Rent-Seeking Behaviour and Public Corruption

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Corruption is common practice in dealings between officials and business people or citizens at all levels, in many developing countries. The negative effects of this are plentiful: market allocation mechanisms are distorted, human and capital resources are diverted from productive activities, the State and its institutions are undermined, and political stability and the necessary independence of economic policy are consequently endangered.

The aim of the Development Centre is to help OECD member countries gain a better understanding of the economic and social problems facing the developing world, and to enable non-member countries to benefit from the OECD's accumulated experience in the fields of economic policy and public administration. Its activity hinges upon research programs dealing with the questions facing the governments of the developing countries, with which the Centre maintains an informal dialogue. One of the Centre's research themes for 1996-1998 is a review of the conditions in which poor countries could participate in dynamics of world economic growth. The majority of these countries - for the most part in sub-Saharan Africa - have not succeeded in setting a development process in motion, in spite of courageous structural reforms in certain cases. The persuasiveness of corruption could be one significant cause of this. Consequently, in collaboration with experts from the countries concerned, a Development Centre team is working on problems connected with corruption. Its activities are organised in three parts, around three questions:

- **How do corrupt practices affect economic development?**

- **What are the determinants of corruption?**

- **How to fight durably and effectively against corruption in die context of the developing countries?**

How do corrupt practices affect economic development?

This question raises, in the first place, the need to identify types of national configurations of corruption activities at the country level: certain configurations stifle all economic growth, while others can more readily be reconciled with development. Two key criteria have been adopted to define these forms as they relate to the question of their impact on growth: first, the balance of power between political groups and socio-economic groups, and second, the organisational patterns of systems of corruption.

This first part of the Centre's activities comprises two projects. In collaboration with the United

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Nations Development Programme (UNDP), a questionnaire on corruption (activities affected, frequency, how systems of corruption are organised, how the population perceives corruption, national context, etc.) is being sent to experts in non- member countries (Senegal, Mali, Mozambique, Tanzania, Malawi, Uganda, Ghana, Chinese Taipei, Thailand, Malaysia, etc.). Based on the responses received, we hope to be able to identify common types of national configuration; we will then seek to correlate these with observed development patterns. The results of this study will be presented at a workshop organised jointly with the UNDP[1], on efforts to fight corruption and the developing countries. The results of this survey will be presented on that occasion.

Certain countries, such as Chinese Taipei, while by no means exempt from corrupt practices and rent-seeking behaviour, have nevertheless managed to industrialise rapidly. To refine our understanding of the relationship between corruption and growth, a second project is studying the configuration of corruption in Chinese Taipei and how it has evolved in the course of the island's industrialisation. Our initial investigations have allowed us to formulate the following working hypotheses. Until the mid-80s, two types of corruption coexisted. There was a "low-level" corruption that did not imply lasting relationships between the people concerned: individuals paid bribes to officials in return for services or to obtain permits within a reasonable period of time. There was also a "high-level" corruption, reflecting the special relationships between certain major corporations with high-ranking officials: services rendered or receiving a share of these companies' profits in return for subsidies and protection. High-level corruption is, on the face of things, more harmful to the economic development process, inasmuch as it distorts market's role in the selection of economic initiatives and places additional burdens on firms. But the absence of competitive bidding mechanisms and steady, rapid growth prevented the scale of bribes from rising unduly. From the middle of the 80s, the democratisation of the country, with the formation of a political opposition party notably, growing criticism of State interference via its industrial policy, rising levels of education and slower growth upset this state of affairs. Low-level corruption diminished sharply, albeit with no concomitant improvement in the efficiency of the bureaucracy. Henceforward, the demand for bribes centred around the need to finance political campaigns. The introduction of a political purpose into the practice of corruption, unconnected with the logic of economic growth, tended to be far more harmful to economic development.

What are the determinants of corruption?

A reflection on possible national differences from one country to another also touches on the question of what determines corruption. This forms the second part of our activities. Micro-economic models (of the Principal-Agent-Client[2] type) are important in that they analyse the behaviour and incentives affecting the two actors in the illicit exchange. But they do not tell us about the overall logic of these phenomena. For that, one needs to look at the economic, political and social networks within which the two protagonists operate, and to place corrupt practices in their institutional, national and international contexts, first document on the subject produced by the Centre[3].

To test these hypotheses on the determinants of corruption, an analysis of customs fraud in

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Senegal and Mali has been conducted[4]. By confining the study to corruption within the customs administration - the choice of this administration being justified by the importance of trade policy for the workings of the economy as a whole - it has been possible to arrive at a quantified estimate of the degree of corruption[5]. The level of corruption in both of these countries has been observed to fall in the course of the 1990s. Econometric tests can show the correlation between the level of corruption and explanatory variables reflecting the workings of the institution in question or the national context. More than the actual level of duties, what appears to foster corruption is the complexity and the variability of the structure of customs barriers (certain products or types of enterprise are exempt from duties). So it would surely be sensible to recommend that customs tariffs be simplified rather than eliminate them altogether. It emerges, moreover, particularly from the study of Senegal, that these customs barriers are the outcome of, on the one hand, compromise between the State and business lobbies, and on the other of measures deemed necessary to pursue an industrial development strategy. A radical modification of the tariff structure and trade policy would therefore be tantamount to embarking on a thorough overhaul of the existing politico-econonic equilibrium.

A similar study for an English-speaking African country would provide an interesting source of comparison by studying a different institutional context from that found in French-speaking countries like Senegal and Mali.

How to fight durably and effectively against corruption in the context of the developing countries?

The analysis of the determinants of corruption, and in particular the study of Senegal and Mali, furnish information on ways to combat corruption in the context of the developing countries, which is the third part of the Centre's research activities. An important question in this respect is whether it is possible to fight corruption in a single administration without this undertaking being an integral part of a nation-wide initiative. The initial findings of the study of customs fraud would seem to suggest not.

For the past 20 years, Hong Kong has waged an effective war on corruption. The Development Centre has embarked on a study of this experience, from which there is much to be learnt, analysing the reasons for its success and the difficulties encountered[6]. The strategy adopted in Hong Kong has been to act simultaneously, and in a co-ordinated manner, on three fronts: investigating and criminalizing past cases of corruption, prevention through organisational reform of the administrations and firms so requesting, and educating the public about the evils of corruption. It was found necessary to condemn all cases of corruption, without distinction: corruption implicating State officials as well as corruption between private players, "low-level" corruption as well as "high-level" corruption. However. the fact that the fight was not confined to recent cases only initially hampered the Hong Kong authorities, and indeed compromised the undertaking. Also, nothing could have been achieved without the support and active involvement of the population: the success of the undertaking lies in the difficult art of mobilising the citizenry.

Finally, this example shows just how vital it is that the decision to fight corruption be made at the

highest level of government. Considerable financial and human resources should be made available. and leaders should be prepared to restructure the State machinery extensively.

Notes and References

[1] The joint seminar took place in Paris, on October 24-25, 1997.

[2] See for example "Contrôle des prix et économie des institutions en Chine", by Jean-Jacques Laffont and Claudia Senik-Leygonie, Development Centre Study, 1997.

[3] See "Corruption: The Issues", by Andrew Goudie and David Stasavage, Development Centre Technical Paper no. 122. January 1997.

[4] See "Causes and Consequences of Customs Fraud: Evidence from Senegal and Mali", by Cécile Daubrée and David Stasavage, study to be published as a Development Centre Technical Paper.

[5] Based on the difference between the theoretical revenues that ought to have been received, given the value of imports declared and customs duties, and the amount of duties actually collected.

[6] See "A Study of the Policy Initiatives against Corruption in Hong Kong". by Bertrand de Speville. Development Centre, to be published.