

CORRUPTION AS A DRAG ON DEVELOPMENT

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Corruption and Democracy in Latin America. Edited by Charles H. Blake and Stephen D. Morris. Pittsburgh: University of Pittsburgh Press, 2009. Pp. 264. \$25.95 paper.

The Many Faces of Corruption: Tracking Vulnerabilities at the Sector Level. Edited by J. Edgardo Campos and Sanjay Pradhan. Washington, D.C.: World Bank, 2007. Pp. xxxi + 447. \$40.00 paper.

Corruption and Development Aid: Confronting the Challenges. By Georg Cremer. Translated by Elisabeth Schuth. Boulder, CO: Lynne Rienner Publishers, 2008. Pp. xiv + 169. \$19.95 paper.

Corrupt Circles: A History of Unbound Graft in Peru. By Alfonso W. Quiroz. Washington, D.C.: Woodrow Wilson Center Press; Baltimore: Johns Hopkins University Press, 2009. Pp. xxii + 514. \$30.00 paper.

Political Corruption in Mexico: The Impact of Democratization. By Stephen D. Morris. Boulder, CO: Lynne Rienner Publishers, 2009. Pp. xii + 307. \$65.00 cloth.

Corruption is a worldwide phenomenon manifested in many different forms. Whether it appears as a few bills pressed into the hand of a police officer, as the awarding of a government contract without competition, or as the abuse of public office by accepting kickbacks or stealing from the treasury, corruption is a fact of life. Its economic consequences are also well known. It discourages investment, distorts trade, and increases costs, which, in turn, slows growth and negatively affects development. Politically, corruption erodes trust in institutions, reduces participation, and undermines legitimacy.

Corruption often seems most pervasive in the places that can least afford it: less developed countries. Although corruption has posed a challenge for Latin America since colonial times, the emergence of democratic regimes in the region since the 1980s has brought demands for greater transparency and accountability. Corruption nevertheless remains a problem. Several Latin American countries rank high on the Corruption Perception Index, published annually by Transparency International.

Once largely ignored by academics or treated in an anecdotal fashion because there was no serious methodology to measure it, corruption has become the subject of much scholarly work as various fields recognize its political, economic, and social effects. This interest coincides with the end of cold war, democratization, and economic liberalization. There are also practical reasons as governments, international agencies, nongovernmental organizations, and individuals come to see the financial and human cost not only of corruption itself but also of the perception of corruption. As researchers struggle to document corruption, measure its effects, and find ways to reduce it, they find that it is often difficult to ascribe it to specific historical, economic, and cultural forces and to specific regimes, given that corruption has multiple causes and is rooted in myriad factors.

The five books under review here—three of which focus specifically on Latin America—are the latest testament to this growth in scholarly attention. All offer stimulating approaches and eloquent and incisive discussions.

Until recently, international organizations paid little heed to corruption, in part because countering communism was a more pressing issue than good governance. Now, with the expansion of global markets and the push for economic liberalization, opportunities for corrupt practices have only increased. This is most obvious in the post-Soviet economies in transition (e.g., Russia, Albania, Romania), but many Latin American countries also fit the mold. Under strong criticism for tolerating illegitimate activities that taint government, organizations such as the United Nations, the World Bank, the Inter-American Development Bank, and the Organisation for Economic Co-operation and Development have called attention to the role of corruption in distorting and impeding social and economic development so as to fight it. Aided by such international organizations, citizen groups have formed anticorruption commissions. In addition, international watchdogs such as Transparency International and Latinobarómetro are helping expose and fight corrupt practices by issuing comparisons among countries.

Although the body of literature on corruption has grown rapidly, it is weak on methodology. Identifying and measuring corruption has been a challenge for every discipline to attempt it. But new tools are being developed, thereby allowing researchers to drill down to the microlevel and to consider the scope of public opinion. Since the mid-1990s, the World Bank has led this effort.

Commissioned by the World Bank and featuring work by its economists and technical experts, *The Many Faces of Corruption* features, as the subtitle indicates, sectoral studies of health, forestry, education, electricity, transport, oil and gas, water, and sanitation. These studies are laid out in the first section. A second section treats public financial management,

government procurement, tax administration, and customs. The third part focuses on how to deal with money laundering. Using recently developed tools that measure corruption and responses to it by firms, individuals, and public officials—investment climate surveys, report card surveys, triangulated governance diagnosis, and public expenditure tracking surveys—the volume's essays show how simplistic assumptions can lead governments and others astray in the fight to curtail corruption. For example, in regard to illegal logging, Kishor and Damanis note that “the commonly proposed remedy is strengthened law enforcement.” However, as Campos and Pradhan note, this “neglects the fact that illegal logging thrives because the law enforcers are captured by the interests they are supposed to regulate” (97).

Drawing mainly on political science, *Corruption and Democracy in Latin America* also points out the need for better analytical tools while questioning “the precision of the survey-based measures that dominate the study of perceived corruption” (17). The editors, Blake and Morris, note that, in the absence of hard data, many studies rely on circumstantial evidence or focus on single factors, such as culture, while ignoring others. Their case studies of Peru, Brazil, Chile, and Mexico seek to avoid these faults with more precise and measurable methodologies. In his own chapter, Morris looks at democracy on a state-by-state basis in Mexico to test the hypothesis that greater democracy reduces corrupt behavior. Another chapter by Lopez-Cálix, Seligson, and Alcázar instead examines a single program, the Vaso de Leche program in Lima, from start to finish to trace the leakage of public funds in a single time period (2002).

In *Corrupt Circles*, Quiroz goes to the other extreme by attempting to measure the cost of corruption in Peru over the 180 years from independence in 1821 to the fall of President Alberto Fujimori, a very ambitious task. Quiroz admits that no unified statistical source exists to quantify the real cost of corruption, yet he ventures to estimate its direct and indirect costs. Using a wealth of data from colonial times onward to document administrative, legislative, judicial, and diplomatic instances of corruption, he claims that the loss, diversion, and misallocation of public funds equals between 30 percent and 40 percent of government expenditures and between 3 percent and 4 percent of the gross domestic product. He concludes that Peru has lost between 40 percent and 50 percent of its development potential to systemic corruption.

The effects of corruption that Quiroz cites range from the “wasteful use of guano revenues for colossal public works” to “crony modernization that imposed corrupt levies on achieving and maintaining power at any cost” (433). As a result, “rampant corruption has had a significant, and at times decisive, impact on Peruvian history and development” (433). This finding concurs with other studies that suggest that countries with large

resource endowments are more susceptible to corruption.¹ Such corruption is particularly evident in periods of bonanza, when foreign demand for such resources intensifies; Peru is a case in point.

Although Quiroz extensively describes and documents examples of corruption, he has less to offer in explaining it, in part because his data are not entirely reliable, thus making it impossible to confirm his estimates. Quiroz seems to view corruption as the result of the failure to put in place measures to staunch it. He writes in his epilogue: "In the long run, what makes a major difference for developmental change is the collective understanding of why corruption matters and how and why constant efforts to eliminate and reduce it are necessary" (433).

In *Political Corruption in Mexico*, Morris admits that corruption is difficult to measure because it is not always visible. Yet at the outset and without explanation, he cites a newspaper article's claim that Mexico devotes between 9 percent and 12 percent of its GDP to bribes. In light of such confusion, many studies rely more on subjective measures, such as the perception of corruption. This and structural imbalances are the focus of Morris's research, leading him to ask whether culture, especially an authoritarian political system, is a factor in the persistence of corruption amid institutional change. Mexico is the classic case of how a corporatist and clientelist government can exercise control over society. For decades, a single party, the Partido Revolucionario Institucional (PRI), held the presidency with a weak and submissive legislature and judiciary. This dominance ended in 2000, in large measure because voters associated the PRI with endemic corruption. Morris notes that, during the past twenty-five years, several Mexican presidents have promised anticorruption campaigns on taking office, but these campaigns have never fully materialized. Democratization is thought to reduce corruption; however, reforms have not been effective in Mexico. Morris argues that corruption may increase initially with economic liberalization, as a result of new rules, but should decrease later. However, in Mexico, mechanisms of vertical accountability are weak. Prosecutions of corruption have been rare and, though attention is given to high-profile cases, with the media condemning abuses, the popular perception is that Mexico's political system remains corrupt.

As crucial as it is to find effective measures of corruption, measures alone cannot explain how and why corruption arises. All five studies reviewed here tackle its causes, and Blake and Morris give a major role given

1. Eleanor R. E. O'Higgins, "Corruption, Underdevelopment, and Extractive Resource Industries: Addressing the Vicious Cycle," *Business Ethics Quarterly* 16, no. 2 (2006): 235–254; Jeffrey D. Sachs and Andrew M. Warner, "The Big Push, Natural Resource Booms and Growth," *Journal of Development Economics* 59 (1999): 43–76; Halvor Mehlum, Karl Moene, and Ragnar Torvik, "Cursed by Resources or Institutions?" *World Economy* 29, no. 8 (2006): 1117–1131.

to institutional determinants. As in any edited volume, the quality of the contributions there is uneven, with some tending to controversy. On the whole, though, the essays nevertheless corroborate the argument that corruption is on the rise in Latin America in spite of democratic advances. In regard to why democratization has not stemmed corruption, some scholars maintain that economic liberalization aids corruption by reducing the state's regulatory controls. Blake and Morris share this contention with other political scientists. And where others insist that neoliberal reforms and the collapse of command economies will ultimately succeed, in Blake and Morris's collection, Manzetti and Wilson find that weak or nonexistent governmental institutions result in less horizontal accountability.² In an earlier collaboration, Manzetti and Blake argued that privatization can in fact increase corruption, as when the rapid transition from Soviet-style command economies to market economies brought the sale of state assets to private individuals at bargain prices and widespread abuses.³ Self-regulation has often opened the door to corruption; unfettered capitalism makes the system more, not less, prone to corruption. Most authors stress that the key problem is the lack of accountability.

Cremer's *Corruption and Development Aid* argues that, for some time, corruption was not openly discussed for fear that its presence would be used to oppose development aid. Narrowly defining corruption as bribery, misappropriation of funds, and nepotism, Cremer cites a World Bank report "that between 2005–06, of 441 allegations of corruption, 36% were about collusion in the procurement process and 38% were related to kickbacks and bribes" (15). Cremer draws on his own experiences in development projects and uses confidential memos, informal debates within aid organizations, and other reports to explain how the practice of "expediting" payments can include kickbacks to contractors, incentives paid to officials to delay work, the manipulation of currency exchange rates, and the misappropriation of funds. He also cites mismanagement and corruption within NGOs, topics seldom discussed. Such practices not only raise costs but also rob the people whom development work is intended to help. This sort of corruption is clearly most likely to affect large-scale projects, yet all are susceptible. For this, Cremer dismisses the long-held belief that corruption can increase efficiency by limiting the power of the state, as well as the simplistic argument that corruption is mainly a cultural problem. In his book on Mexico, Morris claims that institutional analysis is right to

2. Manzetti and Wilson also blame the increased use of presidential discretionary power, which opens opportunities for graft. In another essay in Blake and Morris's collection, Rehren instead cites the resurgence of neopopulism, arguing that rent-seeking behavior prospers in state-dominated economies.

3. See also Luigi Manzetti and Charles Blake, "Market Reform and Corruption in Latin America," *Review of International Political Economy* 3, no. 4 (1996): 662–697.

downplay the role of culture because “corruption fosters distrust, not the other way around” (212). However, although institutional reforms have brought change, much remains to be done, particularly in changing political culture. In short, corruption still prevails because of cultural traits.

A number of contributors to the books and collections under review here distinguish between corruption and public perceptions of corruption. Opinion polls reflect the fact that perceptions of corruption often do not accurately reflect the incidence of corruption, yet can influence its impact because the acceptance of corruption as a necessary evil can weaken efforts to reform it. In contrast, outrage over high-profile cases can help curb corruption but can also make for political volatility.

Functionalists have long viewed corruption as the grease that keeps the wheels of society, commerce, and government turning. Others instead tolerate or do not expose corruption to avoid putting financial interests at risk or because, in their view, there are more pressing issues such as the preservation of democracy. In some studies in Blake and Morris’s collection, the focus on public opinion and culture—family linkages, *compadrazgo*, favoritism, and nepotism, as well as little interpersonal trust, low numbers of Protestants, less female empowerment, and more ethnic divide—reveals Latin America’s lack of respect for the rule of law and tolerance for corruption. Morris notes, for example, that Vicente Fox did not seek to prosecute former Mexican officials, as doing so might have jeopardized PRI support for his legislation (235). Nevertheless, democratic practices and multimedia technology have led to the reporting of more high-profile cases of corruption; scandals arising from graft and the abuse of power have brought the ouster of government officials and even the downfall of presidents, including Carlos Andrés Pérez (Venezuela), Fernando Collor de Mello (Brazil), Abdalá Bucaram (Ecuador), Alberto Fujimori (Peru), and Arnaldo Alemán (Nicaragua).

Political scientists commonly use opinion surveys to gauge what people think, but these are not always a reliable barometer of the actual amount of corruption, as Morris, among others, argues using data from Mexico. In that same volume, Bailey explains more generally that corruption is often blamed for social ills in times of crisis. If a survey had been held during the ten-year period when Ecuador went through seven presidents, it might not have provided an accurate picture of corruption, as popular sentiment at the time was to throw out corrupt leaders. Because of such factors, Mitchell A. Seligson argues that corruption reduces satisfaction with democracy;⁴ others are less certain. In Venezuela, the election of Hugo Chávez was blamed on the corruption of his predecessors; however,

4. Mitchell A. Seligson, “The Impact of Corruption on Regime Legitimacy: A Comparative Study of Four Latin American Countries,” *Journal of Politics* 64, no. 2 (2002): 408–433.

the PRI in Mexico and the Alianza Popular Revolucionaria Americana in Peru have made comebacks despite the taint of corruption. In Blake and Morris's volume, Manzetti and Wilson maintain that citizens are willing to support politicians with tarnished reputations because government institutions remain weak, whereas patron-client relationships remain strong.

Research on the relationship between democracy and corruption has produced ambiguous findings. Kurt Weyland has argued that the spread of democracy and open markets increases the perception of corruption,⁵ yet Adam Przeworski finds this not to be true of a number of countries in transition.⁶ Democratization, leaner government, privatization, and deregulation do not always bring less corruption. Instead, they may bring different types of corruption, such as in how government contracts are awarded.

What, then, can be done? Various authors say that market reforms are key to countering corruption, aptly described by Campos, Pradhan, and Recanatini as "the world's most virulent social disease" (Campos and Pradhan, 430). Economic liberalization limits government, reduces taxes, and enhances competition, they argue. Susan Rose-Ackerman asserts, however, that leaner governments are not necessarily cleaner: they may achieve more honesty, but only if institutional and legal reforms attend the effort to shrink the state.⁷ As noted, there is no correlation between government spending and corruption. Were this the case, Scandinavian countries with extensive welfare systems would be the most corrupt. Morris concludes, accordingly, that "democracy needs to develop and strengthen key institutions of accountability and the supporting political attitudes and culture." "Give the region more time," he says, "and corruption will recede" (Blake and Morris, 194). An idea floated by the World Bank, which Cremer seconds, is that program auditing might check corruption. Another proposal, from Campos, Pradhan, and Recanatini, is to strengthen citizen demands (e.g., to know why most people in a neighboring town have electricity while few in their own town do), to increase access to information (e.g., to publish bids online so that all contracts do not go to a few companies), and to build global partnerships. Blake and Morris suggest in the conclusion to their volume that reducing poverty

5. Kurt Weyland, "Reform and Corruption in Latin America," *Current History* 105, no. 688 (2006): 84–89.

6. Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991). See also Janine R. Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1989–1998* (New York: St. Martin's Press, 1998).

7. Susan Rose-Ackerman, "Una administración reducida significa una administración más limpia?" *Nueva Sociedad* 145 (1996): 70–86.

and inequality, promoting good governance, emphasizing the savings to be had, and educating the public so that brings pressure are all ways to alleviate the effects of corruption.

Cremer also insists that the fight to reduce corruption is not a lost cause. He recommends citizen involvement, improved control mechanisms in the public sector, reduced loopholes, and a willingness to cut off aid if other efforts fail. Without external controls, NGO officials are free to falsify receipts, manipulate procurement procedures, and siphon off funds. This might discourage donors, but controls on corruption can increase direct or indirect costs. As a result, Cremer favors regular project evaluations in which development workers are asked to report on their experience with corruption, stronger administrative regulations, better procurement procedures, and more direct supervision.

The efforts outlined herein are complicated by the fact that, just as corruption takes many different forms, different disciplines use different approaches, with most research methods still in their infancy. The books under review illustrate this well. The microlevel studies in Campos and Pradhan's collection break ground by creating a database to which others can add in the future. The political scientists in Blake and Morris's volume focus on the need for more reliable tools to measure corruption's effects. Thanks to this effort, also made by Morris in his own study *Political Corruption in Mexico*, one is led to question the assumption that democratization will decrease corruption, as has often not been the case, at least in the short run. Although Cremer's *Corruption and Development Aid* does not offer a template to document corruption, it does shed light on how public aid can be diverted to private pockets. As a result, his study may be useful to both development agencies and individuals in the field. Finally, though well researched, Quiroz's overview of corruption's enormous toll in Peru offers little in regard to how it can be measured, quantified, or explained. None of the five works marks a major breakthrough; nevertheless, it is significant that there are so many scholars in a range of disciplines studying how corruption hinders development, even under democratic regimes.