The ‘Sociological Turn’ in Corruption Studies:

or why Fighting Graft in the Developing World is Often Unnecessary, and Sometimes Counterproductive

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ABSTRACT:

Since the mid-1990s, an ‘anticorruption consensus’ has emerged in international development policy: since corruption is taken to be invariably deleterious for investment and growth, eliminating or reducing corruption has come to be seen as a necessary precondition for development. This article takes issue with the theoretical and empirical underpinnings of this proposition. To do so, it reviews and codifies an emerging strand of literature that transcends the narrow assumptions of neo-classical models of corruption and theorises much more carefully the social structures within which corruption takes place. This body of research, which heralds a ‘sociological turn’ in corruption studies, provides a robust framework to account for the economic effects of corruption in specific country contexts and suggests that fighting corruption per se might not be necessary for development; in fact, it might even prove counterproductive.

KEYWORDS:

Corruption, growth, post-Washington Consensus, patron-client networks, power
‘Anti-corruption is a 20th century Anglo-American fetish’

Chris Blattman (2012a)

Introduction

Since the mid-1990s, the World Bank has spearheaded a turn to the impact of corruption on development. As other development agencies and transnational NGOs rapidly followed suit in launching anticorruption programmes and campaigns, the ‘post-Washington Consensus’ era has seen the emergence of what a commentator has aptly termed an ‘anticorruption consensus’ in development policy (Bukovansky, 2006). As noted by Chris Blattman (2012b), ‘if you believe issue X ought to be a top priority, you need to believe two things: (A) it matters a lot for development, and (B) you can do something about it’. The advocates of the anticorruption consensus provide arguments in support of both of these two propositions. Regarding (B), they frame corruption as a technical problem of institutional malfunctioning, suggesting that donor-led interventions may successfully strengthen the workings of (formal) institutions, improve ‘good governance’ and hence reduce the incidence of corrupt exchange (World Bank, 2000: 4).

Although there are strong reasons to question the feasibility of externally driven anticorruption efforts1, this paper remains agnostic on this point. Rather, what follows takes issue with proposition (A), namely that the elimination or, at a minimum, a substantial reduction of corruption is a necessary precondition for development. This belief has reached the status of dogma amongst donor agencies and development practitioners. James Wolfensohn, the forefather of the bank’s turn to corruption in the 1990s, castigated corruption as an ‘economic cancer’, breaking a long silence by the Bank on an issue that was hitherto regarded as strictly ‘political’ and hence outside the Bank’s mandate (Marquette, 2003: 11). Indeed, in 2004 one could read on the World Bank’s website that ‘the Bank has identified corruption as the single greatest obstacle to economic and social development’ (quoted by Bukovansky, 2006: 191). Similar statements are now ubiquitous on the websites and reports of donor agencies running anticorruption programmes, and have become part of the domestic political discourse in many developing countries2. For instance, in its global anticorruption strategy, USAID argues that ‘[corruption] damages prospects for economic growth by reducing foreign direct investment, skewing public investment, encouraging firms to operate in the informal sector, distorting the terms of trade, and weakening the rule of law and protection of property rights’ (2004: 1).

This article aims to cast doubt on the theoretical and empirical underpinnings of this fundamental plank of the anticorruption consensus, namely that since corruption is always deleterious for growth eliminating or reducing corruption is necessary for development. The assumptions of much of the theory informing this argument – drawn mostly from neo-classical economics – grossly oversimplify or misrepresent the dynamics of real-world corruption, yielding a highly idealized and unhelpfully reductionist account of the economic effects of corruption. Perhaps as a result of this, the empirical adequacy of this body of theory is conspicuously dubious. Orthodox models of corruption do not receive adequate validation in the existing
econometric literature; furthermore, they prove largely unable to explain the large performance variability amongst equally corrupt countries.

To account for these large residuals, this article reviews and codifies an emerging body of literature that transcends the narrow assumptions of mainstream accounts of corruption and theorises much more carefully the social structures within which corrupt transactions take place. This literature – emerging from the work of Mushtaq Khan and Jomo K.S. (2000), Douglass North and colleagues (2009, 2012) and, more recently, Andrew Wedeman (2012) – theorises the distribution of power in the society, the structure of patron-client networks and the configuration of state-society relations as the key determinants of the economic effects of corruption. Formerly, the study of these socio-political dimensions had remained confined within the vast literature on clientelism in sociology and political science (e.g. Kitschelt and Wilkinson, 2007). Only recently has it started to inform a critique of neoclassical models of corruption in economics, heralding what may well be dubbed an emergent ‘sociological turn’ in corruption studies.

This article aims to provide a concise (albeit opinionated) account of the main lineaments of this sociological turn, demonstrating how this body of work takes existing models of corruption to a superior level of generality. In essence, the ‘turn’ suggests that corruption might not have a significant effect on economic growth independently of the configuration and dynamics of the social structures in which it resides. Only by attending to these social structures can we make progress in explaining the recorded cases of growth or stagnation that are ostensibly decoupled from the quantitative incidence of corruption. As a result of this ‘sociological turn’, the theoretical foundations of the anticorruption consensus are shaken to the core. If the deeper social envelope of corruption, rather than corruption itself, is the factor behind long-run development (or underdevelopment), tackling corruption head-on may be downright unnecessary from the point of view of development; in fact, it may even be counterproductive.

The next section criticises the theoretical and empirical underpinnings of the anticorruption consensus. In the following section, I present the lineaments of the ‘sociological turn’: the variable efficiency effects of corruption are re-examined and explained more comprehensively through a sociological lens. The article concludes by hinting at the policy implications of this emergent ‘sociological’ literature.

The Economic Effects of Corruption: Theory and Evidence

*Neo-Classical Theories of Rent-Seeking*

The promotion of anticorruption reforms in developing countries is premised on the view that corruption is (in most, if not all, cases) efficiency- and growth-reducing. Theoretically, this view has its roots in the neoclassical critique of rent-seeking and state-directed development. In the mid-1970s, some scholars suggested that the social costs of state intervention in the economy were much larger than was suggested by standard welfare economics. State-organized transfers (such as licensing arrangements, input
subsidies and credit rationing) do not merely cause a deadweight loss by distorting resource allocation and unsettling the efficiency equilibrium that obtains when production factors are allocated through the price mechanism. Worse still, they generate a ‘rent-seeking society’, where individuals engage in large non-productive expenditures – in the forms of bribes and lobbying costs – to secure access to a share of state-created rights and rents (Krueger, 1974; Posner, 1975). In this model, ‘corrupt incentives are the nearly inevitable consequence of all government attempts to control market forces’ (Rose-Ackerman, 1978: 9). Crucially, corrupt incentives add further distortions to the ones already caused (allegedly) by state interventionism.

The extra social costs are due to two distinct channels. First, corruption and rent-seeking bestow a competitive advantage to sub-optimal firms willing to lower quality in order to pay higher bribes in the rent-seeking contest and hedge against the risk of sanctions, effectively penalising higher-quality firms. This perverse advantage would not exist if honest state bureaucrats allocated resources impersonally and technically, impinging on the free market but stopping short of taking or soliciting bribes. Thus, the incentives created by corruption add to the efficiency-reducing incentives created by state interventions in the price mechanism, and further distort the allocation of state-created rights and rents. Second, the bribes themselves, and their related rent-seeking expenditures, generate further social cost. (Rose-Ackerman, 1978; Krueger, 1974). More firms than the few that are actually awarded the rights and rents for ‘sale’ are likely to have expended resources on rent-seeking. These expenditures might have occurred in the form of monetary bribes, but also as the costs needed to mobilize personal connections and organize informal rights/rents transfers informally. Resource expenditures of this kind generate opportunity costs on top of the ones caused by transferring rights and rents to inefficient or low-quality firms, essentially because bribes attract profits in a ‘directly unproductive’ fashion, i.e. without contributing to either capital formation or output (Bhagwati, 1982).

A testable implication of this argument is that countries that have more corruption (due to a more interventionist role of the state) should display lower rates of productive investment and, consequently, more sluggish growth. Paolo Mauro (1995) has run an influential empirical test supposedly demonstrating just this. In Mauro’s 70-country sample, corruption is negatively correlated with average investment-to-GDP ratios and average growth of per-capita incomes over 1960-85. The relationship is robust even after controlling for endogeneity by using an instrumental variable for corruption, and after including other determinants of economic performance such as political stability and education levels. In a move that corroborates neo-classical theories of rent-seeking, Mauro concludes that this is evidence that corruption causes low growth (1995: 695).

Corruption and Growth: The Evidence

As noted by Khan and Jomo (2000: 9-10), Mauro’s results should be interpreted with much care. The trends captured by the regression are driven by two groups of countries: on the one hand, the numerous
stagnating or slow-growing developing countries where, due to social fragmentation and underdevelopment, neopatrimonial forms of social organization are deep-seated and corruption is rife (Scott, 1972: 114-118); on the other, the group of advanced capitalist countries where corruption is low and growth rates moderately high. In Mauro’s regression the very small group of fast-growing developmental states – which historically tended to be substantially corrupt (Wedeman 2012; Khan and Jomo, 2000) – are statistically written off as outliers. In another study, Khan (2006) divides an extension of Mauro’s sample into advanced and developing countries (the former having a median growth rate of 2.1% over 1990-2003), and then splits the latter group into converging developing countries (median growth rate of 3%) and diverging developing countries (median growth rate of 0.4%). While the medium-growth advanced countries are significantly less corrupt (5 out of 6) than the slow-growing diverging countries (3 out of 6), the 35 developing countries that are converging to advanced-country incomes are just as corrupt as the diverging developing countries, although the latter are experiencing conspicuously lower rates of growth (Khan, 2006: 10).

**FIGURE 1: log GDP per capita (PPP) and Corruption (2007, 2013)**

Sources: Transparency International, *Corruption Perceptions Index*, 2007, 2013 on the y-axis; World Bank, *World Development Indicators*, 2007, 2013 on the x-axis; Notes: number of observations: 161 (for 2007), 155 (for 2013); 0 denotes no corruption, and 10 maximum corruption

Mauro’s statistical analysis mistakes the historical fact that developmental success stories are very few for plain irrelevance. Yet the outliers are analytically important for the purpose of understanding the effects of corruption on development. As noted by Douglass North and colleagues, there is plenty of scope for growth to be induced in ‘limited-access’ societies where economic resources are not allocated impersonally.
through the market mechanism but are distributed corruptively along factional or clientelistic lines (2012: 15-16). In fact, developing capitalism *always* involves the challenge of promoting primitive accumulation in settings where corruption and informal exchange are rampant. After all, due to social fragmentation and widespread potential for violence, pre-industrial low-income societies are inherently prone to factionalism, clientelism and corruption (Scott, 1972; North et al., 2009; Treisman, 2000: 429-430). Thus, not only is it *possible* to induce growth in highly corrupt settings; since there is no real alternative, it is also *necessary*.

This is evident looking at the typically concave shape of cross-country relationships between GDP and corruption⁴ (Figure 1). Corruption does not diminish any significantly until a country reaches income levels around 13,000-15,000 US$ per capita (PPP). This suggests that the economic growth that raised any one country’s income levels from those of, say, Zimbabwe to those of Mexico or Turkey must have been generated in intensely corrupt environments – indeed, in environments where corruption levels remained more or less stationary throughout the high-growth period. As argued by Bai and colleagues (2013: 4), ‘it may not be necessary to root out corruption to spur growth, but rather corruption might [simply] subside as a country grows’. It can be concluded that successful development hinges less on eradicating corruption than on *managing* it (or maybe even harnessing it) in developmental ways. Looking at *specific* outliers in Mauro-type regressions (that is, Khan’s ‘converging developing countries’) can shed more light on precisely *how* successful late developers have deployed strategies of developmental corruption management.

Some outliers are identified in Table 1. South Korea, India and Malaysia recorded fairly similar corruption levels in the early 1980s, and yet exemplified very different development trajectories, with South Korea growing very rapidly and India much more slowly. On the other hand, Thailand displayed virulent levels of corruption despite high growth rates.

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<thead>
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<tbody>
<tr>
<td>South Korea</td>
<td>0.35</td>
<td>9.6</td>
</tr>
<tr>
<td>India</td>
<td>0.12</td>
<td>3.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>-1.75</td>
<td>7.1</td>
</tr>
</tbody>
</table>

*Sources: values from Khan, 2000a: Table 2.1 and Mauro, 1995, rescaled to run between -2.5 to +2.5; Notes: ᵃ highest corruption is -2.5, no corruption is +2.5*

Similarly ‘anomalous’ trends can be detected during the high-growth years of the post-Washington Consensus era, that is, between the 1997 Asian crisis and the 2007 global financial crisis (Table 2). In high-growth countries such as China and (to a lesser extent) Thailand, corruption indicators actually worsened
during 1998-2007, reaching lower levels than in their high-growth counterparts of the 1980s (South Korea and Malaysia) and (in the case of China) converging by 2007 to the levels of low-growth countries such as Kosovo. On the other hand, Kosovo and DR Congo, where corruption either did not worsen or was successfully mitigated (albeit from much lower levels), grew fairly slowly.

<table>
<thead>
<tr>
<th>Country</th>
<th>Corruption, 1998</th>
<th>Corruption Change^a</th>
<th>GDP Growth (average)</th>
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<tbody>
<tr>
<td>China</td>
<td>-0.25</td>
<td>-0.34</td>
<td>9.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>0</td>
<td>-0.36</td>
<td>4.9</td>
</tr>
<tr>
<td>Kosovo^b</td>
<td>-0.81</td>
<td>+0.05</td>
<td>4.2^c</td>
</tr>
<tr>
<td>DR Congo</td>
<td>-1.89</td>
<td>+0.59</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Sources: World Bank, Worldwide Governance Indicators, World Development Indicators; Notes: ^a /+ indicate an intensification/reduction of corruption; the value is the difference between the 2007 and 1998 corruption indexes; ^b growth data from 2002, corruption data from 2003; ^c effectively, much less, if aid inflows are extracted out.

So much for corruption in high-growth developing countries. Interestingly, historical evidence suggests that also the currently developed countries were marred by pervasive corruption and patronage as they embarked on the process of capitalist industrialization. This is certainly true of the US at the time of its first major growth acceleration between 1866 and 1900 (Wedeman, 2012: 185-190; Scott, 1972; Goldsmith, 2007: 170-175) but journalistic evidence is also available of systemic electoral corruption during the industrial revolution in Britain (Marx 1953 [1852]). Crucially, important ‘good-governance’ reforms (including the elimination of job patronage in the public administration, the establishment of judicial independence and the eradication of vote-buying) came after the end of the period of rapid growth in both these countries (Goldsmith, 2007). As aptly remarked by North and colleagues (2012: 15), ‘rule of law that covers all public relationships among elites arises late in [a polity’s] maturation process. It is even later that rule of law is extended to become effective’ for non-elites. Thus, Britain and the US effectively grew their way out of corruption.

These counter-examples suggest that corruption levels per se may fall far short of explaining diverging development trajectories, at least in the countries identified in Tables 1 and 2. Therefore, the World Bank’s blanket denunciation of corruption as the ‘single greatest obstacle to economic and social development’ (quoted by Bukovansky, 2006: 191) may simply not stand up to scrutiny. The same goes for the neo-classical proposition that corruption always reduces growth by benefitting inefficient firms and increasing social costs (Krueger, 1974). If corruption is to be called upon to explain comparative development, a much more nuanced theory is required to examine firstly how successful late developers deploy political power to manage and control corruption (rather than simply eradicate it), and secondly explain the negative
economic consequences of corruption regimes associated with less favourable power configurations. A systematic account of this kind will have to uncover the sources of political power and will likely involve a turn to sociology.

Efficient Corruption: Existing Theories

To be sure, a strand of the literature has indeed studied the variable efficiency implications of corruption, attenuating the blanket condemnation that pervades the neo-classical orthodoxy and identifying the conditions under which some types of corruption may be efficiency-enhancing (Bardhan, 1997: 1322-1327, also Bhagwati, 1982). Nathaniel Leff’s famous, but now (uncuritably) discredited, argument is worth considering. In contexts where the government is hostile to economic development and a dynamic entrepreneurial class committed to productive investment exists, bureaucratic corruption may be developmental. By influencing the behaviour of the bureaucracy through graft, emerging capitalists might successfully sabotage anti-developmental state policies and win the bureaucracy over to the goals of development. For instance, a policy that arbitrarily restricts the supply of industrial machinery imports (through a licensing mechanism) may be subverted through bureaucratic corruption, leading to technology acquisition and higher productive efficiency (Leff, 2002 [1964]; see also Huntington, 2002 [1968]).

Leff’s argument may be formalized by noting its conceptual similarities with Shleifer and Vishny’s account of ‘corruption with theft’ (1993: 601-604). In Figure 2, it is assumed that there exist demand (D) and supply (S) curves for a (state-created) industrial license. Based on a protectionist rationale, the price of this license is restricted administratively to \( P_{\text{Admin}} \). Neo-classical models predict that corrupt state
bureaucrats would now further reduce the quantity of licenses supplied to artificially increase scarcity, raise the ‘market’ price of the license, and collect a bribe on top of the official price. Normally, the marginal cost of ‘organizing’ a corrupt transaction is \((P_{\text{Admin}} + MC)\), where \(P_{\text{Admin}}\) is the sum the bureaucrat must turn over to the state for each license she ‘sells’. However, assume that, after a minimal quantity \(Q_{\text{min}}\) is correctly reported to ensure credibility, the bureaucrat steals a portion \(Th\) of the official price, so that the effective marginal cost of supplying a license into the ‘bribe market’ is reduced to \((P_{\text{Admin}} + MC – Th)\). As Figure 2 illustrates, the quantity supplied at equilibrium in this ‘bribe market’ with theft is \(Q_{\text{Th}}\), which is actually higher than the administratively set quantity \(Q_{\text{Admin}}\). Contrary to neo-classical predictions, more industrial licenses are issued in this ‘bribe market’ than under official directives. Crucially, \(Q_{\text{Th}}\) is much closer to the (supposedly) efficiency-maximizing quantity \(Q_{0}\) supplied in a perfectly competitive market with no quantity restrictions and no corruption. For Leff, corruption sabotages anti-developmental industrial policies and simulates developmental free-market conditions.

This argument is important because it shows that some modes of state-directed resource allocation, although riddled with corruption (or rather, precisely because they are riddled with corruption), may be efficiency-enhancing, in that they simulate a free market. Can this argument explain why some converging developing countries grow despite (or, rather, because of) rampant corruption? It may in some cases, but Leff’s argument lacks generality. This is because the (sociological) assumptions under which it holds are highly restrictive. The argument posits the existence of a staunchly anti-capitalist (and non-corrupt) political elite, a corruptible bureaucracy and a progressive capitalist class with no factional ties to the political elite. Yet in other (more realistic) social contexts, the structure of society might be very different: the political elite might be ideologically committed to economic transformation, while the existing capitalist class might be single-mindedly rentierist and may push for the preservation of the existing (inefficient) mode of production. In other contexts, albeit committed to structural change, the capitalist class or the political elite might simply lack the power necessary to enact its developmental objectives. In others still, the political elite might be powerful enough to simply rein in most bureaucratic corruption. Thus, Leff’s argument must be taken as a special case in a larger theory of the economic effects of corruption. Constructing such a theory demands a systematic analysis of the distribution of preferences and power in the society. In the following sections, we chart the lineaments of the type of sociological analysis that is necessary to construct a satisfactory non-ideal theory of corruption.

**Patron-Client Networks, Corruption and Growth**

Given the evidence presented in the previous section, the challenge is to provide a principled account to explain what makes corruption growth-enhancing (or at least not growth-reducing) in some cases, and why in other cases corruption leads to the anti-developmental consequences lamented by the neo-classical literature. As noted above, a microeconomic explanation à la Leff cannot form the basis for a general
theory of the efficiency implications of corruption. After all, Leff’s account takes a particular structure of social relations as a constant. But social structure ought to be included as a variable if analytically important differences between countries are to be captured and theorised. This section reviews and codifies existing attempts to formulate a ‘sociological’ theory of precisely this kind, and provides an impressionistic account of how different types of social structure modulate the economic effects of corruption in specific country contexts.

The core proposition here is that the quantitative level of bribes per se is likely to have a relatively minor role in explaining comparative growth. What is crucial is who bribes who for what purpose, and what rights/rents flows are activated as a result of bribe payments (Khan, 2000a). While some rent-seekers might make bribe payments leading to anti-developmental rent transfers (such as permanent industrial monopolies), in other contexts corrupt rent-seeking might activate developmental rent allocations that sustain learning, technology uptake or primitive accumulation (Khan, 2000b). Which types of rents are created by corrupt exchanges depends crucially on the configuration of patron-client networks in which corruption is embedded⁶. Patron-client networks are hierarchical organizations where powerful patrons with privileged access to the state mobilize and distribute valuable state-created resources (that is, rights and rents) in exchange for the provision of political or material support by their clients, chiefly in the form of votes or bribes. It has been argued that informal networks of this kind are ubiquitous in developing countries, and that corruption usually takes place within the envelope of clientelistic relations (Khan, 2005; Scott, 1972; Uberti, 2014). A review of the ‘sociological’ literature on clientelism and growth (Khan and Jomo, 2000; North, Wallis and Weingast, 2009; Wedeman, 2012; Li and Wu, 2010; Di John, 2009; Scott, 1972) reveals that two key features of patron-client networks determine the impact of corruption on growth: the distribution of power and the level of trust.

A detailed and ground-breaking account of how power is distributed and deployed in patron-client networks is offered by Khan (2001; 2000a: 89-104; see also Scott, 1972: 86-88). The general argument is that consolidated or centralized power structures will likely be more conducive to faster growth than fragmented or decentralized structures. To substantiate this point, let me break down patron-client relations into three dimensions along which power may be differentially consolidated.

Power 1: State-business Relations

First, centralization of patronage hinges on how centripetal the distribution of power is in the polity, and especially in the relation between top (maybe elected) politicians and the economic bureaucracy tasked with interacting with the capitalist sector. Although this distribution will depend in part on formal institutional design, exactly how politicians as patrons interact with bureaucrats as clients determines who de facto holds power. This dimension of power consolidation is important because it determines the structure and dynamics of state-business relations (Figure 3). At one extreme (b), capitalists seeking resources of various sorts can only bribe high-level political patrons, who decide more or less unilaterally
which bribes to accept and hence how key rights and rents are to be allocated. The bureaucratic apparatus is considerably insulated from corruption and the bureaucrats’ payoffs (legal or corrupt) are decided by top political patrons and tied to compliance with their directives. This configuration gives patrons a stake in the success of capitalist enterprise, as on that success depends their continuing access to bribes from the capitalist sector. Furthermore, bureaucrats do not have the power to neutralize patrons’ decisions, since they cannot take bribes from capitalists in exchange for subverting or disregarding official policy.

This configuration prevailed in the developmental states of East Asia in the 1960s and 1970s (and, arguably, in post-Deng China) and has been credited with enabling their fast growth (Wedeman, 2012: 15-51; Khan, 2000a: 95-98; Sun, 1999). As noted by You (2012: 300), ‘the [South Korean] chaebols began to emerge under the patronage of the Rhee regime [1940-1960], and they paid the regime back through illicit political contributions’. Successive regimes systematically favoured the better-connected and more politically supportive chaebols and did not shy away from using corporate corruption scandals to threaten chaebols owners and direct their investment decisions (You, 2012: 305-307). Corruption was not just a drag on growth, but rather a precondition for it: in other words, growth was possible because of, not despite, corruption. High-up political patrons in Korea soon realized they could maximise the aggregate bribe by containing corruption lower-down the pecking order. Reducing the dispersion of bribes and ensuring the profitability of capitalist enterprise allowed top patrons to increase the size of the ‘dividend’ they collected.
from the capitalist sector in the form of political contributions (Wedeman, 1997). Thus, (centralised) corruption created incentives to provide the capitalist sector with an efficient economic bureaucracy.

At the other extreme (a), the relation between capitalist clients and political patrons is intermediated by a string of brokers and middlemen, often bureaucrats, who wield considerable power to influence the final terms of the bargain between the state and the capitalist class. Bureaucrats take bribes from capitalist clients and bribe politicians to gain access to and discretion over the allocation of valuable rights and rents. In this configuration, no policy can be sustainably implemented (including pro-capitalist policies) and short-term incentives encourage anarchy and predation. As Scott notes discussing the last years of Sukarno’s regime in Indonesia: ‘neither administrative units nor individuals can be monitored or controlled; unrestrained black markets for government services abound, local and subordinate units sabotage [the government’s broadly pro-capitalist?] policy at will, and de facto decentralization turns each unit into an autonomous satrapy’ (1972: 88).

**Power 2: Redistributive Contestation**

The second dimension concerns, more broadly, the distribution of power between the capitalist class and non-capitalist groups, including political parties, labour unions, NGOs and organizations of informal workers (Figure 4). In particular, two factors are important: first, the extent of redistributive demands advanced by non-capitalist groups, their organizational power and their ability to transform it into political power (maybe through the electoral process); second, their connections and alliances with the capitalist class. At one extreme (b), the non-productive sectors of society are poorly organized and they fail to capture a more than minimal share of rent flows (whether legally through budgetary allocations, or illegally through corrupt transactions). This significantly reduces net social costs. Furthermore, capitalists have little incentive to bribe the leaders of non-capitalist organizations into advancing their own parochial interests; rather, they always have to turn to top political patrons to capture rents. This arrangement minimises wasteful allocations of scarce resources into low-productivity ventures (which capitalists often prefer, due to risk-aversion, to riskier, but more developmental projects). Lastly, this configuration short-circuits attempts by capitalists to subvert existing policies by mobilizing the organizational power of non-capitalist groups.

At the other extreme (a), leaders of non-capitalist factions can successfully compete for large resource allocations for their grassroots members and their capitalist sponsors, creating high opportunity costs and sometimes subverting state policy. This can severely harm growth prospects, as was the case throughout the Indian subcontinent in the 1960s and 1970s, where a similar configuration prevailed (Wade, 1984; Khan, 2000a: 91-95). Sometimes, when competition for rents from non-productive sectors exceeds the capacity of the productive economy to generate rents (or the capacity of the state to extract and redistribute rents), redistributive contestation can turn into out-and-out political violence. In Chile, the far-reaching redistributive demands by left-wing parties and labour unions during the Allende years (and their
attempt to incorporate the rural informal sector) arguably harmed growth by damaging the productivity of import-substituting industries. They also destabilized the social order by threatening the powerful landed elite, contributing to the authoritarian backlash under Pinochet (Navia, 2012: 269).

**Power 3: The Capitalist Class**

The third dimension focuses on the organizational structure of the capitalist sector itself. In configuration (b) (Figure 5), eight asset-owners are embedded in a densely nested factional reticulate where some capitalist clients are subordinated to more powerful capitalist patrons. The latter might provide credit, investment guarantees and political or physical protection for their clients’ assets in exchange for loyalty and organizational support. In this ‘oligopolistic’ structure, very few powerful capitalists have direct access to political patrons. In fact, lower-rung business owners have to turn to, or at least coordinate with, the top capitalist patrons when they seek rights and rents from the state (for instance, when they set out to bribe a government agency to obtain a business permit). Conversely, the eight capitalists in configuration (a) are only loosely constrained by relations of subordination amongst each other; that is, they are all peers with equal or similar access to the upper rungs of the political faction in power.
It might be tempting to think that configuration (a) is more developmental, since the intense competition for rents it generates between the many capitalist sub-factions effectively simulates a free market (Doner and Ramsay, 2000). Indeed, this structure would sometimes allow for competing capitalists with access to factional leaders to bribe off any anti-developmental deal struck between other capitalists and the state. For example, perpetual monopolies tied to no performance conditionalities would hardly have a place in political economies with this patron-client configuration.

Yet, more likely, this configuration implies that monopoly rights would simply change hands depending on the capitalists’ contingent (bribing) power, causing output disruptions. It might also lead to crises of overcapacity and substandard production as excluded competitors might bribe their way past capacity and standard regulations. Configuration (b) is thus likely to be more developmental, as the structure of bribes and rent flows in (b) is more predictable and enforceable. Any attempt by subordinate capitalists to ‘outbribe’ their sponsors would meet strenuous resistance, and would fail to either disrupt existing monopolies or install excess capacity. This configuration is also more likely to contain violence as lower-down capitalists would be discouraged from co-opting criminal elements to fight other businessmen (a typical phenomenon in many developing countries), seeing as they are party to interest-based relationships with them. Organizing patronage along these lines is all the more important in capital-intensive industries where technology is complex, risks are high and sectoral coordination is paramount:

The...risks entailed in big-push...industrialization strategies tend...to necessitate a greater degree of cooperation and collective action among business associations and conglomerates. Effective collective action can help socialize the risks of developing export markets, acquiring technology,
managing firm entry and exit, and negotiating with the state to provide services that are in the collective interest of a given sector. Therefore, \textit{fragmentation} of business associations can also lead to more costly coordination failures as the scale and scope of investments increase. This is because fragmentation can lead to \textit{particularistic} demands and bargaining that hinders the competitiveness of a sector as a whole (Di John, 2009: 157).

In Korea, the productive sector has historically been organized into a small, exclusive group of large conglomerates, that is, the \textit{chaebols}. This has disciplined business and reduced rent-seeking costs through a number of mechanisms: by reducing the number of players active in rent-seeking contests, by stabilizing firms’ knowledge of competitors, and by facilitating the bargained resolution of state-business disputes simultaneously across multiple sectors of the economy (Chang, 1993: 147).

\textit{Trust, Corruption and Growth}

For all its merits, the three-pronged argument from power falls short of properly explaining growth patterns in some countries. In the Philippines during the Marcos years, the structure of patronage was highly centralized: the presidency had effective control over all rent allocation and the capitalist class was hierarchically organized and mostly composed of Marcos’ allies and loyalists (Wedeman, 1997; Hutchcroft, 2000). Yet average growth between 1965-86 hovered around 3.9%. On the other hand, Thailand faced intense competition between capitalist-led factions (that is, a configuration similar to (a) in Figure 3), and the management of subsidies and other rents was less than satisfactory (Khan, 2000a: 103). Still, Thailand’s growth in the 1980s averaged 7.3%.

\begin{table}[h]
\centering
\caption{Levels of Social Trust}
\begin{tabular}{lll}
\hline
Country & Year & Trust level$^a$ \\
\hline
Philippines & 1996-2001 & 7 \\
Kosovo & 2008 & 11.2 \\
Bangladesh & 1996-2002 & 22.2 \\
India & 2006 & 23.3 \\
South Korea & 1982 & 38 \\
Thailand & 2007 & 41.5 \\
Indonesia & 2001 & 51.6 \\
China & 2007 & 52.3 \\
\hline
\end{tabular}
\end{table}

\textit{Sources:} World Values Surveys; European Values Surveys; \textit{Notes:} “percentage of people answering ‘yes’ to the question ‘would you say that people can be trusted or that you cannot be too careful in dealing with people?’
What explains these ‘anomalies’? Li and Wu (2010) suggest that the level of social trust is an important intermediating variable that influences how corruption affects growth. Any corrupt transaction requires a minimal level of trust. This is ‘because the time lag and geographic separation between the bribe payment...and delivery of the public good to the briber’ may invite opportunistic behaviour (Li and Wu, 2010: 135). In societies with higher trust, where ‘more [inclusive], stronger and thicker social networks exist’ (2010: 137), participation in corrupt transaction may be more extensive and secure. In turn, this means that the bribee would be in a position to choose amongst a much larger pool of (factionally connected) bribers, picking the highest bidder. Since the highest bid in a larger pool of bidders is likely to be higher than the highest bid in a much smaller pool, and since a higher bribe will force the bribee to reduce costs and improve efficiency (to recoup the bribe)\(^\text{10}\), Li and Wu conclude that in societies with higher levels of trust\(^\text{11}\), corruption will be less inefficient than in highly factionalized or fragmented societies. To put it differently, in societies with more inclusive patron-client networks, bribery becomes much closer to a ‘market’ whose dynamics approximate the predictions of neo-classical micro-economics.

This argument neatly explains the Thai and Filipino exceptions. Conceivably, social trust in the Philippines throughout the 1970s and 1980s was very low (Table 3), suggesting that the all-powerful central patron (that is, Ferdinand Marcos) could only allocate rights and rents to a small potential pool of bribers. Since the likelihood of finding an efficient capitalist firm in the small clique of Marcos’s loyalists was smaller, lower trust levels reduced efficiency and explains the relatively low levels of growth recorded in the Philippines during 1965-1986. Conversely, the (conceivably) higher levels of trust that characterized Thai society in the 1980s mitigated the negative effects of capitalist factionalization and explain the much higher growth rates recorded there during this period.

**Summary: Anti-corruption is Often Unnecessary and Sometimes Counterproductive**

These and other results from the literature are summarized in Figure 6, where different countries are classified both according to the distribution of power and the levels of trust that prevailed within and between their patron-client organizations. The ‘variable’ describing the distribution of power aggregates all the three dimensions of power discussed in the previous sub-sections. The countries that experienced the fastest growth (in square brackets) during the periods indicated (in round brackets) had both highly centralized and inclusive patronage structures. Conversely, the lowest growth rates were recorded in countries where patronage organizations were both decentralized (or fragmented) and highly exclusive. Thailand, the Philippines and other countries displayed intermediately efficient corruption, due to either decentralized patronage or low social trust. Thus, the emergent ‘sociological’ literature on corruption and growth provides a workable framework to relate comparative growth to the types of patronage structures that undergird corrupt transactions and modulate their economic effects in specific country contexts.

If corruption is compatible with growth, it follows that fighting corruption per se, as prescribed by the post-Washington consensus, may not be necessary to promote development, as the China and South Korea
examples demonstrate. In fact, it is worth noting (in passing and without pretension of exhaustiveness) that it might sometimes even prove counterproductive. Since anticorruption reforms often fail (Uberti, 2014), the newly erected anticorruption bodies and bureaus might be converted into tools of factional competition, aggravating redistributive conflicts and exacerbating social instability (see, for instance, Uberti, 2013). To the extent that anticorruption reforms do succeed, they might unwittingly and unpredictably modify the structure of patronage, bringing about less developmental configurations of power and trust. As a result, this might hamper growth. For instance, anticorruption tribunals and other rule-of-law initiatives (e.g. land restitution systems) may reduce illegal corruption but deepen (legally sanctioned) redistributive contestation. Thus, they may be used by non-productive classes and low-productivity rentier capitalists as tools of rent creation and distribution. Worse still, anticorruption reforms may prove socially destabilizing. As North and colleagues remind us, patron-client networks are not just ‘distributors of spoils but also... essential [informal] institutions to bring about cooperation rather than violence amongst organizations’ (2012: 5). The advocates of the anticorruption consensus often ignore that ‘the appropriate counterfactual about eliminating [bribes and] rents is not a competitive market economy [...], but a society in disorder and violence’ (North et al., 2012: 7).

FIGURE 6: Types of Patron-client Networks and Efficiency Effects of Corruption

<table>
<thead>
<tr>
<th>Power: DECENTRALIZED</th>
<th>Power: CENTRALIZED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXCLUSIVE</strong> (low levels of trust)</td>
<td><strong>EFFICIENT</strong></td>
</tr>
<tr>
<td><em>Very inefficient:</em> India [3.3%], Bangladesh [2.6%] (1960s-1970s); Kosovo* [4.2%] (2001-present); Zaire* [1.9%] (1965-1997); Indonesia [2.0%] (1957-1965)</td>
<td><em>Efficient:</em> Philippines [3.9%] (1965-1986); Nicaragua* [3.9%] (1937-1979); Haiti* (1957-1986)</td>
</tr>
<tr>
<td><strong>INCLUSIVE</strong> (higher levels of trust)</td>
<td><strong>EFFICIENT</strong></td>
</tr>
<tr>
<td><em>Modestly efficient:</em> Thailand [7.3%] (1980s); China* [10.3%] (1992-present)</td>
<td><em>Efficiency enhancing:</em> China [10.3%] (1992-present); Taiwan, South Korea [8.2%] (1960s-1970s)</td>
</tr>
</tbody>
</table>

Notes: average growth rates in relevant period are indicated in square brackets Sources: World Bank, *World Development Indicators*, earliest year is 1961, data for Haiti and Taiwan not available; *Jackson, 2014; Wedeman, 1997: 462-465; Wedeman, 2012: 66-67; Scott, 1972: 84-86; Jackson, 2012, in contrast to Sun, 1999; *Jomo and Gomez, 2000;* MacIntyre, 2000; the works cited here might not explicitly characterize patron-client networks as either inclusive/exclusive or centralized/decentralized;
Conclusion

Since the mid-1990s, the new post-Washington Consensus in development policy has placed anticorruption at the forefront of donors’ interventions in developing countries. Since corruption is seen as one of the most (if not the most) pernicious sources of slow growth, eradicating or significantly reducing corruption has become integral to the goal of improving governance capacities in developing countries (World Bank, 2000; USAID, 2004).

This paper has critically reviewed a burgeoning body of literature that sheds light on the analytical and empirical limitations of the neo-classical propositions on which the ‘anti-corruption consensus’ is based. Traditional rent-seeking theories ‘implicitly assume[…] that the creation of rents [and their distribution through corrupt mechanisms] is unrelated to the underlying nature of the society in which the rents [and bribes] appear’ (North et al., 2012: 7). In other words, the neo-classical economics of rent-seeking and corruption looks at rents and bribes as if they were socially ‘disembedded’, a set of cash-flows whose only relevant feature from the point of view of growth and development is the quantitative volume. The question ‘who bribes who and for what purpose’ remains unanswered and the identity and organization of the social actors that sustain corrupt cash-flows is left unexplored. Due to this fundamental analytical limitation, neo-classical models go on to assume, wrongly, that rent-seeking expenditures are always very high (regardless of social structure) and, secondly, that the rights and rents created and distributed by the state are invariably efficiency-reducing and at odds with the needs of capitalist development. This analytical choice – I have suggested – is conspicuously flawed, seeing that upon closer inspection the quantitative incidence of corruption is a very poor predictor of growth levels, and makes for highly inadequate explanations of economic performance in specific country contexts.

What I have called the emerging ‘sociologically turn’ in corruption studies rectifies these analytical limitations by focusing on the structure and organization of patron-client networks as the key determinant of the economic effects of corruption. It emerges that growth depends not so much on eradicating the incidence of bribes (or on reducing the total volume of bribe flows), but rather on organizing patron-client networks so as to link bribes with growth-enhancing rent flows to well-organized productive classes, while minimizing unproductive rent-seeking expenditures by non-capitalist groups. In particular, a review and codification of the existing literature reveals that whether corruption is compatible with (or maybe even conducive to) growth depends crucially on the structure of power and levels of social trust in patron-client organizations. Centralized and inclusive networks sustain growth-enhancing (or at least non-growth-reducing) corruption. De-centralized and exclusive networks, on the other hand, tend to impede economic growth, and produce social structures where the relationship between corruption and growth works through many of the effects modelled by neo-classical theories of rent-seeking. Crucially, this ‘sociological’ approach offers a workable framework to solve the puzzle of rapid growth under conditions of neopatrimonialism – a puzzle which applies to most (if not all) instances of successful (late) development.
If so, eliminating corruption across the board – as suggested by the ‘anticorruption consensus’ – appears to be per se unnecessary for development. Indeed, I also suggested that sometimes anticorruption may even prove counterproductive if a developmental patronage structure is unwittingly tampered with by development agencies single-mindedly focused on reducing bribe flows. It remains to be seen how this important (positive) insight can translate into a (normative) set of actionable policy prescriptions that may replace the mainstream toolkit of anticorruption reforms. After all, deliberately engineering modifications in a country’s informal rules and processes is bound to be much more challenging than establishing formal anticorruption agencies and programmes, if not downright impossible (at least without resorting to morally questionable strategies of highly repressive rule). Yet industrial policies involving the selective distribution of rights and rents will only succeed in social contexts where the organization of patron-client networks (‘who pays the bribes and who gets the rents’) is compatible with growth. Patron-client structure is very important for development and yet very difficult to control through policy and development interventions. It remains to be seen whether (and how) modifications of formal institutional rules may be introduced to influence and potentially improve upon, rather than simply eliminate, the informal practices and routines that prevail in patron-client networks. In this sense, anticorruption reforms would still have a role to play in promoting growth, albeit an indirect one. What is sure is that both development theory and practice will have to heed the emergent ‘sociological turn’ heralded by the stream of recent studies discussed in this paper, if a robust and practice-oriented understanding of corruption is to be achieved.

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See, for instance, Uberti (2014).

For the donor-driven emergence of a domestic political discourse on corruption and anticorruption in Albania, see Kajsiu (2013).

But compare with Lui (1985).

I would like to thank Philip Nel for drawing my attention to this point. A similar shape is obtained using different corruption indexes, such as the World Bank’s ‘Control of Corruption’ indicator (see Bai et al., 2013: Figure 1, Panel B for a 2005 cross-section). Although the concave shape is readily evident in Figure 1’s logarithmic scale, it can also be detected, albeit less visibly, plotting per-capita GDP values on a linear scale.

Shleifer and Vishny deem ‘corruption with theft’ more persistent and difficult to eradicate, but they do not discuss its developmental consequences.

Khan (see 2000a: 114-118) argues that the structure of patron-client relations (with the specifications he provides) explains not only the efficiency implications of corruption, but also the level of corruption (which itself has a secondary, if only minor, effect on growth). In other words, the specifics of patron-client networks explain both corruption and its economic consequences, with ‘worse’ patron-client configurations predicting both higher corruption and lower growth. However, his account does not seem to neatly predict the corruption levels in the countries presented in Table 3 (or Table 4, for that matter). Furthermore, on Khan’s argument, corruption levels and growth should be statistically correlated (however tenuously). Therefore, Mauro’s corruption-growth correlation (1995) would be flawed because of third-cause fallacy rather than because of sample selection bias, as argued (correctly) by Khan and Jomo (2000: 10).

Sukarno’s Guided Economy principles, although often cast in the language of socialism, were solidly capitalist, even though they advocated state interventionism. Thus, the case of decentralized factionalism in Sukarno’s Indonesia (1957-65) is different from Leff’s example of growth with bureaucratic corruption, which assumes a staunchly anti-capitalist political elite. Sukarno’s Indonesia cannot be used a counter-example of Leff’s argument.

Annual GDP growth in Chile (constant 2005 dollars, market prices) averaged -0.58 % between 1970-75 (World Bank, World Development Indicators, various years).

Insofar as it focuses solely on the degree of rent centralization (and it does not discuss trust), Khan’s explanation of Thailand (2000a: 101-104) is unsatisfactory.

This argument assumes that there is a continuum between ‘particularized’ and ‘generalized trust’, in contrast to mainstream accounts of social trust, which seem to posit a rigid dichotomy (Rothstein, 2011). The continuum modulates the efficiency implications of corruption.