Corruption

Corruption is often defined as the use of public office for private gain. In the framework of this Report, corruption is a deals-based way to sustain agreements among certain individuals or groups. Although in the short term corruption may be able to "grease the wheels of the economy," in the long term it negatively affects growth by diverting resources from more productive uses and negatively affects equity by disproportionately benefiting those in power. Moreover, it undermines legitimacy because it affects public perceptions of the fairness of the decision-making process (Rose-Ackerman 2016).

The first generation of high-income member states of the Organisation for Economic Co-operation and Development (OECD) has achieved significant control of corruption through development processes and institutional forms that many other countries around the world have since tried to replicate without achieving the desired results. These anticorruption strategies often wrongly assume that aggregate levels of corruption can be reduced through a top-down combination of policies that improve enforcement of the rule of law, change the expected returns to corruption (for example, through bureaucratic pay increases, greater transparency, or harsher punishments), and simplify procedures to reduce the opportunities for corruption. These strategies have generally delivered modest reductions in corruption in contexts in which the configuration of social power does not support the enforcement of generalized rule-following behavior (Khan 2016).

WDR 2017 team, based on inputs from Alina Mungiu-Pippidi and Mushtaq H. Khan.

From the perspective of this Report, replicating these reforms may be ineffective if approaches do not also tackle the underlying reasons they are not performing their intended function, which is to ensure the credible commitment of those in power to not abuse that power for private gain. These underlying reasons are related to systemic features in the policy arena such as entrenched power structures or social norms. Consequently, corruption is less about individual transactions and more about networks of actors (Schmidt 2016). Thus changes in formal rules and anticorruption strategies are likely to be effectively enforced only when they are aligned with the interests of powerful actors in a country and are able to trigger broader changes in social expectations.

Corruption and social order: Is corruption inescapable?

The first step in rethinking corruption is to recognize that corruption is not a social "malady" or "disease" to be eradicated, but rather a built-in feature of governance interactions. Countries today are on a continuum of governance between a system in which rules are applied by virtue of personal status and one in which they are applied impersonally. Unfortunately, assuming that a particularistic system is the exception and an impersonal system is the norm is not historically accurate. In fact, the public-private separation in public affairs and the complete autonomy of state from private interests are relatively recent. All societies start from being "owned" by a few individuals who control all resources. As states develop historically, individual autonomy grows, but so too do the material resources available for spoiling (Mungiu-Pippidi 2016).

In less-developed societies, powerful groups are fewer in number and less dependent on competitiveness and market transactions for their revenues. They can feasibly interact with each other in informal or deals-based ways and generate rents through political connections. If the most powerful groups in a country do not want the enforcement of formal rules, it is unlikely that the rule of law will emerge through enforcement efforts from above. Policy makers and political parties in these countries may be able to raise significant revenues only in informal and deals-based ways because powerful groups prevent the implementation of formal rules to raise taxation. As a result, the most feasible way for policy makers and political parties to reward their supporters is to allow them to violate rules. A common manifestation is when parties buy political support in exchange for jobs in the public sector, often undermining a commitment to a merit-based performance evaluation. In general, it is difficult for political leaders to exercise the political will to enforce rules when their tenure depends on doing otherwise (Khan 2016). If the demand for control of corruption is poor because spoils are used efficiently to buy off certain strategic groups, then collective action becomes impossible to achieve and the equilibrium remains, with particularism as the norm.

Countries become more advanced when they have a more diverse set of productive organizations in different sectors and activities. As an economy becomes more productive, corruption becomes more costly because it restricts the functioning of the market. As they pay more taxes, fund political parties, and employ more people, business elites have an increasing interest in the enforcement of the formal rules required to conduct complex business and transactions (Khan 2016). Moreover, as countries develop, emergent socioeconomic classes can strengthen coalitions to demand better governance. In particular, larger middle classes have historically played an important role in pressuring governments to deliver better public services, such as education and health. These forces are illustrated by the shift of the U.S. political system in the 19th century away from patronage toward meritocracy (Fukuyama 2014). As economic development advanced, the emerging industrial urban elites began to demand more efficient government services. Moreover, the business elites found an ally against corruption in the emerging civil society, with a better-educated middle class. When newly elected president James A. Garfield was assassinated in 1881 by a would-be office seeker, this coalition of new social groups was ready to mobilize, and the Pendleton Act, which established the principle that public officials should be chosen on the basis of merit, was passed by Congress.

As the incentives of powerful actors change throughout the process of development, they can feed back into changing social norms, which reinforce the existing dynamics of corruption. In this sense, corruption can become an equilibrium because corrupt systems make it very costly for individuals to behave honestly. For example, if the majority of government bureaucrats favor their in-group or take bribes, individuals who do not do so will be criticized by their in-group and lose out on an often indispensable source of additional income. Thus entrenched corruption may lead to a higher tolerance for corrupt behavior. Because governance interventions affect development outcomes, which in turn affect governance constraints, one is confronted with a complex, coevolutionary transition process that does not follow a predictable path and requires continual adaptive interventions.

What can be done?

The development process plays an important role in reducing corruption by redistributing power and changing norms in the policy arena, but development explains only about half of the variation in control of corruption (Mungiu-Pippidi 2015). An analysis of a large sample of countries reveals how some countries overperform and others underperform in their expected levels of controlling corruption given their levels of development as measured by the Human Development Index (figure S1.1). This heterogeneity in progress suggests that reform is possible, even in countries with lower levels of development. In contexts in which levels of development and political arrangements do not yet allow the effective enforcement of formal rules, anticorruption strategies should sequentially attack corruption at critical points where anticorruption measures are both feasible and would have a high impact on development.

Anticorruption priorities will depend on the country and on the sectors and processes that are most important for accelerating development progress. A common error is to equate the impact of corruption with the magnitude of bribes. An activity with relatively small bribes can have a big impact on development if, for example, the bribes prevent the enforcement of regulations on food adulteration. Other activities characterized by significant bribes may be profit-sharing transfers to politicians with a lower impact on development if the corruption does not

Figure S1.1 Development accounts for only about half of the variation in control of corruption

Predicted control of corruption scores based on Human Development Index scores, selected countries
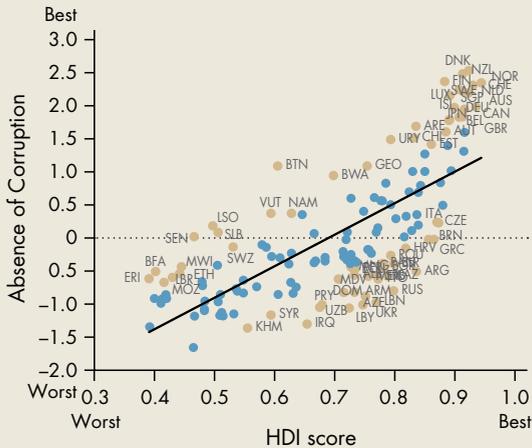
Sources: WDR 2017 team, based on data from the United Nations Development Programme (Human Development Index–HDI scores) and WDR 2017 Governance Indicators for Absence of Corruption, based on Mungiu-Pippidi 2015.

Note: Only outliers are labeled. Beige dots above (below) the line represent countries that overperform (underperform) on control of corruption given their level of development.

distort policy. A high-impact anticorruption approach therefore has to assess anticorruption priorities, but it also has to be feasible. It has to gauge whether strategies can be designed to make enforcement easier by aligning with the interests of important stakeholders or by developing new coalitions (Khan 2016).

Although this way of looking at corruption control does not allow for rigid, straightforward policy prescriptions, it is possible to identify a series of key strategies in countries that have managed in recent times to make progress in controlling corruption. To reduce corruption, reform coalitions will need to change incentives to limit the payoff of corrupt officials through increased accountability of elites

and to enhance contestability by engaging actors in civil society and the media. Increasing constraints, for example, by promoting freedom of the media and freedom of the internet, is key to strengthening an enabling environment for reform (Mungiu-Pippidi 2016). One particularly promising avenue of action is to take advantage of technology. Digitalization helps transparency and rationalization of fiscal management on the government side, and it creates empowered citizens on the society side. Internet media in general and social networks in particular are now indispensable components of citizen empowerment and collective action.

International actors, such as aid donors, also play a key role in the local fights against corruption, and they should ensure that they do not increase resources for corruption. Meaningful international anticorruption efforts should coordinate and engage with actors outside the state, including local communities, nongovernmental organizations, and multinational businesses, to support domestic anticorruption reforms through tools such as the provision of information (reform evaluations and cross-country data) or legal mechanisms (international treaties and arbitration)—see Rose-Ackerman (2016).

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