrepreneurs seeking to secure the rights to lucrative monopoly positions created by government intervention must purchase these rights from *politicized* markets controlled by civil servants. Bureaucrats, aware that the permits provide their owners with significant monopoly profits, try to capture some of these rents by demanding bribes from entrepreneurs who request licences. Government regulation also imposes significant costs on business enterprises. To reduce the burden of such regulations, many entrepreneurs attempt to bribe civil servants, whose job it is to administer these laws. The main purpose of a bribe is either to obtain an exemption from the laws, or to have one's enterprise taxed at a diminished rate. If the economic system were deregulated and access to markets unrestricted – that is, licences and permits were not required, for example, to engage in economic activity – there would be no reason for entrepreneurs to pay bribes to civil servants. If, for example, there were no restrictions on international trade, entrepreneurs would not be required to obtain import permits, and as a result, bureaucrats would have no opportunity to extract bribes from participants in international trade. Thus, bureaucratic corruption is directly related to the level and extent of government activity in the economy.

Several studies have examined corruption in Africa, including Werlin (1973); LeVine (1975); Gould and Mukendi (1989). Ghana represents an excellent example of a country in which excessive government intervention in private exchange gave rise to high levels of corruption. Corruption in Ghana is well documented, by for example, Werlin (1973)

and LeVine (1975). Ghana gained independence from Great Britain in 1957, with Dr Kwame Nkrumah as the country's first chief executive. The Nkrumah government subsequently established a repressive political system and, like many other developing countries, adopted statism as the country's development path. Within a few years of independence, the incumbent government had succeeded in manipulating the rules to insure its total and absolute control of resource allocation. In fact, by 1966, the year in which Nkrumah's regime was overthrown by a military coup, the country had degenerated into a venal society with a repressive and highly controlled internal economic structure in which access to lucrative monopoly positions was regularly sold by civil servants. The destruction of the market mechanism and the relatively heavy reliance on the political system for the allocation of resources increased the level of rent-seeking and created opportunities for bureaucrats to extort bribes from entrepreneurs seeking access to markets. Since the government of Nkrumah was overthrown in 1966, Ghana has enjoyed only a brief period of civilian rule. Despite efforts at institutional reform, the economy is still characterized by significant levels of state intervention and as a result, rent-seeking, including corruption, continues to be a major development problem.

Zaire represents another important case of corruption in post-independence Africa. In a little over three decades of independence, the country's apparatus of state has been converted into a framework for the enrichment and self-advancement of the nation's elites. In fact, Mobutu Sese Seko, who has ruled Zaire during most of its existence as a sovereignty has acknowledged that corruption is the nation's greatest development problem (Gould and Mukendi, 1989, p. 429). Mobutu has cited several cases of abuse of the public trust, including the illegal appropriation of military resources by military officers, the use of judiciary authority by some of the nation's judges to punish their enemies and those of their friends, adjudication of court cases based on the accused's wealth status, mass smuggling of diamonds and coffee, placement of dead or non-existent individuals on the national payroll, and the non-payment of import duties by entrepreneurs, who pay bribes to the bureaucrats in the customs and excise department.

Three important forms of corruption have been identified in Zaire: first, in routine state business, individuals bribe civil servants to have incriminating or compromising documents expunged from their official files. Bribing the right official, especially in the government's salary computerization bureau, can result in an increase in one's base salary. Second, supervisors may also engage in corruption while im-

plementing public programmes. For example, an individual given the responsibility for implementing a bridge construction project may receive additional compensation either by submitting false accounts and pay vouchers, or by allowing contractors to submit invoices with inflated costs. Based on a prior agreement, the civil servant is paid a bribe by the contractor. If completion of the project involves the importation of raw materials, the civil servant supervising the project may be able to earn extra-legal income by purchasing more inputs than are required to complete the project and then selling the surplus to private entrepreneurs, usually at below market prices. Third, state intervention in private exchange is carried out by the country's bureaucracy. For example, civil servants design and implement state price control programmes, as well as assessing the taxes each enterprise must pay. In addition, as is the case in most other African countries, the state in Zaïre is responsible for marketing most cash crops and other primary commodities (including fuels and minerals) produced domestically. In the implementation of the myriad of state regulations, civil servants have an opportunity to extract additional income from the economy for themselves. Entrepreneurs regularly pay bribes to civil servants in order to minimize or eliminate their tax obligations. Officers of the customs and excise departments routinely reduce import duties owed to the state by importers. The latter, of course, share the cost savings with the bureaucrats. Gould and Mukendi (1989, p. 430) state that these and other corrupt behaviour or practices have been 'ingrained, institutionalized and routinized' in the economy of Zaïre and have resulted in the 'systematic bleeding of the state treasury'.

It should be noted that corruption in Africa has not been limited to countries with any particular political orientation, economic system, or colonial heritage. Thus, corruption has been just as widespread in former UK colonies as it has been in countries previously colonized by France, Belgium, Spain or Portugal. In addition, countries such as Tanzania, Angola and Mozambique, which 'for many years proclaimed their adherence to some form of socialist programme that frowned on private enrichment and capitalist accumulation' have encountered just as much corruption as have countries with less socialist-oriented economic systems such as Nigeria and the Côte d'Ivoire. Common elements in these countries, indeed the primary determinant of corruption are weak, inefficient and poorly-designed laws and institutions (Harsch, 1993; Mbaku, 1995).

7 RENT-SEEKING AND CAUSES OF BUREAUCRATIC CORRUPTION IN DEVELOPING COUNTRIES

Much research has been done on the causes of bureaucratic corruption in developing countries. Apter (1963) argues that, in Africa, bureaucrats may be under an obligation to share the benefits of their public offices with their kinfolk. The extended family is believed to put pressure on the public servant to become corrupt and engage in nepotistic practices. In studying corruption, researchers have tended to emphasize those structural and individual conditions that give rise to corrupt behaviour. Several structural factors said to contribute significantly to corruption have been identified. The 'soft state', which is said to embody 'a weak or diffuse sense of national interest and the absence of a commitment to public service', has been identified as a cause of corruption in the developing countries (Gould and Mukendi, 1989, p. 434). The lack of commitment to public service has been cited as an important determinant of the pervasiveness of corruption in the bureaucracies of many developing countries. In many of these economies, it is argued, public service is seen as an opportunity for personal enrichment.

Inefficiency and incompetence among civil servants has been advanced as another institutional issue associated with bureaucratic corruption. In order to encourage and enhance innovation and productivity in the economy, the bureaucracy must be responsive to the needs of entrepreneurs. In addition, public goods and services must be delivered effectively and efficiently. An important implication of this is that senior positions in the civil service be awarded only to individuals who have the ability to efficiently perform the duties assigned to them and not as political rewards or in exchange for bribes to supervisors. The existence of inefficient, unqualified and unprofessional public employees contributes significantly to development failures. Unfortunately, reform efforts have been frustrated by corrupt individuals who see successful institutional reform as a threat to their rent stream.

Africa's endemic and chronic poverty and severe inequities in income distribution have also been advanced as determinants of corruption in the continent, by, for example, Leys (1965). Today, Africa is the poorest region of the world. In addition to the pervasiveness of poverty, income and wealth distribution is skewed in favour of a small group of elites (see, for example, UNDP, 1995). The emergence of the armed forces as an important factor in national politics has had a significant effect on income distribution. Since the 1970s, military elites have dominated the political economy in many African countries. The

result has been the capture of a disproportionate share of the government budget by the military. In a study of Zaïre by the World Bank (1979), it was found that 92 per cent of public employees could not meet their basic subsistence needs (food, clothing and shelter) with their monthly income from work. Very high levels of inflation combined with low salaries for lower-echelon civil servants render life in urban areas very difficult. Despite the subsidization of foodstuffs by the government, most of the urban poor still find living in the cities virtually impossible. The situation found by the World Bank in Zaïre is not unique to that country. In fact, throughout Africa, many urban centres are full of so-called working poor, individuals who occupy low-level positions in the civil service, but do not earn enough to support themselves and their dependents. Many of these people live on the verge of starvation and are likely to condone corruption, or even actively engage in it, as a way to improve their chances of survival.

Culture has also been cited as a determinant of corruption in developing countries. It is argued by Jabbra (1976) that corruption arises from the existence of defective cultural norms and behaviour. Other researchers argue that corruption arises from the foreign norms that accompany modernization. Under these conditions, it is viewed as an unavoidable consequence of modernization (Bayley, 1966). In many societies, the rights of the individual are subordinate to those of the group. Loyalty to the group is usually more important than individual rights or personal accountability. In many African countries, these particularist attachments are strong and are said to have an important effect on corruption. A civil servant may engage in corruption in order to meet his personal obligations to his people.

Public choice represents a much more intellectually satisfying construct for examining corruption. According to this approach, corruption is a rent-seeking behaviour. Once the constitution has been adopted and the government established in a country, there is an incentive for individuals to capture the government and use its redistributive powers to effect income and wealth transfers in their favour. If the constitution severely constrains the ability of the state to intervene in private exchange, then political coalitions would be unable to engage in rent-seeking. If the constitution does not allow the government to regulate international trade, there would be no need for import permits, bureaucrats in the trade ministry would be unable to extract bribes from prospective importers, and the latter would not supply the bribes. Since government regulations provide bureaucrats with opportunities to extort bribes from entrepreneurs, reform of the rules can make certain

that society will secure the outcomes it desires; that is, the most effective method to eliminate bureaucratic corruption is to reform the rules, and rid markets of the incentives to engage in corruption.

8 PUBLIC CHOICE AND CORRUPTION CLEAN-UP IN DEVELOPING COUNTRIES

It is virtually impossible to effect a viable corruption clean-up programme in markets that are regulated by highly inefficient rules. There are three major institution-related constraints to corruption clean-up in developing countries. First, the rules that regulate social interaction or socio-political relationships in the developing countries provide a plethora of opportunities for individuals and groups to engage in rent-seeking, including corruption. It is virtually impossible to force efficient outcomes out of markets regulated by inefficient rules. If the rules provide significant incentives for market participants to indulge in corrupt activities, nothing short of reform of the existing rules will prevent corruption from being the dominant outcome. Second, no effective counteracting institutions exist to enforce compliance or cooperation and thus minimize opportunism. In fact, in the majority of developing countries, national judiciary systems and the police, which are supposed to control corruption through enforcement of the laws, are themselves severely corrupt. Third, the constitutions in most developing countries do not adequately constrain the power of the state to intervene in private exchange. Excessive government regulation of economic activities has enhanced and facilitated bureaucratic corruption and other forms of opportunism in these countries. The relatively unlimited ability of the governments of many developing countries to intervene in the economy must be curbed if corruption is to be minimized.

In the developing countries, many governments have virtually unlimited power to intervene in private exchange, counteracting institutions are not properly constrained, and a free press does not exist to expose corruption. In many of these countries, public officials accused of engaging in corruption are often reassigned to lucrative but less conspicuous positions in the bureaucracy and usually continue with their corrupt activities. These individuals may in fact eventually return to occupy their pre-indictment offices.

Gillespie and Okruhlik (1991, p. 80) identify four strategies currently used to clean up corruption in developing countries: these strategies are social, legal, market and political. In employing social strategies

to clean up corruption, emphasis is placed on the determination of a common standard of morality against which corrupt activities and behaviour can be measured. In addition, members of society are expected to maintain a certain degree of vigilance in order to capture those engaging in corruption. Finally, education to make it more difficult for individuals to participate in corrupt activities is strongly encouraged (McMullan, 1961). Legal strategies involve the constraining of the behaviour of civil servants and other members of society by the law, with special commissions of inquiry or special prosecutors expected to investigate individuals accused of involvement in corruption. If evidence is uncovered implicating anyone in corruption, the judicial system can then prosecute and punish the guilty according to the nation's laws. Market strategies for corruption clean-up are based on the belief that a relationship exists between the structure of the market and the incidence of corrupt behaviour by market participants. The remedy prescribed is greater reliance on markets for the allocation of resources. Such a remedy, however, involves the manipulation of outcomes within existing rules instead of constitutional reform. The market is blamed for what is essentially a 'rules problem'; that is, the outcome of inefficient rules. Since the rules define and determine the market outcomes, greater reliance on markets for the allocation of resources may not necessarily generate the efficient outcomes expected or desired by society if the rules are inefficient. Thus, unless there is effective reform of the rules within which the market functions, incentives for opportunism will remain and corruption will continue unabated.

Political strategies for cleaning up corruption emphasize the decentralization of the political system in order to improve participation by the people. It is believed that concentration of power in the hands of a few elites encourages corrupt behaviour, and that a process which provides citizens with greater access to political markets will reduce corruption significantly. Under this strategy, an effective clean-up programme is expected to emphasize political deregulation and the subsequent expansion of opportunities for ordinary citizens to participate in governance. Those who favour this approach to corruption elimination support raising levels of bureaucratic compensation in order to reduce the chances that a civil servant will seek to supplement his earnings from outside activities.

In the majority of developing countries, corruption elimination programmes are motivated primarily by political exigency rather than genuine concern by the ruling elites for efficiency in resource allocation. In many countries, post-coup commissions of inquiry, for example, are

designed to discredit the recently ousted regime and help the incoming government gain recognition and legitimacy. Quite often incumbents would use clean-up programmes to improve their chances of remaining in power. Under the guise of concern for efficiency in administration, the incumbent will initiate a clean-up programme in order to divert national attention from deteriorating economic and social conditions, and challenges from opposition leaders. Whether or not corruption clean-up programmes are used for political exigency, and how often, will be determined by several factors, which include, according to Gillespie and Okruhlik (1991, p. 82), 'the personal values of the head of state, challenges from a counter elite, and popular discontent arising from socio-economic conditions' within the country. In many developing countries, incumbent leaders regularly use such corruption cleansing campaigns to destroy the reputations of the leaders of the opposition, to discredit members of previous regimes, and to improve support among the populace for the government.

Current strategies for corruption cleansing in developing countries depend primarily on the police, the national judiciary and the press. It is assumed that these institutions are properly constrained by the law and that those who serve in them are free from corruption. Unfortunately, the counteracting institutions of most developing countries are not properly constrained by the law and are pervaded by high levels of corruption. Thus, effective corruption clean-up calls for a new strategy: one that emphasizes the reform of existing rules to make them self-enforcing and less dependent on counteracting agencies. If the rules that regulate socio-political relations in a country provide an incentive system that makes corruption highly lucrative, efforts to clean up corruption through policing will be futile. For example, if as a result of existing rules (adopted in an earlier period), rent-seeking, including bureaucratic corruption, as opposed to managerial expertise and competition, determine the profitability of firms, then entrepreneurs are likely to spend most of their resources engaged in rent-seeking. Using the police to prevent entrepreneurs from taking advantage of lucrative rent-seeking opportunities is likely to be ineffective, especially if members of the police force are themselves corrupt. Even in the absence of corruption among police officers, policing as a way of minimizing corruption within an inefficient set of rules will still be a major challenge. As mentioned earlier, under such a situation, the problem is not in the markets, but in the rules that regulate the behaviour of market participants. The rules determine the nature of incentives, and consequently the behaviour of those participating in markets and what the

outcomes will be. Thus an effective strategy for corruption elimination calls for a reform of the rules in order to change the incentive system and thus secure the outcomes desired by society. As long as it is understood that bureaucratic corruption is rent-seeking behaviour, effective clean-up must begin with reform of the rules.

9 SUMMARY AND CONCLUDING STATEMENTS

The main purpose of this study was to examine bureaucratic corruption from a public-choice perspective. Using evidence from Africa, we attempted to show that bureaucratic corruption is primarily a rent-seeking behaviour. Most developing countries, including those in Africa, are characterized by weak, inefficient and non-viable constitutional rules and economies that are heavily regulated. Excessive and pervasive government intrusion in private exchange has created many opportunities for rent-seeking. Bureaucratic corruption is one of the most important rent-seeking behaviours in developing countries. Civil servants who are charged with implementing national development programmes and enforcing the state's regulatory system, are able to extort bribes from entrepreneurs seeking favours from the government. Such favours include opportunities to obtain lucrative import licences, foreign exchange permits, access to subsidized credit, and investment and production licences. In addition, business owners may bribe bureaucrats in order to eliminate or minimize taxes which their enterprises owe the state. Bureaucratic corruption is thus primarily rent-seeking behaviour and is directly related to government intervention in private exchange. The politicization of resource allocation accounts for most rent-seeking activities in these countries and subsequently, for a larger part of bureaucratic corruption. Any attempt to clean up bureaucratic corruption must begin with institutional reform.

Recently, Becker (1994, p. 18) remarked that 'corruption is common whenever big government infiltrates all facets of economic life, never mind the political and business systems'. If the rules that regulate socio-political relationships in a country make the political system an important determinant of the profitability of business enterprises, then entrepreneurs are likely to devote most of their time and resources to finding ways to influence the bureaucracy. For example, if government subsidies, discretionary tax relief, and other forms of regulations, instead of managerial and entrepreneurial expertise, become the primary determinant of company profitability, then rent-seeking would

definitely become pervasive. Entrepreneurs would then devote a significant part of their activities to lobbying and bribing politicians and bureaucrats in exchange for government favours and increased profits. The most effective way of eliminating corruption is to reform the existing rules in order to weaken the link between business and the political system, and guarantee the outcomes desired by society.

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