

Study 1

Corruption in the Philippines: Framework and context

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Abstract

This paper proceeds from the more recent literature on corruption as a principal-agent problem whose significance for development depends on its dimensions related to the nature of the corrupt transaction itself, such as distinctions based on the agents involved, scale, type of deal, predictability, industrial organisation, etc., all of which affect for better or worse the nature of the relationship between principal (as represented by the public interest) and the agent (politicians and bureaucrats). From this viewpoint, corruption may be regarded as an *incentive-design* problem.

The paper also argues, however, that there is a larger dimension to corruption that is determined by the historical and social context. Here, the ultimate factors are those affecting social cohesion (e.g., income and wealth, education, ethnic and other differences), the economic strategies pursued by the government (e.g., minimalist versus interventionist), the political system (the autonomy of the bureaucracy, the degree of centralisation), the extent of market transactions (local, global), and the rate and sources of economic growth. It is these factors that determine the credibility of the formal institutional constraints (however designed) on the behaviour of public officials and private agents alike.

This framework is then used to examine how and why the dominant types of corruption in the Philippines have evolved, from nepotism, to smuggling, to public-works contracts, to debt-financed schemes, asset-privatisations, until the recent descent into underworld-related activities. The unprecedented governance breakdown under the Estrada administration is then explained as the result of a confluence of a growing sense of public interest (the result of education, urbanisation, political experience, and expanding market transactions) on the one hand, and the drying up of innovative sources of rents that continued economic growth would have provided.

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1. Introduction

The most common definition of corruption, that used by the World Bank [1997a:102: 1997b:8] and other organisations, is “the abuse of public power for private gain”. This definition can be disingenuously general, depending on how broadly one construes “public power” and “private gain”. By comparison, Shleifer and Vishny’s [1993] reference to the “sale of public assets for private gain” is somewhat more restrictive, since it unduly limits the transactions to those mediated by money-exchange. ROSE-Ackerman [1998] gives a definition that is suited mostly to bribes: “an illegal payment to a public agent to obtain a benefit that may or may not be deserved in the absence of payoffs”. Nepotism, for example, would not unambiguously fall under the category of “sale” or “illegal payment”. The idea of “private gain” itself in such a case must also be defined subtly, since, the appointment of a relative need not result in a directly measurable private gain to the perpetrator, except in a nonpecuniary or even evolutionary sense. Hutchcroft [1999:227] endorses a definition by Nye [1997] that is more explicit, although less succinct: “behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close, family, private clique), pecuniary, or status gains; or violates rules against the exercise of certain types of private-regarding influence”.

As is evident from the above examples, the typical definition of corruption involves the notion of the “public” in a fundamental sense. For this reason it is customary to regard the main locus of corruption as government and as invariably involving public officials. Some recent usage, however, also speaks of “private corruption” as occurring in business firms, or as it deals with organised crime. Some examples are overpricing practised by supply managers, excessive charging of personal bills at company expense, and so on. A case for including these acts under corruption can be made to the extent that they occur in the context of firms having a *public dimension*, e.g., that are widely held publicly, or to the extent that certain rules protecting the general public proscribe such behaviour, e.g., trading on insider information. Otherwise, these acts would be in the nature of private damages and the subject of civil liabilities. By sufficiently extending the concept of principal and agent defined below, however, a good deal of *breach of trust* in the private sector may also be subsumed under corruption. For the purposes of this paper, however, corruption shall be used to refer only to cases involving acts of public officials or pertaining to public assets.

2. Corruption as a breakdown in a principal-agent relation

To borrow from a known phrase, public corruption is not a thing but a *relation*, more precisely, it is the breakdown or *rupture* (*cor* + *rumpere* = “completely breach”) of a presumed relation between social agents. The fundamental relationship affected in corruption partakes of the nature of the well-known principal-agent (henceforth, the PA) problem in economics (see, e.g., Arrow [1986]). The PA problem refers to a situation where one party (the “agent”) is contracted to promote an outcome in behalf of someone else, namely the “principal”. The agent’s action or characteristic, however, potentially affects not only the principal’s but also his own interest. When the agent’s action or characteristic cannot be directly observed by the principal, or where the outcome is affected not only by such an action or characteristic¹, the problem arises for the principal of ensuring that the agent takes the appropriate action (or possesses the characteristic) that will promote the principal’s interest.

In the case of corruption, the principal must be understood as being the *government*, taken in its most impersonal sense as embodying public interest in its laws, policies, and strategies. Government performs functions and distributes resources to attain its goals. The performance of such functions, however, is devolved upon real people, bureaucrats and politicians (or even private individuals, such as concessionaires), who may be presumed to act in their own interests. A contract implicitly exists between government and its agents, for the latter to discharge their functions in the former’s behalf. Since the actions and qualities of such agents can be observed only imperfectly, however, government cannot always be sure that its agents always perform fully in its interest.

Depending on the context, the principal in the corruption relation may be understood either as the highest echelons of government, with the agents referring to officials at different levels who have been designated to carry out certain tasks (R_1 in Figure 1), or the principal can be the electorate or public at large, with politicians as their agents (R_2 in Figure 1). Taking both contexts together, however, it is obvious that in reality the PA problem exists on several levels, with society at large (the public, or the electorate) being the ultimate principal, and both politicians and bureaucrats existing as agents on the lower levels. This implies that the soundness of the relationship R_2 cannot be determined

¹ In the literature, cases where the agent’s imperfectly observed *action* causes the problem is called a problem of *moral hazard*, such as situations where the decisions of government officials cannot be observed. On the other hand, *adverse selection* is the term used when the PA problem is caused by the agent’s imperfectly observed characteristic, such as when the electoral process is unable to distinguish deserving candidates.

independently of how it implements R_1 , since the behaviour of bureaucrats and lower-ranking agents must be ultimately judged in terms of how it achieves the goals of society. Hence, the existence of provisions allowing bureaucrats or enlisted men to disobey unlawful orders. Similarly, a provision exists that allow cabinet members to declare the president incapable of ruling. Essentially a direct relationship between bureaucrats and the rest of society is thus invoked.

Figure 1



The focus of the standard PA literature is design of mechanisms (usually understood as fee-schedule, but more generally a system of incentives) to elicit the appropriate response so that agents *voluntarily* act to attain what in the principal's view would be the best possible result.² Understood narrowly, it is possible for example to distinguish differing incentive effects of straight wage relationships (which is the predominant relationship between the government and its bureaucrats) and various linear-fee schemes (share-income and rentals being other forms). A positive theory can be constructed for selecting the types of fee schedules appropriate to specific contexts in which government must perform (de Dios [1999] gives some examples).³

More broadly construed, however, the rules governing the PA relationship (R_2) between politicians (or government) and bureaucrats (or the civil service) are actually found in the entire system of bureaucratic recruitment, compensation, promotion, and procurement, all of which are designed by politicians. Included in these *formal constraints* as well are the larger laws that govern the behaviour of public officials and the penal system that punishes errant behaviour. Finally, one cannot discount the various *informal constraints* that internally regulate bureaucratic behaviour, such as a professionalism, a moral viewpoint, a sense of duty, and *esprit de corps*, factors that are distinct and to some extent

² Suppose the agent's action a yields a result x for the principal. Then the principal's problem is to propose a fee-schedule $s(a)$, so that the principal's net benefits $U[x(a), s(a)]$ are maximised, while observing that the agent's resulting net-benefits $V[s(a), a]$ do not fall below a certain minimum reservation level or participation constraint V° .

³ The PA definition is wide enough to extend meaning of 'corruption' to include acts or relationships in the private sector, and indeed, this was one of the main applications of the concept. One example is when managers' actions are taken not to maximise profits in consonance with shareholder interests, but, say, to maximise sales, or spending, with which their private interests are more closely bound. A large literature has evolved that seeks to address this problem, either through the design of internal rules (e.g., stock options for managers), or through external mechanisms (e.g., changes in market valuation and the threat of takeovers).

transcend pecuniary compensation. Indeed, the professionalism and independence of the bureaucracy in countries such as Germany, France, Japan, and other now-developed countries has been underscored as a characteristic of modern states.

Similarly, the relationship (R_1) between the public (as embodied by the electorate) and politicians is governed by the political system as typically set out in a constitution, which includes the *formal* mechanisms for election and recall. The 1987 Constitution, for example, provides for the conduct of regular elections and occasional plebiscites, but more innovatively, also for electoral recall and constitutional amendment under a people's initiative.⁴ The independence of the government's branches and the checks and balances among them (e.g., impeachment); the dichotomy between government and opposition; and laws and the penal system as they relate to corruption and plunder also form part of this formal system. Compared with the bureaucracy, however, the distinction between formal and informal mechanisms is less distinct at the political level. Constitutional guarantees of the freedom of speech, freedom of the press, freedom of assembly, and ultimately the right to rebellion do not directly define formal mechanisms to reward or punish erring politicians but merely leave open the door for more informal mechanisms to function, including the threat of exposure to public or media criticism, social ostracism, and collective action. The events of EDSA 2, for example, must be understood as primarily an informal recall-mechanism at work: large-scale collective action in the wake of a failed formal mechanism (the impeachment process) turned public opinion, which forced a mass resignation of the cabinet and the effective resignation of the president.

In many ways, as will be seen below, the control mechanisms shaping the relationship between politicians and the electorate at large are among the most *weakly defined*. Combined with the inherently large discretion accorded to politicians and the peculiarities of Philippine political economy, this provides fertile grounds for corruption.

Understanding corruption by proceeding from the principal-agent problem is neither to redefine nor to decriminalize it, in much the same way that understanding why crime exists is not tantamount to condoning it. Whatever definition that applies to it remains valid, and if it is a criminal or an illegal act, so it will remain. The approach itself does not change the thing viewed but puts its basic elements and characteristics into sharper focus.

⁴ Owing its origins to the 1986 People's Power Uprising, the 1987 constitution accords an especial status to direct people's initiatives, which differentiates it from previous Philippine constitutions.

Posing the problem of corruption as a principal-agent relation entails positing agents to act in their self-interest, behaving so as to maximize their own welfare. From this one can immediately deduce that unless such maximizing behavior is curbed one way or the other through formal or informal constraints, corruption as commonly defined would be, so to speak, a “natural state”. This would be even truer when agents pursue their self-interest in the context of various relationships established with other individuals while discharging their official functions as agents for the principal. In each of these relationships, additional considerations may affect the agent’s objectives, and private-regarding behavior by public agents would be the norm. At this level of analysis one may better understand the reasons for corruption by examining the agent’s utility function, the arguments that enter it, and the weights or importance that the agent attaches to each of them. This type of rigorous examination does not seem to have been accomplished heretofore, although many earlier sociological studies of corruption tracing it to the particularistic behavior of agents or to culture in general can be seen as falling under this category. (See Corpuz [1957, 1965]; Cariño [1977,1979,1986]; Endriga [1979]; and Cariño and de Guzman [1979].)

3. Factors affecting the principal-agent relation

It must be said at the outset, of course, that this paper’s use of the PA framework goes beyond its usual restricted economic application, where it is used primarily to solve for the compensation scheme that aligns the agent’s actions to the principal’s objectives. Here instead it will be used primarily as a heuristic. By initially positing the requirements for an ideal relationship that ought to exist between principal and agent and then comparing it with the corrupted or “broken” one that actually exists, one is able to ask what the sources of difficulties are that prevent such a relationship from functioning.⁵ What follows describes and analyses some of those factors.

3.1 Complex environment and the development context

A complex environment is ubiquitous in any PA problem. If all contingencies could only be foreseen, then a perfect (if lengthy) contract could be written, specifying exactly what the agent should do if such and such an event occurred. On the one hand, contracts

⁵ In the same way, we believe, the real-world usefulness of general-equilibrium theory is to highlight the importance of various assumptions that are violated.

cannot be specified too tightly, since a complex or changing environment may require a different set of actions from what has been stipulated. For example, even the relatively simple task of ordering fax machines for an agency requires a certain amount of decision-making considering the needs of the office on the one hand, and the range of available machine-varieties on the other (e.g., paper used, speed of printing, other uses). Even greater complexity is involved in holding political office, where the implicit contract with the public is almost as vague as “do what is best for us under the circumstances, as they arise”.

A greater or lesser degree of *discretion* must therefore be typically allowed the agent or person in charge. This very discretion, however, is what allows the agent to behave in ways other than those that promote the interests of the principal. In the simple example cited, the person responsible for purchasing the machine could specify a technology that favoured a supplier that was willing to provide a kickback. It would then be hard to discern whether or not the agent’s choice was made in the principal’s behalf, and disputes are likely to arise over whether particular contract stipulations had been violated or not. (The list of unresolved cases with the Ombudsman is testimony to this.)

The difficulties posed by a complex environment are most evident in persistent attempts to prescribe behaviour, as in, say, the rules for procurement laid down by the Commission on Audit, which have become voluminous indeed. These may work well enough to regulate behaviour in predictable, repetitive contexts (e.g., activities connected with processing of passports or drivers’ licenses). But as one moves to more complex environments, especially as these pertain to developing countries, it becomes clear that the constant expansion and elaboration of such rules to prevent abuse cannot go on indefinitely, since to do so would seriously impair the initiative of agents, reducing them to simple robots and becoming barriers to efficiency itself. For example, it is possible to be so meticulous about following the guidelines for procurement that prices for the equipment will have risen before the paperwork is done; this would obviously be disadvantageous to public interest as well. In general, therefore, a trade-off exists between the discretion needed by agents to perform other than merely perfunctorily in a complex world, and the specification of behaviour needed to prevent abuse. The constitutional concern over the possibility of “grave abuse of discretion” summarises the dilemma.

3.2 Information and bounded rationality on the part of principals

Even if the environment was complex, the PA problem would be more tractable if the principal was always able to determine exactly what has occurred and how the agent has acted. There is a limit, however, to the extent that principals will find it worthwhile to observe the actions of their agents; agents will typically be better informed of their own actions than the principals are. Rationality is ultimately bounded or limited because its uses are multiple and competing. The electorate, for example, does not always invest in the information required to make the best electoral choices (nor even take the time to vote, as the US example shows) and it cannot continuously inform itself of all that takes place in government, since after all people must still work and consume in a private capacity. In this sense exhortations to nationalism and civic duty really represent attempts to persuade the public to make the investment in political information which they would otherwise not make. (The same reason underlies the case for subsidising the dissemination of political information.) As will be argued in the last part, the democratic election of undesirables like Estrada is due in large part to information failure.

Taken together, bounded rationality and a complex environment give rise to *monitoring costs*, which simply refers to the valuable resources used up whenever principals try to ascertain the behaviour of agents closely. It is, of course, possible as part of the arrangement to designate special entities to monitor the behaviour of agents, and this is the purpose of such entities as the COA, the ombudsman (*tanodbayan*) and the anti-graft court (*sandigang bayan*), and special anti-corruption commissions. It is equally obvious, however, that such arrangements are costly and expend resources.

3.3 Personalities versus parties -- non-shared goals between principal and agent

If actions could only be prescribed beforehand and verified, then the agent's subjective beliefs and values would become immaterial and irrelevant. As more discretion and authority are devolved upon an agent, however, (necessitated, say, by an increasingly complex environment), it becomes more desirable that the agent possess values that reflect those of the principal more closely. Arrow [1974:23] writes,

Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people's word. Unfortunately this is not a commodity which can be bought very easily.

For the same reason, character and values are more important among politicians than run-of-the-mill bureaucrats, since the former typically exercise more discretion and

scope for judgement than the latter, whose behaviour is usually more readily prescribed. While much has been written in this country regarding the need to base politics on issues rather than personalities, it is probably more accurate to say that stances on issues are as important to the extent that they *also* reveal character and values. The more complex the environment, the less easy it is to prescribe definitive issues. A candidate who runs and wins on a programme of reduced military spending would hardly be appreciated for keeping her promise if a war were suddenly to break out. Bounded rationality among principals (which implies they will take only a limited interest in the details of issues and contingencies), plus a complex environment makes it rational for them to focus only on personalities, and it is probably futile to argue with people that they should use one indicator rather than another.

It is another question, of course, to what extent “character” and “values” can be predicted. From this viewpoint, the advantage of political parties built on ideologies is that they expressly contain a well-defined process for sorting out candidates based on the degree to which these share the party’s goals. Political parties, as it were, place their seal of approval on candidates who have undergone a process vetted by *informed* party observers and insiders. (Compared to which the individual voter is an amateur.) This reduces the information costs on the part of the individual voter, who no longer needs to familiarise himself with the individual candidate but takes the word of the party, which collectively hews closely to the voter’s values, and which therefore can be trusted to represent these values even in changing conditions and hold their candidates responsible to them. This economy in information is an important reason that traditional voting (*Stammwähler*, in German), whether of socialist, christian democrat, or liberal varieties, is a feature of most European democracies.

In the Philippines, the absence of a stable party system is well known and justly lamented. Rather the system appears to proceed on the idealistic assumption that an occasional direct accountability to voters is sufficient to guarantee responsible and responsive behaviour. An offshoot of mass media and entertainment, however, is to convey the misimpression that the electorate can actually get to know candidates’ character and values directly and intimately (as witness, the Estrada myth of being the defender of the poor, as conveyed through cinema, or the reputation of media personalities built up through investigative and public assistance programmes on television). This direct appeal to voters and the false intimacy generated by mass media is an element of modern political culture that has become particularly conducive to political demagoguery and irresponsibility, since

first it can obviously be false, and *second*, since unlike a party system, it provides for no intermediate mechanism to hold politicians accountable to shared values during periods other than elections. From what has been said regarding the electorate's bounded rationality, however, it is too much to expect elections alone to enforce responsible behaviour on the part of agents.

3.4 Incoherent principal interests and social cohesion

A complication suggested by applying the PA framework is the latter's presumption that the principal's objectives are clearly known and that all that remains is to find a design to attain such objectives most effectively. Applied to the political sphere, this presumes there is a *common standard* of public interest that the electorate applies to the behaviour of politicians. In practice, however, it is well known that a problem exists in aggregating social preferences (e.g., Arrow's impossibility theorem). Where the notion of what constitutes public interest is either vague or disputed, reward-and-penalty mechanisms are unlikely to function smoothly, since arguments can always arise over whether the official had indeed fulfilled the putative public interest.

Numerous instances exist where the behaviour of officials, although dubious according to the formal letter of the law, is excused because they are thought to fulfill a more pragmatic, if narrower, set of values. The continuing local support for the Marcoses in the Ilocoses and the Romualdezes in Leyte, and the Ejercitos in San Juan, for example, is an extreme illustration of the divergence between formal rules of responsible public behaviour and what is considered acceptable locally or by a minority. The disproportionate diversion of resources towards favoured localities (even if attended by large-scale corruption with severe national consequences) is evidently still regarded as the legitimate fulfillment of a principal-agent relationship by at least some parts of the electorate. On a larger scale, the enthusiasm of the bona fide "EDSA 3" crowd for the disgraced former president Estrada notwithstanding revelations of his acts of plunder is based on their own conviction (no matter how ill-informed) that he continued to act in their interests despite (or perhaps even through) the violation of existing laws.

This problem of incoherent principal interests is particularly acute for the Philippines, owing to the long-standing *heterogeneity of social interests* along various lines, including ethnic-linguistic dimensions, religion, geography, wealth, urban-rural distinctions, a phenomenon that writers as early as Corpuz [1965] have long recognised as obstacles to "national unity" and social cohesion. Poverty and a highly unequal distribution of wealth can result in widely differing conceptions of what is acceptable behaviour on the part of public officials, the most vivid recent experience being the divergences between EDSA 2 and "EDSA 3".

Nor is this isolated. Thanks to a long history of colonial oppression and unresponsive governance, large groups of the population continue *not to regard* institutions of government and broadly defined national interest as representing values superior to

narrower parochial or clan and family interests. As a result, acceptable behaviour on the part of public officials is evaluated using a different metric from that corresponding to the largest public good, as expressed laws and rules. National affairs tend to degenerate into a contest for the division of spoils among competing particularist interests. Manifestations of this range from the obvious predominance of local politics in the affairs of the lower house, to the continued election of convicted felons to office, owing simply to their ability to deliver largesse to particular constituencies. Such manifest incoherence in the expression of principals' objectives can lead only to a weakening of supposed controls existing in the PA relationship, thus giving an opening for corruption.

There are of course, forces that do the opposite, i.e., tend to create a common experience and value-system among the people. These include education, exposure to mass media, urbanisation, information, and greater contact with the formal economy and the functioning of government. Similarly, historical demands for "nationalism" and an end to "feudalism" expressed by the intelligentsia and the middle classes are manifestations of dissatisfaction with the particularism that pervades the conduct of national affairs.

3.5 A perversion of the relationship -- clientelism

The lack of social cohesion and the predominance of particularism imply that the goals of the principal that is society will either conflict or be ill-defined. This vacuum in the objectives of the principal (i.e., society) weakens the control over agents and gives rise to the possibility that the objectives of the agent may be substituted for those of the true principal. Putative public officials may thus attain substantial autonomy and discretion in pursuing private objectives, subject only to the condition that they fulfill the minimum actions necessary to remain in office. Local politicians may thus dominate local politics indefinitely, for example, by fulfilling the implicit minimal requirements of crucial electoral constituencies (e.g., the urban slum-dwellers, farm workers, or tenants). In the extreme, the supposed principal-agent relation between the public and public servants can be so perverted that the latter become the principal and the former the agents, and clientelism is possible. In clientelism, the PA problem is reformulated as one where the politician designs an incentive scheme, say through various income transfers and other forms of patronage, to induce the crucial constituency to perform his bidding, namely election. For obvious reasons, this type of relationship is more likely to prevail in local rather than in national contexts, where transfers are more difficult to target, and among politicians rather than

bureaucrats, since the latter's tenure depends more proximately on politicians than on dealings with the general public.

While the above has been an analytical reconstruction, patron-client relations (originally in the form of feudal agricultural relations, and subsequently in other forms) have historically, preceded the modern institutions of governance based on democracy and general public interest. In fact it is the latter that has sought -- so far imperfectly -- to superimpose itself on pre-existing clientelistic relations, leading to the inversion of the relationship thus described. As Marx would have put it, the relationship with sovereign people-as-principal may be the formal-abstract idealization superimposed upon a civil society that is unequal and clientelistic.

3.6 Violated participation constraints and adverse selection.

Any solution to the PA problem assumes that an eligible payment scheme can be found to compensate the agent that it is at least equal to the income in the agent's next best alternative occupation. That is, it meets the agent's "participation constraint". In reality, however, the existing compensation for public officials at certain levels, especially at the higher, decision-making levels, often fails to achieve this, with the levels of statutory compensation falling below what may be considered realistic alternatives for the pool of qualified talent. In important cases, an important reason that the design of incentives does not work is that it simply fails to compensate agents sufficiently. Tell-tale signs of this are the increasing difficulty in recent years of filling sub-cabinet positions in the executive, and the high number of vacancies (about a quarter of all positions) in the judiciary.

This same circumstance is an important motivation for the agent to attempt to get around the scheme. In the end, a situation of "adverse-selection" may arise, since those only those who *expect* to violate the scheme are attracted to public service. Hence bureaucrats of agencies such as the bureau of internal revenue or the customs may be observed to be curiously attracted to careers that obviously offer little by way of legitimate pay, in the conscious knowledge that the differential may be made up through corruption and other forms of post-contractual opportunism.

3.7 Scope of action and competition

An important condition for the existence of corruption is government's position as a virtual monopolist in the provision of many goods and services, which raises the potential for rents to be obtained from influencing the decisions of government agents. If

government were no more than one among many competitors rather than a monopolist, no premium would attach to the decisions it makes, and little or no resources would be devoted to influencing the exercise of its prerogatives. A related point, which is more closely examined, is that a smaller scale of government would reduce the scope for corruption. This has been extrapolated into the proposition -- discussed under political economy-context below -- that a reduction in the size of government is an indispensable ingredient in the reduction of corruption. Against this one must balance the real requirements of development in which a government's role is indispensable. In the same manner, removing all discretion would drastically reduce opportunities for corruption but would more likely impede efficient responses to complex environments.

Rather than directly reduce public agents' scope of action through closer prescription, it is also possible to use *competition* as a means of eliciting appropriate agents' behaviour. This can take various forms, ranging from combined public and private provision, contracting, concessions, management contracts, to complete privatisation (examples being water concessions, power sector reforms, and various others).

Besides providing for forms of economic competition, however, mechanisms also exist to promote competition in the political sphere, the most obvious being electoral contests. Added to these are intra-regime competition between political parties, as well as the various checks and balances between branches of government. In the Philippines, however, peculiar characteristics of politics work to reduce the effectivity of the pressure of competitive politics, among which are the absence of party-based politics and the strong central powers vested in the executive relative to the bureaucracy and other branches of government.

3.8 The relational context

Finally, both principal and agent can behave in a corrupt manner because in such a fashion they can introduce more arguments to their utility functions, or increase the levels of these arguments, or both. By definition, however, these actions are illegal and are subject to penalties. Self-interested agents, therefore, will persist in their corrupt behavior, or much more of them will do so, only if the increase in the number and levels of the arguments of their utility functions through corruption are not counterbalanced by negative factors. This requirement can be satisfied by one or both of the two following conditions. Firstly, there is social acquiescence or acceptance of corrupt behavior or of its fruits. Secondly, the probability of being caught and meted the appropriate sanctions are negligible if not nil. It

is the social and political contexts that determine the satisfaction of these conditions. Nevertheless, even if society abhors and ostracizes grafters and corrupters, and absolutely convicts them when caught, low-level corruption may still exist, as the evidence on the ubiquity of corruption indicates. The reason of course is that under no environment will all grafters and corrupters be caught and convicted with absolute certainty. Because of this, some individuals will still find it beneficial to engage in corruption. From all this, it is easy to see why corruption tends to breed corruption. Increased corruption may lead society to be indifferent, and eventually to accept corruption. Increased corruption may also lead to the corruption of the monitoring and prosecuting institutions of society leading to a massive failure of the justice system. In other words, corruption tends to lay the foundation for its own survival and growth.

4. Taxonomy

The explosion of the literature on corruption has introduced a plethora of approaches, concepts, typologies, and analyses, as well as corresponding policy recommendations. The following is to our knowledge the first attempt to bring together systematically the largest number of these approaches.

4.1 By type of agent and initiator.

In the public sector, corruption is defined by the location in which it occurs, which in turn is largely decided by the degree of discretion exercised by public officials. Public-sector corruption may involve either bureaucrats or politicians. Bureaucrats and administrators are thought to be interested primarily in pecuniary gain, while politicians are thought to have both pecuniary and political interests at stake. In the Philippines, an earlier literature (typified by CARINÑO et al. [1978]) focused on *bureaucratic corruption*, viewed primarily as a problem of ethos and example. That literature implicitly adopted the technocratic viewpoint that the political leadership would take an active interest in reducing or eliminating corruption in the regular bureaucracy as part of improving the effectiveness of governance. More critical analyses of the quality of political leaderships themselves, however (especially after the fall of dictatorships and exposure of their excesses), have led to an interest in systematic corruption among *politicians* themselves.

Political corruption is distinct from bureaucratic corruption, partly because of the levels at which it occurs, and partly because of differences in goals. Hence, for instance, fewer bureaucrats would be interested in expanding influence and patronage beyond what maximising pecuniary advantages would dictate. Vote-buying, corruption of the electoral system, political or regulatory harassment of opponents are associated with distinctly “political” rather than bureaucratic goals.

A conflation of relationships is also possible, when bureaucrats collude with politicians. As already seen in the previous section, it is possible for bureaucrats to interpret the relationship with their superiors (politicians or higher-ranking bureaucrats) narrowly.

It is likewise possible to distinguish corruption according to the initiating agent. In the case of bribery, the initiative obviously lies with the donor. On the other hand, extortion is initiated by the public official. In a systemic equilibrium, however, this is less important. ALATAS [in HEYWOOD 1997:9] makes a similar distinction between “transactive” and “extortive” corruption. The former pertains to some mutually advantageous bargain between parties, while the latter refers to coerced exchange, undertaken to avoid harm to the donor.

Corruption with theft and without [Shleifer and Vishny 1993] is a distinction hingeing on whether the corrupt official remits the lawfully stipulated amount (e.g., a license fee) to the government. If the regular amount is not passed along, then there is theft, such as when a revenue collector underassesses taxes and in addition keeps a portion of the actual payment for himself.

In terms of scale and level, the dominant influence of *political* (as opposed to bureaucratic) corruption in the Philippines is almost self-evident. This is to be expected, given the wider discretion, vaguer mandate, and weaker controls in the political selection process as determined by strong local power and weak party system. In relation to corruption at the political level, bureaucratic corruption is clearly of subordinate importance, which itself reflects the characteristic but almost universally noted weakness and lack of independence of the bureaucracy in the Philippines (a fact evident in the deep intervention of politicians in bureaucratic selection).

Indeed, the bureaucracy very often serves as the instrumentality and conduit for political corruption, such as when high-ranking politicians use their influence over bureaucrats to evade rules and regulations. A trivial but clear example is the exemption of the former president’s housing project from building and environmental regulations (as reported by the PCIJ). Other recent instances have been the intervention in tax cases facing

a presidential crony (*Ipahingi na ninyo ito sa akin*) and the failed attempt to influence the investigation of the BW insider-trading scandal. More generally, the utilisation of pork-barrel funds by elected politicians to earn corruption rents must be facilitated with the knowledge and consent of at least some bureaucrats in the public works agencies.

The overarching importance of political corruption is evident in terms of what is required to stop corruption in the bureaucracy itself. It is difficult to imagine that any serious move to limit the regular forms of corruption in the bureaucracy can succeed without first demonstrating a credible commitment to drastically reducing political corruption. The opinion in this paper thus varies slightly from that which argues for going for “low lying fruit” (made by the World Bank among others). While the signalling importance of demonstrable success is a point well taken, there should be no doubt that no significant dent can be made on corruption unless political corruption is tackled head on.

A good deal of the scale of and motivation for political corruption arises from the nature of the PA relationship implied in political contests. Paramount among these are the large amounts of funds required to run for public office itself in the absence of clear and credible guidelines on campaign spending and contributions. Such a circumstance motivates corruption in office either to raise sufficient amounts for future campaigns and contests, or to recoup huge expenditures raised from one’s own pockets or by third parties.

4.2 By scale and level.

Here one might distinguish between *petty corruption* and *grand corruption*, which [ROSE-ACKERMAN 1998] defines as “a substantial expenditure of funds with a major impact on a government budget and growth prospects”. More often than not, of course, the scale or of corruption is related to the *level* at which it occurs, since discretion and prerogatives of public officials -- and hence the resources over which they dispose -- increases with the rise in the hierarchy. Hence, a public works director for local projects will *ceteris paribus* possess less opportunity for large-scale corruption than a cabinet secretary. Obviously, however, this conclusion may change depending on the degree of decentralisation of the bureaucracy.

Grand corruption occurs especially when large assets or transactions are involved, such as the massive privatisations that have occurred in liberalisation episodes in many countries. Some authors have argued that as a result of the liberalisation and privatisation episodes occasioned by the neo-liberal trends in many countries, the scale of corruption has increased in this manner.

For the same reasons that political trumps bureaucratic corruption in the Philippines, the significance of grand corruption also dominates that of petty corruption. It will be rare that grand corruption involving enormous sums (e.g., Amari, the Centennial Expo, the BW scam, PCI-Equitable sale, etc.) will remain a purely bureaucratic phenomenon without the participation of political types (although the unobtrusive sale of export-credits at the DOF may be an exception). This hypothesis is based simply on the greater degree of discretion exercised by politicians (to which may be included higher-level political appointees), as compared with civil service employees. Politicians will also be better informed about the potential for policy-shifts that afford new rent opportunities (e.g., new projects and privatisation initiatives).

4.3 By type or object of transaction.

There are various ways to list the objects of corrupt transactions. Gray and Kauffman [1998] enumerate the things private parties can purchase from a politician or bureaucrat, such as: government contracts; government benefits; public revenues; time-saving and regulatory avoidance; influencing outcomes of the legal and regulator process. An even longer list is given by Rose-Ackerman [1996], which unfortunately is not very systematic, since it deals with various *stages* or *methods* involved in a transaction, rather than the ultimate object of the bribe itself (e.g., inclusion in the list of bidders, restructuring of specifications, and selection as winning contractor are listed as separate item -- they all pertain to bidding). The World Bank [1997:9] also enumerates the “things” that bribes can buy: government contracts (choice of firms); government benefits (subsidies or access to funds); lower taxes; licenses; time; and legal outcomes.

This paper proposes the following list of types or objects of corrupt transactions: (a) bids, purchases, and auctions; (b) sale of policies and rules; (c) rules-evasion; (d) bureaucratic or political facilitation; (e) bureaucratic or political harrassment; (f) political favours and support.

Table 1: Corruption by object of transaction

Object of transaction	Examples
1. bids, purchases, and auctions	bid-rigging, overpricing, over-purchasing
2. sale of policies, laws, and regulations	changes in ownership rules
3. rules evasion	customs-releases; tax evasion; bribes to cops
4. bureaucratic or political facilitation	queue-jumping; "grease money"
5. bureaucratic or political harrassment	"AC-DC"; proxy wars; tax harrassment
6. political favour or support	nepotism; vote-rigging

The first and most easily analysable transactions that are the subject of corruption are those involving *bids and purchases*. These include over- and under-pricing and collusion among potential bidders of services, franchises, concessions, and asset sales. The nature and consequences of these transactions are easiest to comprehend, since there is an obvious benchmark against which they may be compared, namely the next-best or competitive supply price.

The second important type of transaction is the *sale of policies or rules*. Examples of these are industrial priorities; fiscal policies; regulatory rules, judicial decisions, electoral rules, etc. The bottom- line efficiency effects of such corruption are difficult to predict beforehand. Rose-Ackerman [1998] notes that it will depend on the efficiency of the rules themselves. If rules are over-extended to begin with, then to the extent that exemptions are made, then they would be welfare-enhancing. In this category falls the *jueteng* scandal that precipitated the downfall of the Estrada presidency.

Unlike policy-for-sale, the purpose of *rules-evasion* is not to alter the rules themselves but to modify their application for individuals who are in principle unqualified for the benefits or are liable under the rules. Corruption to excuse tax evasion, or bribes made to officers of the court would fall under this category.

Bureaucratic or political *facilitation* are a third type of corrupt transaction and are related to what Rose-Ackerman [1998] calls "corruption to lower costs" and what Alatas [1997] calls "transactive" corruption. Examples range from petty corruption in lower-level agencies (e.g., car registration) to buying political influence to smooth out deliberations on franchises given out by congress. One way to distinguish this from other cases is that in this case the private agent is in principle *entitled* to the service or good being provided. Otherwise, it would fall under the previous category. Hence, an illicit exemption from a tax would be liability evasion rather than a case of facilitation.

While the parties involved in facilitation and *harrassment* are the same, i.e., private agents and public officials, the significance can be completely different. The case of harassment corresponds to what ALATAS calls “extortive” corruption, such as when tax collectors summon taxpayers and minutely go over tax returns as part of a shakedown or when politicians initiate an investigation of their potential opponents as part of vendetta. In the Philippines the well-known technique of “AC-DC” (attack and collect, defend and collect) also falls under this category. A particular nuance is also introduced by the circumstance of “weak states”, where laws and regulations are only haphazardly applied to begin with, leading to the ironic possibility that harassment may occur through a strict application of the law itself. Formally, this is the category under which the *jueteng* scandal of 2000 originated. Payoffs to public officials were in the nature of protection money, based on the non-application of existing laws, although the immediate reason for L. Singson’s turnaround was a problem in bids and awards.

Finally, *political favours and investment* are transactions distinguished by the fact that the result is not an immediate pecuniary benefit but a *political* one.

In the local context, all of transaction types mentioned are to be observed. Two types in particular, however, have received significant coverage, namely: (a) bids, purchases, and auctions, and (b) the sale of policies, which are the topics of two other papers in this project.

The pervasiveness of corruption in bids and purchases is traceable to the customary function of government of purchasing supplies in the course of its mandate to provide public goods and services, and indeed much of this type of corruption has become virtually established practice among contractors for certain government departments such as public works, defence, education, health, and others where procurement is a routine element, to the extent of attaining the status of a fixed markup over costs. It would be an educated guess to say that much of this corruption is of a bureaucratic nature and diffuse (although they would not necessarily be petty). The natural limit to this type of corruption is the size of the government’s operating budget, augmented by occasional bulges in capital spending (supported to some extent by foreign development assistance).

Nonetheless, to this routine-purchase element in recent years has been added the prospect of new and larger corruption rents stemming from shifting policy and project initiatives, especially those relating to privatisation and liberalisation. The privatisation of government-acquired assets is an important example of such an opportunity. At this point the potential size of the corruption rents is related no longer to the size of the agency’s

budget but the much larger discounted stream of *private benefits* flowing from the private use of the asset. The value of a piece of idle public land to the private individuals bidding for it would be much higher (e.g., as location for a mall) and on this would be based the potential corruption rents to public officials. A similar principle appears to be at work in the case of the various BOT schemes, in that they have given public officials discretion over greater amounts of resources than is comprehended by purchases under regular government budgets.

It is also worth noting that until recently, competitive bidding has not been universally practised in asset disposition and franchise awards. The corporatisation of many government functions has allowed many of these agencies to skirt the competitive selection of BOT contractors through the fiction of corporate “joint ventures”, which allows them to handpick their partners and tailor-make the terms of contracts to suit private interests unduly. Prominent examples of this were the contracting of power plants at the height of the energy crisis, which guaranteed minimum off-takes, or the similar guarantee of revenues Line 3 of the metro-rail. Second, owing to oversight or less benign reasons, some regulatory agencies have not resorted to bidding in the award of franchises but have chosen to assign these bureaucratically (e.g., the service-area scheme in telecommunications, or the attempted monopolisation of port services), opening up opportunities for corrupt deals. The PAGCOR’s biased assignment of the Bingo Two-Ball franchise is a recent example. A more transparent process would have been either to award the franchise through bidding, or to adopt a virtually free-entry policy. Either tack would have eliminated corruption rents.

Changes in regime or policy environment are also the source of gains from policies for sale. The most recent visible example of this has been the distortion of aviation rules under the Estrada administration to favour Philippine Air Lines (one of the subjects of Lim and Pascual [2001]).

4.4 Timing, type, and predictability of corruption rents

Regarded purely as financial flows, the timing of returns from corruption may have an effect on the nature of bribes. Returns may be *performance-related* or *transfer-related*. An example of the former is when bureaucrats are bribed to a task needing performance, or when a constant percentage of flows from a project is received as a retainer. By comparison, corruption rents may be obtained “up-front”, an arrangement which is obviously more advantageous to corrupt officials, who may, as it were, “take the money and run”. From the aspect of efficiency, however, the latter is less socially advantageous,

since it creates powerful incentives to force the government to undertake nonviable projects, as was frequently the case in the crony deals of the later Marcos years. Commissions were earned regardless of the inherent viability of projects. This aspect of the taxonomy of corruption can stand closer analysis and scrutiny. It might initially be thought that inherent viability would be less of a problem if projects were privately proposed. But it is conceivable that the magnitude of overprice owing to a government subsidy or guarantee -- which itself may be the object of corruption -- may be so large as to outweigh any uncertain benefits to the private proponent from legitimately running the enterprise. The irony, of course, is that the inability of project proponents to commit themselves credibly to an illicit deal prevents contracts from being drawn up that would enforce longer term performance-based contracts. This leads to a bias for "up-front" transfers, which are possibly more burdensome on proponents and more prone to the adverse selection of projects.

From the viewpoint of a bona-fide project proponent, an important distinction is whether bribes take the form of returns that are predictable or not. CAMPOS, LIEN, AND PRADHAN [1997] argue theoretically and provide some empirical support for the proposition that unpredictable amounts of rent discourage investment more than predictable amounts, which approach the nature of a tax. The predictability dimension cuts across distinctions whether the return is performance- or transfer-based.

A related but less noticed aspect of predictability is the (un)reliability of the recipient of a bribe himself or herself (also mentioned by BARDHAN [1997]). Uncertainty obviously increases if bribed parties are unable to deliver on promised results. This situation may result when, for example, a department head undertakes to deliver on a contract, which however is intercepted by a congressional investigation. Again unlike normal contracts, corruption agreements suffer from not having a credible enforcement mechanism, since they are de facto illegal. This need for effective enforcement is one source of demand for the services of organised crime and one reason that corruption and criminality are sometimes linked.

A final issue that may be raised involving payment-forms that has implications for efficiency is whether corruption rents takes the form of *cost-plus* or *fixed-price* arrangements, a distinction taken from the literature on contract design (e.g., Laffont and Tirole [1993]). Cost-plus corruption contracts will preserve the project's quality and benefits to users, as contained in specifications, although it will cost more than the results of a transparent bid. On the other hand, a fixed-price contract, when tainted by a corrupt bid, will eat into the

project's quality and user-benefits, although it will outwardly preserve what the "fair" price to government. The choice, therefore, is between a cheap but substandard road and one that is standard but overpriced. From the viewpoint of the ultimate project beneficiary, of course, the cost-plus arrangement is to be preferred. Since corruption contracts are by nature illegal, however, there is no way of enforcing such an arrangement. The bias of regular procedures (e.g., the prevalence of contract bidding rather than negotiations) in fact is in favour of fixed-price contracts. On the other hand, there is no way of ensuring that corrupt suppliers will not impose the overprice and provide substandard quality and benefits in any case. The Philippines form of corruption has been compared unfavourably with those existing in other countries, owing to its uncertainty.

4.5 By industrial organisation.

The *locus classicus* for the analysis of industrial organisation of corruption is the influential paper by Shleifer and Vishny [1993], who point out the possible differences in economic impact of corruption depending on whether its supply is competitive, monopolised, or bilateral-monopolist. They suggest that a competitive structure of corruption, in which several agencies are equally placed to provide the same service, is the least distortive, since this tends to make corruption rents vanish. A monopolistic structure (they give the Marcos regime as a prominent example) is more distortive by comparison, owing to the absence of competition. It is when agencies have overlapping mandates, i.e., are in the position of overlapping monopolists, that corruption yields the most inefficiency. When the approval of several agencies is required, each acts to maximise the amount of a bribe demanded for itself, in this way providing the most discouragement to an otherwise socially activity (e.g., investment), even if the total amount of bribes paid may actually be less than under a monopoly. This is otherwise known as the "common-pool" problem, since it is akin to the monopolists seeking to draw as much as possible from a source which none of them owns, resulting in a premature exhaustion of the resource. Shleifer and Vishny [1993] suggest that the return of democracy in the Philippines may have resulted in just such a situation, and it has been similarly argued [McIntyre 1999] that the economic success of Indonesia under Suharto was facilitated in that the country avoided the "common-pool" problem.

In a 1998 paper, Rose-Ackerman attempts to extend the typology of corruption begun by Shleifer and Vishny to a characterisation of various corrupt states, with differing outcomes (see table below). The two dimensions along which she measures the typology is

according to whether the number of recipients and bribers respectively are few or many. This leads to four cases, namely: kleptocracy, bilateral-monopoly, competitive-bribery, and Mafia-dominated states.

Table 2: Types of corrupt states

	Multiple bribers	Few bribers
Few recipients	kleptocracy	bilateral-monopoly state
Multiple recipients	competitive-bribery state	Mafia-dominated state

Source: Rose-Ackerman [1998]

In a *kleptocracy*, the head of government organizes the political system to maximize the possibilities for extracting rents and reallocates these rents for personal use, although this is not incompatible with striving for productive efficiency. This is the case that is most likely to have characterised the Marcos dictatorship. The efficiency of a *bilateral-monopoly* is determined by the possibilities for rent extraction which are shared by briber and ruler. Their relative strength will determine how gains are shared as well as the overall size of the pie. In some states, rulers form an alliance with the mafia and extort a share in their gains. In others, firms may form an alliance with a country's rulers to share the wealth. States *dominated by organised crime* are weak and disorganized with many officials engaged in freelance bribery. The private group (domestic mafia or large corporation) dominates the state, buying the cooperation of low-level officials but unable to organize the state into a unified body. Finally, under *competitive bribery*, many corrupt officials deal with large numbers of ordinary citizens and firms. This encourages others to accept bribes until all but the unreconstructed moralists are corrupt. ROSE-ACKERMAN's typology appears to be heavily influenced by the need to explain the Russian experience, where the bribers are most typified by organised crime, a circumstance that makes it less applicable to the Philippines.

Reacting to the literature spawned by Shleifer and Vishny's [1993] conclusion on bilateral monopolists, Rose-Ackerman comments that the greater analytical concern for the effects of decentralized corruption as compared with monopoly (kleptocracy in her terminology) may be exaggerated, since officials may have the power to expand the pool, and higher level officials are generally better able to increase the reach of the state than lower-level ones.

One of the most involved elements in analysing Philippine corruption is its industrial organisation, particularly how it has changed with political regimes. The present writers consider that except for the dictatorship period, corruption in the Philippines may be considered to be generally decentralised. Relatively routine corruption prevails in the

tenured bureaucracy, and this is more or less tolerated and often even utilised by politicians and political appointees, as well lamented but also countenanced by the private sector. The variable and novel element has always been *political* corruption. Under the dictatorship, political corruption was centralised, and bureaucratic corruption suppressed to the extent it was autonomous and did not fall in line with the requirements of the cronies and the ruling families (for example, the Bureau of Customs gained a reputation for a degree of professionalism under the Marcos dictatorship). The focus on the decline in bureaucratic corruption is largely the basis for the favourable assessment of that type of regime by Shleifer and Vishny, although they neglect the enlargement of the scope and scale of political corruption.

In the pre- and post-dictatorship democratic regimes (apart from the Estrada administration), on the other hand, it is our present hypothesis that political corruption also became more decentralised, given the obvious checks and balances and risk of exposure entailed by the separation of powers and media freedom. As a result, political corruption may be hypothesised as being more modest and selective relative to the years of dictatorship, even as the dilution of central power gives an opportunity for bureaucratic corruption even at the local and lower levels to gain more autonomy. This, of course, following the above discussion has its own economic consequences. *Selectivity* nonetheless entailed that the corrupt deals politicians do engage in will be larger in magnitude (to attain scale economies), novel in character (to avoid detection), or both. Under the Ramos administration, for example, asset privatisations (including the IPOs of government controlled corporations), BOTs, joint venture contracts, and foreign loan syndications were new areas where potential rents could be obtained, but the very novelty of these areas made rents difficult to detect.

A unique feature of the Estrada administration was its failure to conform to the trend towards corruption-selectivity imposed by a *nondictatorial* regime. The internal organisation of the Estrada circle was effectively one of awarding bounty-hunting franchises to a number of individuals, consisting of cronies, kin, wives, and mistresses. (This arrangement was implemented partly by the formal requirement that all contracts in excess of P50 million be reviewed by Malacañang.) The peculiarities of Estrada's personal circumstances meant that this was a large number of persons, indeed, clearly indicating "excessive entry". Two empirical points and a theoretical one are to be noted. *First*, this arrangement was superimposed on pre-existing bureaucratic corruption. Anecdotal evidence suggests that on top of 10-15 percent bureaucratic markups on contracts,

additional 10-15 percent “fees” were being required for franchised political facilitators. Under the dictatorship, by contrast, it will be remembered that bureaucratic corruption had been reduced by some measure, leaving some slack for cronies and family to take over. The Estrada system therefore put a strain on the system it had not been subjected to before. (In the end, it is possible for transactions costs to rise to such an extent that the supply curve lies entirely above the demand curve.)

Second, the *carte blanche* given to a large number of rent-hunters meant an open invitation to expand the sphere of extraction of “fees”, which clearly went against the selectivity in political deals that had been the accustomed trend in all previous post-dictatorship administrations. Apart from the amounts involved, the pervasiveness of sanctioned corruption deals in the government was an additional strain on the implementation of programmes.

The third point is a theoretical one. Shleifer and Vishny’s typology suggest that a competitive arrangement for corruption is most conducive to welfare, to the extent that rents are bid down to zero. This did not occur under the Estrada arrangement, however, first because, entry was not free, and second, since the competition among franchise holders was not with respect to price, but one arranged as a race, with the first mover getting the prize. For this reason, rents to bounty-hunters did not fall to zero but were obtained at the expense of the markups of bureaucrats and private interests themselves. Indeed, one will note, Estrada’s fall from power was caused by the very *failure* of the arrangement. L. Singson turned his back on Estrada when his exclusive “franchise” was challenged by another franchise holder, C. Ang. From the viewpoint of industrial organisation, therefore, Estrada’s system of corruption carried the seeds of its own destruction: it was an oligopoly with overcapacity.

4.6 Précis

The taxonomy enumerated above has been extensive, and it is useful to make a small summary by enumerate a number of important and abiding features that characterise corruption in the Philippines. Corruption here occurs, first of all, on virtually all levels of government, both on a petty and a grand scale. Petty or retail corruption tends to exist in closed and routine bureaucratic contexts, such as in the internal revenue and customs collection agencies, and among the police, where bribery and extortion (various terms being *lagay*, *padulas*, *komisyon*, *kotong*, *tong*) are predominant forms. While not always involving large amounts, this form of corruption is often the kind that ordinary citizens must confront.

These types of corruption have generally existed continuously and have been subordinated to changing political leaderships, which have either tolerated them or benefited from them in varying degrees. The Estrada administration was unique in that it directly involved itself as major beneficiary from closed-form corruption.

Higher levels of government are associated with greater levels of discretion, and thus with larger amounts, culminating in the grand corruption that only high elected officials can engage in. Typical of these are large one-of-a-kind procurement contracts and awards (e.g., the PEA-Amari and Centennial scams under Ramos, or the IMPSA deal under Estrada), as well as the sale of policy. It should be noted that as the scale of corruption increases, acts assume a more distinctly *political* nature, and the yardsticks for evaluation become more *amorphous* owing to the more limited information on such deals that is available to the public, and the conflation of genuine exercise of discretion and corrupt practices. Hence, the Estrada administration's bias in favour of PAL was rationalised (to some, credibly) as a valid defence of national interest, rather than an instance of cronyism, while the purchase of shares of speculative stocks by SSS and GSIS could not immediately be pinned down as a behest purchase rather than a valid risk taken by management. In addition, innovative practices in grand corruption have also been tried as permitted by external circumstances or large policy shifts. Recent examples have included sale of government guarantees, stock-price manipulation, and behest stock acquisitions, among others.

In terms of its industrial organisation, corruption in the Philippines has presented a mixed picture. The existence of formal democratic institutions allows corruption to be generally more disperse among different agents, as compared to that in other countries in the heyday of Asian authoritarianism. Yet this is not unmitigated, since the dominance of the executive branch -- remarkable when measured against, say, a US yardstick -- permits great discretion and initiative on the part of the president [de Dios 1999b]. One effect has been to concentrate grand corruption at the national level, reflecting resource and power distribution. Owing to the changing fortunes and results of checks and balances between branches of government, however, there is a tendency for corrupt officials with overlapping claims to "overbid" in bribes, causing a larger discouragement to investment. A third effect predicted by theory has been to increase uncertainty and unpredictability in policy-making and -implementation, as the other branches of government interpose obstacles to initiatives of the executive, whether corrupt or legitimate, in an attempt to share in largesse. Philippine corruption, then, is characterised by its ubiquity and scale, the overlapping

claims of the main actors, leading to high demands for rents, uncertainty, and unpredictability.

5. Economic impact of corruption

One of the most contentious issues is the exact economic impact of corruption. The agnostic view of economists regarding corruption is somewhat startling for many who tend take a more ethical view of it. Barro and Sala-i-Martin [1995:440, fn. 14] conclude, for example, that “the theoretical effect of corruption is unclear; in some cases, the economy would operate more efficiently if governmental rules can be readily overcome by cash payments”. Even much earlier, of course, Adam Smith gave the benefit of the doubt to the smuggler, and presumably would have excused the corrupt customs official.

A good deal of literature deals with microeconomic analyses of various types of

social goal it was meant for, and if there were a social determination that a deviation from a market outcome would be superior to adhering to it, then a net social loss would arise.

At other times, bribes may serve as *incentives to bureaucrats*, which is the same as saying that they form part of implicit wages public officials. This has always been an influential line of thought [Leff 1964] and is an argument made that continues to be made [Chang 1999]. Predictable and petty corruption at lower levels for regular services or goods provided is the closest example of this, although nothing in theory prevents it from reaching higher levels. Chang [1999] notes that one reason, among others, that the negative of distortive aspects of bribes (*tukkap*⁶) to bureaucrats in Korea are minimised is that “[a bribe] is not paid to particular public officials in relation to a particular project, but is paid to most (if not all) of the influential politicians and bureaucrats to keep them ‘sweet’.” Chang also puts forward the interesting observation -- valid perhaps for South Korea -- that the system may be trapped in such a regime of implicit wages through corruption, to the extent that legal and cultural norms frown upon public officials from explicitly receiving higher salaries.

Rose-Ackerman [1998] notes, on the other hand, that most arguments for corruption as implicit wages assume that officials have limited discretion and that they cannot expand the scope of corrupt transactions; neglect that there are ways to avoid the costs of illegal payment systems; furthermore disregard the fact that tolerating such corruption could reduce the possibilities for reform in the long run.

A related instance of a supply-price argument is the notion that a bribe to evade a fine (or a tax) may work in the same direction as the rule itself, such as when motorists who violate traffic rules bribe policemen in order to evade a larger fine. A bribe in this sense closely approaches the effects of a tax. The corruption-as-tax argument really implies that a bribe does not distort incentives (at least not significantly). A bribe is thought to differ from a tax primarily in that the proceeds accrue to the official as an individual rather than to the government.

A similar argument is involved in the contention that free competition in bribes is not overly distortive since then the prize always goes to the most efficient firm. The principle invoked is corruption-as-tax or fee, since an *open auction* for a government contract or privilege (e.g., a quota) would have yielded the same result. Again, it would seem the only difference is that the proceeds accrue to private individuals rather than to the

⁶ Literally meaning “money for rice cakes”.

government. For the same reason, queue-jumping based on the highest bribe would give priority to the firm with highest valuation of the resource being dispensed. Kaufmann and Wei [1999], however, make the important qualification that these and similar results may be obtained only if one assumes that bureaucrats behave like competitors and remain on their marginal effort-supply curves. There is room to argue, however, that they can act like discriminating monopolists. If so, then firms are charged bribes according to their reservation prices, and firms with higher valuations may also be charged higher, wiping out the efficiency gain.

If furthermore one proceeds from the *social optimality of the rules* themselves, it is still clear that the amount of regulation provided with bribes is less than without it. One may therefore go to the other extreme, where the rules or laws are socially suboptimal or inefficient, such as the burdensome restriction of trade in the time of Adam Smith. On this premise, bribes to evade such restrictions would be socially welfare-enhancing, although they would still be inferior to a repeal of the oppressive laws themselves.⁷ These considerations illustrate the main point of this section: an a priori evaluation of the efficiency impact of corruption is difficult and can be made only with reference to the larger institutional frame.

5.2 Negative impact.

The most obvious negative impact of corruption is that on the potential beneficiaries of public programmes or projects. By eating into the provisions for a project, corruption either *raises the cost* to project beneficiaries, or *lowers the quality* (or both simultaneously) of a project. Where entitlements for certain groups are intended, the high implicit cost could result in the deprivation or even exclusion of these groups. In a fixed-price contract, the only way to recoup a bribe is to reduce benefits or quality of service; where the quality of service is pre-specified, on the other hand, a bribe compels the supplier to raise the cost to the user or the government.

As already seen, corruption in order to evade liabilities (e.g., traffic rules, taxes, or environmental rules) can result in a less than optimal regulation of behaviour, if one proceeds from the assumption that the level of the liability is optimally set. On the other hand, as seen above, if liabilities are in fact oppressive, then a bribe would have superior

⁷ On this basis, Adam Smith looked with sympathy on the smuggler who “though no doubt highly blamable for violating the laws of his country, is frequently incapable of violating those of natural justice, and would have been, in every respect, an excellent citizen had not the laws of his country made that a crime which nature never meant to be so.”

economic effects: “None of this is new. All it says is that unjust laws of an unjust regime carry no moral weight.”

Losses from corruption in the form of *lower investment and economic growth* are easily understood and have been the most econometrically researched effects. Corruption, like a tax, discourages the affected activity, investment in this case. It is worse than a tax, however, to the extent it is prone to more uncertainty or unpredictability, which can be decomposed into (a) the unpredictability in the magnitude of payoffs asked and (b) unreliability in the delivery of the contract. Industrial organisation contributes its part, such as when overlapping mandates cause the corrupt agencies involved to bid up the bribe amounts, leading to less investment than either a competitive or a monopolistic situation.

Counterfactual estimates of the economic impact of corruption in the Philippines can be made using Mauro’s [1995] data and equations for the period 1960-1985. By assuming the Philippines had Singapore’s level of corruption, Taturan [2000] finds this would have produced (a) an increase in the ratio of investment to GDP of 6.6 percentage points; (b) an increase in average annual per capita GDP growth of 1.65 percent, or what is the same thing (c) a 40 percent increase in per capita GDP of 1985, assuming the actual average growth was 2.5 percent.

Besides affecting the level of investment, corruption can also introduce unwanted *biases in the composition* of investments, particularly by the public sector. There will generally be a bias to demand more than is needed of goods and services provided by corruption insiders [Della Porta and Vannuci 1999], which will only imperfectly correspond to what society itself requires. In addition, the economic characteristics of the types of projects demanded may also be affected by the imperatives of corruption, such as a likely bias for projects of short gestation, to minimise the uncertainty of payoffs; for projects of large scale, to economise on transactions costs; and for projects where compliance is difficult to monitor, to avoid detection (some Philippine examples are discussed in de Dios [1999]).

Additional indirect effects on growth may arise from the fiscal impact of corruption, such as the loss of revenue and the bloating of spending, both of which lead to fiscal deficits, which have potentially disruptive effects of their own.

Finally, the costs from *rent-seeking* are distinct and refer to the diversion of productive resources away from directly productive activities towards those that seek to capture corruption rents instead. These comprise mainstream political activity as well the formal profession of lobbying and parts of the profession of litigation, public relations, and various types of consulting, including economic consulting. From this it should be obvious

that rent-seeking costs are not uniquely corruption-related. Rent-seeking may exist even in a non-corrupt society in the form of mainstream political lobbying by cause-oriented groups and group interests, which are considered part of the workings of democracy. It has also been pointed out [de Dios 1999] that corruption wastes not only the talent of the corrupt but also of those who would *prevent* corruption. A part of the costs of a corrupt and inefficient government consists of the time of morally outraged citizens who are it provoked by venality and insensitivity. Public mobilisation -- ranging from demonstrations to watchdog institutions to open revolt -- also expend resources that might otherwise have been used for directly productive purposes.

Corruption generally results in underprovision of public goods and probably an overprovision of public bads. Where government already plays a much-reduced role in the economy, public sector corruption becomes even more harmful, since then the need for public goods is likely to be all the greater. By contrast, corruption's adverse effects are likely to be less in economies that are already overregulated and overtaxed, and where government is oppressive. Indeed, corruption may act as "grease" in cases where government regulations and impositions hinders private initiative. Under an oppressive dictatorship, in fact one would *hope* that officials could be bribed. It has also been argued [DE DIOS 1999] that such systems would be better *with* corruption than *without* it, although admittedly only as an *n*-th best compromise.

6. Institutional effects

The cost of corruption in terms of the erosion of institutions is the most difficult to measure. The previous section showed how corruption can have large or small, harmful, neutral, or beneficial effects depending on whether the rules themselves are rational and just. Corruption, however, makes little distinction between "good" and "bad" rules, since rents vary not with the *character* of the rules themselves but with the difficulty of evasion and the private values associated with that possibility.

It is in this latter sense that the *ethical* or *moral* emphasis of an earlier literature cannot be entirely dispensed with. That is, an inherent value attaches to adhering to norms

or institutions⁸, quite apart a question of their *ultima ratio*, since in a situation where these are questioned, the uniformity and reliability of rules themselves may come under threat. The more recent literature has elucidated the economic consequences of regimes where norms and institutions are widely disregarded, such as when contracts become unenforceable and property rights are only vaguely defined. Douglass North has argued persuasively, for example, that the clear definition of property rights was a key factor in the growth of Europe coming out of the middle ages. The effect of corruption on development may possibly -- though not always -- extend beyond the taxonomy of its role in facilitating or hindering particular transactions and come to include its wider impact on the indispensable web of institutions that govern economy and society. The most vivid illustration of this was the result of the aborted impeachment trial of former president Estrada. The refusal of the senate majority allied with Estrada at the time to proceed in opening important evidence on corruption cast a pall of corruption on the entire senate itself, which irreparably harmed its credibility. The loss of faith in institutions led to the search for extra-parliamentary means to obtain justice, which culminated in EDSA 2.

Corruption's principal impact on the legitimacy of regime's is straightforward, namely, to undermine it. The case of the Marcos kleptocracy is the most obvious that comes to mind. The unprecedented rapid erosion of the Estrada presidency's legitimation in the period 1998-2000 following revelations of corruption on the highest levels is another. Some authors, however, have pointed to a role of corruption in supporting state legitimation. Without denying that less noble considerations may be involved, Jomo [1999] points out that an important motivation behind Malaysia's corruption and rents in terms of redistributive and legitimation goals, particularly in relation to participation of *bumipeteras* in the economy. South Korea's toleration of bribery relationships between the conglomerates (*chaebol*) and bureaucrats has been similarly depicted as part of a system of redistribution to poorer constituents through politicians [Chang 1999].

If these experiences indeed deviate at all from what is customary, certain distinct characteristics should be explained. In Malaysia's case the *bumiputera* policy was one that was publicly announced and adopted, although it remained controversial. A good amount of the rents to the *bumipeteras* could therefore be understood as being in the nature of *legal* transfers. There is a larger chance then that to the extent corruption accompanied the

⁸ North defines institutions as "the rules of the game of a society" which "provide the framework of incentives that shape economic, political, and social organisation". They are composed of formal laws, informal constraints, and the effectiveness of their enforcement.

process, this, too would be tolerated as part of the policy, legitimate though not legal. In the case of South Korea, it is a significant observation that *tukkap* is non-specific but in the nature of a uniform payoff to most if not all influential politicians as part of general goodwill, perhaps akin to a system of pooled tips in a restaurant. Its predictable and nonspecific characteristic makes it approach the function of a tax.

In both cases its being embedded in a *larger system of redistribution* and its association (justified or not) with *significant economic success* contributed to the legitimation of corruption's existence. By contrast, in the Philippines, the demonstrably narrower focus of beneficiaries from "crony capitalism" under the Marcos regime, plus its failure to deliver economic growth undermined the legitimacy of the regime erected upon it. In the same manner, as political changes preceding and since the Asian crisis have put into question the ideological foundations for interventionist strategies, public tolerance of corruption itself -- which drew its rationale from that same system -- has also become much reduced.

7. Economic strategy and the scope of government

A central argument is that less government intervention in the economy and a greater reliance on markets instead is a key ingredient in reducing corruption [World Bank 1997a], a contention that must be measured, on the other hand, against the idea of an activist "developmental state" in the East Asian mode [Chang 1996]. How countries of the latter sort (e.g., South Korea or Japan) managed to temper the state interventions that mode called for with the need to restrain bureaucratic and political self-seeking is an indispensable part of a growth puzzle.

It has also often been noted [Chang 1999 citing Okimoto 1989, and also Fabella] that corruption is typically less in tradable sectors where poor performance is more easily exposed than in nontradables sector. Part of the reason is that the standards of performance are more easily determined in tradables, where world prices serve as nonmanipulable benchmarks and budget constraints are hard. A second reason is that "locational competition" (*Standortswettbewerb*) to attract transnational firms and mobile capital may exert pressure on developing countries to enforce stricter rules against corruption which discourage such investments. On the other hand, it has also been maintained that the rush towards the market, as witness e.g., the wave of liberalisations and privatisations, have provided opportunities for new and large-scale forms of corruption (in the Philippines, the

BW stock-market scam) as assets are revalued and large players such as transnational corporations enter the field.) Nonetheless, these moves in favour of privatisation are in the nature of one-off opportunities for corruption rents and have the advantage that they do not lead to the recurring economic distortions associated with continuing government economic involvement.

One of the conclusions that seems to follow from the preceding discussion is that if one would bring down the level of corruption, then it is necessary, perhaps sufficient, to make the state less interventionist. To be sure, the number of objects of corrupt transactions would be reduced in a minimalist state, apparently bringing the level of corruption down with it. While it has its merits, however, such an argument is at best incomplete.

While it is true that less intervention would bring down the number of transactions that may be corrupted, less intervention may only result in the increase in the proportion of such transactions being corrupted, or a change from being petty to being grand of each incidence of corruption if its root causes remain. Secondly, the reasons for government intervention in the economy as a rule proceed from the choice of developmental strategy, so that the abandonment of such a strategy because of corruption must only come about if corruption totally negates the benefits from such a strategy. A paradox might in fact arise here. Cross-country studies have shown, conclusively we believe, that less corruption correlates with more development. (See Appendix for a review of the relevant literature.) The development of latecomer countries, on the other hand, involved increased intervention by the state (e.g., Chang and Rowthorn [1994]), which was surely accompanied by an increase the scope of corruptible transactions. It is evident the horns of this dilemma can be tackled only by gaining a deeper understanding of the problems of corruption and economic development.

The hypothesis we put forward here is somewhat more differentiated. Corruption may be ubiquitous (indeed, high-level scandals have arisen recently in venerable countries such as France and Germany), but its significance for development prospects will vary. More likely, certain socio-political and economic aspects have allowed some societies but not others to both reduce the scope of corruption *as well as* to foster development. Such factors as social cohesion brought about by more equal income- and wealth-distribution, improved education and human capital, real political participation of the masses -- all these are likely to lead to reduced corruption and greater development, leading to the observed correlation between these two. Existing corruption is likely to be rendered less malignant in

a context of rapid development. Corruption rents then diminish as a proportion of the total output (which is growing), and -- even if such rents should be generated -- their reinvestment is more likely to be channeled into sectors that are more socially productive and beneficial.

A corollary of this view, of course, is that it is misleading and simplistic to regard development as following automatically from reducing corruption; or to regard corruption blithely as diminishing as a matter of course as development proceeds. Neither one is sufficient. Rather, it may be more accurate to state that many fundamental social reforms that are needed to eliminate the most pernicious forms of corruption will also spur development. From this follows the irrelevance of the debate over the optimal size of government. The optimal scale of government in a developing context cannot be determined simply and finally by the objective of eliminating the scope for corruption potential. Rather, the scopes for governments and markets to perform efficaciously do co-evolve as development proceeds, hence their boundaries cannot be set once and for all.

8. Conclusions and recommendations

While corruption in the Philippines has always existed, it has changed in form and magnitude through time as economic strategies and political systems have changed. Its significance is determined primarily by inadequacies in the nation's political life, especially those that weaken the bonds of control and monitoring between the principals (society at large) and those who serve them (politicians and bureaucrats). It must be understood primarily as a *political* phenomenon; bureaucratic corruption is often merely secondary and instrumental but is of subordinate importance because (a) it pales in comparison with the grand corruption involved in corruption among politician, and (b) it is often abetted and controlled by politicians (e.g., through appointments and undue influence on bureaucrats). In this sense, even as one may argue for better design in the incentive mechanisms for politicians and bureaucrats, one must return to more fundamental questions about why the political relationship is deeply flawed and fails to serve as an effective check to the behaviour of officials.

A fundamental reason must be the continuing perception among many Filipinos that the relationship between the government and themselves is at best an abstract one. Corpuz many years ago traced the historical roots of graft and corruption to the "negative

image” of government among Filipinos. Especially during the Spanish period, positions were awarded or sold as a matter of course to undeserving and often abusive individuals, leading to a government that was unresponsive to the needs of the inhabitants:

The institutions of government were agents of abuse and oppression, At its best, government came to mean for the Filipino an institution that was burdensome; at its worst, it was predatory.... To the Filipino, government became an institution to be avoided, for its interests were contradictory to his. People and government were estranged from each other, and the bonds of community were dissolved. ... [Corpuz 1965:78]

This predatory nature of the state and the failure of formal government to become responsive meant that Filipinos had only non-government institutions to turn to, primarily the family or extended kinship ties, the more basic informal rules of behaviour that NORTH [1990] acknowledges are the default mode in traditional societies. A long-festering issue that illustrates the continuing conflict between formal rules and informal constraints, for example, was the perception of rights over land. Formal land-ownership rules were often imposed by the central government on pre-existing informal land rights, resulting in conflicts between formal claimants, such as friar corporations and *inquilinos*, wealthy, educated individuals with access to the legal system and traditional farmers or indigenous groups. In many cases, therefore, from the viewpoint of natives, formal rules were typically disputed and to be obeyed only because of fear.⁹ In the matter of corruption, this observation becomes relevant, since the strictures against corruption have always existed merely as formal internal rules within the government, which did not necessarily carry weight in the more private or family spheres whose main criterion is overwhelmingly pragmatic and individual.

In terms of the PA framework used in the first part of this paper, one might say that it was not even clear how the interests of the principal (either the government or the society at large) might be asserted, since the “principals” themselves at times did not take their interests (*qua* principals) too seriously. The country’s division into groups based on ethnicity, language, geography, religion, social class, and so on, in short its existence as “civil society” in Marx’s original sense of an anarchy of interests, and its refusal to take the business of formal government seriously and something more than an arena for sectional spoils must be seen as an important hindrance to an improvement in the quality of public

⁹ From a legal viewpoint, scholars such as SERENO have noted that unlike the US and the UK, the Philippine legal system adheres not to common law but to codal law, the latter being introduced from outside. This fact further illustrates the potential conflict between formal and informal constraints to behaviour. In the Anglo-Saxon countries, by contrast, there was a chance for common law to become part of jurisprudence, as it became applied in the courts.

service. It is in this respect that the emergence of “civil society” in the *positive* sense, especially among the upper to middle and politicised segments of the working classes -- the same elements responsible for EDSA II -- is a hopeful development for the long run. It has ultimately been these groups that have been responsible for raising the bar for standards of public service in recent years, a nonexistent phenomenon in the premartial law period.

Another metavariabale is the government’s chosen economic role. Philippine postwar history has shown how opportunities for corruption have risen during times of heavy government intervention, such as during the period of protection (e.g., smuggling and illegal immigration), as well as during the period of dictatorship when government sought to undertake major economic projects largely funded by borrowing. In the long-run, a more open economic regime oriented towards producing tradables, with a reduced core role for the state (infrastructure, basic social services, environment standards), and benchmarking itself against competing countries under locational competition is likely to provide less room for corruption if only because it is more transparent. From a governance viewpoint, much of these moves also reducing unnecessary discretion on the part of agents and lower monitoring costs.

Finally, the organisation of government itself certainly influences the incidence and significance of corruption. Among the elements that to consider are the current system of electoral politics, particularly campaign finance and the tenured bureaucracy’s low status and lack of autonomy. These factors account for a large part of the adverse-selection problem in government, where an undue number of misfits are attracted. Proposals to reduce of discretion on the part of the executive and of central government (and corollarily strengthen local governments) should be seriously considered. Again these follow readily from the PA literature, since devolution reduces discretion and shifts the locus of responsibility to local levels where monitoring is less costly and principals’ interests are more homogeneous and clearly defined.

The disproportionate role corruption plays in the Philippines must be traced to more ultimate factors in the structure of Philippine politics and economy. These include the system of patronage in politics, at both local and national levels; the lack of information among the majority (originally due to poverty, ignorance and alienation); the manipulation of government by powerful outside vested interests (originally based on landownership and relations of dependency); the entrenchment of a stratum of political opportunists and big money politics; and a political system used as means of wealth accumulation based on manipulations of the electoral process (including media, skillful use of resources and

contributions). It is these which ultimately explain the failure of the presumptive controls over the presumed relationship between the public and its would-be servants.

The characteristics of the problem determine the very approach required to address it. The following are broad suggestions:

First, one must, as it were, “take it from the top” and attack political corruption first, using the levers of accountability for the polity-politician relationship. This follows from the analysis that in the Philippines, closed-form bureaucratic corruption is subordinate to politicians (and has not reached the point where underworld elements instead dominate politics). In some ways, this also diverges somewhat from the prescription to “go after low-hanging fruit” [World Bank 2000]. Electoral contests must be an effective tool for recruiting honest and accountable politicians of a sufficient number to break the monopoly of adversely selected *trapos*. For this to occur, however, obviously what is needed is voter education and information; transparency in campaign finance; public transparency, and a prominent role for media and communications. Mechanisms for intra-regime recall and accountability need to be instituted, and real advances must be made in creating a stable and credible political party, beginning perhaps with opportunities provided by the party-list system.

Second, the credibility of the justice system must be restored especially in the prosecution of corruption cases. A decisive resolution of the most prominent pending political cases is needed. To forestall any suspicion that the purposes of such moves are political, however, visible progress must be made on a broad front. Hence, for instance, not only plunder cases from the Estrada administration should be pursued, but also those from the Ramos presidency as well. Similarly, not only political cases but those involving bureaucratic corruption, e.g., from the revenue collection agencies, as well as the judiciary, must be pursued and speedily resolved. The corollary of this of course is that the conditions and morale of the judiciary must themselves be raised.

A third general area is the reduce of political discretion from the centre. Part of this may be accomplished through devolution of functions to local governments, which may reduce the scope for discretion through greater accountability at the lower levels without sacrificing the provision of local public goods. The depoliticisation of bureaucratic appointments below a certain grade would work to reduce political dependence of the bureaucracy. Where it is merited on its own grounds (not simply because it is an anti-corruption measure), government should withdraw from sectors of the economy where its developmental role is unclear. There is great need, for example, for a resolute disposition

within a fixed timetable of government-sequestered commercial and corporate assets that serve no obvious public interest or address an externality. Appointments to these such parastatals and sequestered corporations have been a way for politicians to distort economic outcomes and conceal corrupt transactions.

Fourth, it is important to raise the morale and professionalism of bureaucracy to render it less vulnerable to arbitrary political demands and more sensitive to the general public interest. Part of this must include the improve incentives to be comparable with those in the private sector, which understandably can be done only with more selective recruitment and vigorous culling. Innovations in rules may be required in hiring and firing especially for problem agencies like Customs and the BIR.

Finally, underlying all of these reforms in incentive mechanisms, society must begin to address the network of *real* social relationships that envelope and shape the political PA relationship. In particular, the problem of low social cohesion, of low political education and civic apathy need to be addressed. This means coming to grips with the basic sources of social inequality, such as the unequal distribution of wealth and incomes, the unequal access to quality education, and inequitable incidence of government taxation and spending programmes.

A minimum activist constituency for governance reform will be required. Few if any of these things can be accomplished without the active role of civil society organizations who take the institutions of the state seriously enough to demand results and strict adherence to the larger set of rules for all of society.

These requirements may appear burdensome, but in the end, it should not be thought that the problem of corruption can be solved distinctly from the problem of institutional and governance reform and the problem of development itself. Rather the means for solving one problem will go a long way towards addressing the others. □

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