

POLITICAL ORDER
AND
POLITICAL DECAY

*From the
Industrial Revolution
to the
Globalization of Democracy*

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CORRUPTION

Some definitions of corruption; how corruption affects politics and economic growth; patronage and clientelism as early forms of democratic participation; why patronage is bad from the standpoint of democracy, but not as bad as certain other forms of corruption; why clientelism may diminish as countries get richer

In 1996, James Wolfenson, the newly appointed head of the World Bank, gave a speech in which he pointed to the “cancer of corruption” as a major impediment to the economic development of poor countries. Officials at the World Bank of course knew from the organization’s beginning that corruption was a big problem in many developing countries, and that foreign aid and loans had often gone straight into the pockets of officials in countries supposedly being helped.¹ Prior to Wolfenson’s speech, however, there was also a widely held view among development practitioners that little could be done about this problem, and that some degree of corruption was either inevitable or not so serious as to impede economic growth. During the cold war, many corrupt governments were clients of the United States (Zaire under Mobutu Sese Seko being a prime example), and Washington was not eager to point fingers at close friends.

Since the end of the cold war, there has been a major push by international development organizations to combat corruption as part of a broader effort to build states and strengthen institutions. As we saw in the data from the Worldwide Governance Indicators in chapter 3, there is a strong correlation between government effectiveness and control of corruption. Having a strong and effective state involves more than just controlling corruption, but highly corrupt governments usually have big problems in delivering services, enforcing laws, and representing the public interest.

There are many reasons why corruption impedes economic development. In the first place, it distorts economic incentives by channeling

resources not into their most productive uses but rather into the pockets of officials with the political power to extract bribes. Second, corruption acts as a highly regressive tax: while petty corruption on the part of minor, poorly paid officials exists in many countries, the vast bulk of misappropriated funds goes to elites who can use their positions of power to extract wealth from the population. Further, seeking such payoffs is often a time-consuming occupation that diverts the energies of the smartest and most ambitious people who could be creating wealth-generating private firms. Gaming the political system for private gain is what economists label "rent seeking."²

It has been argued that bribery might increase efficiency by lubricating the process of getting business registrations, export licenses, or appointments with high officials. But this represents a very poor way of doing business: it would be much better if registration processes were quick, if export licenses didn't exist at all, or if all individuals had easy and equal access to the government. A clear rule of law is in the end far more efficient.

Apart from its distorting economic impacts, corruption can be very damaging to political order. Perceptions that officials and politicians are corrupt reduces the legitimacy of the government in the eyes of ordinary people and undermines the sense of trust that is critical to the smooth operations of the state. Charges of corruption are frequently made not in the interest of improved government but as political weapons. In societies where most politicians are corrupt, singling one out for punishment is often not a sign of reform but of a power grab. The reality and appearance of corruption are among the greatest vulnerabilities of new democracies seeking to consolidate their institutions.

If we are to understand how states make the transition from patrimonial to modern ones, we need to understand more clearly the nature of corruption and its sources. Corruption takes many forms, some of them much more damaging to economic growth and political legitimacy than others, so it is necessary to have some clarity with regard to basic definitions.

PUBLIC AND PRIVATE

There is today a huge literature on corruption and its sources, and many suggestions for potential remedies. Yet despite the scholarly work on this

subject, a commonly accepted taxonomy for understanding the different behaviors that are typically lumped under the heading of corruption does not exist.³

Most definitions of corruption center around the appropriation of public resources for private gain.⁴ This definition is a useful starting point; under it, corruption is a characteristic primarily of governments and not, for example, of businesses or private organizations.

This definition implies that corruption is in some sense a phenomenon that can arise only in modern, or at least modernizing, societies, since it is dependent on a distinction between public and private. As we saw in the previous chapter, the distinction between the public sphere and private interest developed in Prussia only during the seventeenth and eighteenth centuries. Prior to that point, the Prussian government (as well as virtually all European states) was patrimonial. That is to say, the prince considered himself the owner of the territories he governed, as if they were parts of his household or patrimony. He could give away lands (and the people living on them) to relatives, supporters, or rivals because they were a form of private property. It made no sense to talk about corruption in this context, since there was no concept of a public sphere whose resources could be misappropriated.

It was only with the growth of centralized states in the seventeenth and eighteenth centuries that the ruler's domain came to be seen less as personal property and more as a kind of public trust that the ruler managed on behalf of the larger society. Early modern doctrines of state sovereignty put forward by Grotius, Hobbes, Bodin, and Pufendorf all emphasized the fact that the legitimacy of the sovereign rested not on ancient or inherited ownership rights but rather on the fact that the sovereign is in some sense the guardian of a larger public interest. He could legitimately extract taxes only in return for providing necessary public services, first and foremost public order to avoid the war of every man against every man described by Hobbes.

Moreover, the behavior of public officials, reaching up to the ruler himself, increasingly came to be defined by formal rules. Among the laws that made up the Prussian Rechtsstaat were rules that clearly established the boundary between public and private resources. Chinese Confucianism had developed a parallel doctrine many centuries earlier: emperors were not simply owners of the lands and people they ruled but rather moral guardians of the whole community, who had duties to communal

well-being. Although Chinese emperors could and did appropriate public funds for their own uses (like the Wanli emperor toward the end of the Ming Dynasty), the distinction between these accounts was always well established.⁵

NOT SIMPLY CORRUPT

There are two phenomena that are closely related to corruption as defined above but that are not identical to it. The first is the creation and extraction of rents, and the second is what is referred to as patronage or clientelism.

In economics, a rent is technically defined as the difference between the cost of keeping a good or service in production and its price. One of the most important sources of rents is scarcity: a barrel of oil today sells well above its marginal cost of production because it is in high demand; the difference between the two is thus referred to as a resource rent. The owner of a condominium on Park Avenue in New York can charge a much higher rent than for an equal amount of square footage in the middle of Iowa because land is much scarcer in Manhattan.

While rents are created by natural scarcities of land or commodities, they can also be artificially generated by governments. A typical example is licensing. In New York City, the total number of legal taxicabs is set by the Taxi and Limousine Commission. Because this number has been capped for many years, the number of taxis has not kept up with demand for them, and the medallions awarded by the city that grant the right to operate a taxi sell for as much as a million dollars. The cost of a medallion is a rent generated by political authorities, one that would disappear immediately if the city allowed any individual to hang a sign on his or her car and take passengers for hire.

Governments have any number of ways of creating artificial scarcities, and thus the most basic forms of corruption involve abuse of this kind of power. For example, placing tariffs on imports restricts imports and generates rents for the government; one of the most widespread forms of corruption around the world lies in customs agencies, where the customs agent will take a bribe in order to either reduce the duties charged or expedite the clearance process so that the importer will have his goods on time. In Indonesia during the 1950s and '60s, corruption in

the customs agency was so widespread that the government eventually decided to outsource the function to a Swiss company that would inspect all incoming containers.⁶

The ease with which governments can create rents through taxation or regulatory power has led many economists to denounce rents in general as distortions of efficient resource allocation by markets, and to see rent creation and distribution as virtually synonymous with corruption. The ability of governments to generate rents encourages many ambitious people to choose politics rather than entrepreneurship or the private sector as a route to wealth. Douglass North, John Wallis, and Barry Weingast make a fundamental distinction between what they label limited and open access orders: in the former, elites deliberately limit access to economic activity so as to create rents and increase their own income, preventing the emergence of a dynamic, competitive modern economy.⁷

But while rents can be and are abused in these ways, they also have perfectly legitimate uses that complicate any blanket denunciation of them. The most obvious type of a "good" rent is a patent or copyright, by which the government gives the creator of an idea or creative work the exclusive right to any resulting revenues for some defined period of time. The difference between the cost of production of the book you are holding in your hand and the price you paid for it (assuming you didn't steal or illegally download it) is a rent, but one that society legitimates as a means of spurring innovation and creativity. Economist Mushtaq Khan points out that many Asian governments have promoted industrialization by allowing favored firms to generate excess profits, provided they are plowed back into new investment. While this opened the door to considerable corruption and abuse, it also stimulated rapid growth at a rate possibly higher than market forces on their own would have produced.⁸

All government regulatory functions, from protecting wetlands, to requiring disclosure in initial public offerings of stocks, to certifying drugs as safe and effective, create artificial scarcities. Any ability to grant or withhold regulatory power generates a rent. But while we can argue about the appropriate extent of regulation, few people would like to see these functions abandoned simply because they create rents. Indeed, even the much criticized New York taxi medallion had its origin in the need to maintain a certain minimum level of service and ensure equality of access in public carriage. Without this type of regulation, many taxis would simply refuse short fares or rides to poor neighborhoods.

Thus the creation and distribution of rents by governments have a high degree of overlap with corruption, but they are not the same phenomenon. One must look at the purpose of the rent and judge whether it is generating a purely private good that is being appropriated by the government official, or whether it is actually serving a broader public purpose.

PATRONAGE AND CLIENTELISM

A second phenomenon that is often identified with corruption is that of patronage or clientelism. A patronage relationship is a reciprocal exchange of favors between two individuals of different status and power, usually involving favors given by the patron to the client in exchange for the client's loyalty and political support. The favor given to the client must be a good that can be individually appropriated, like a job in the post office, or a Christmas turkey, or a get-out-of-jail card for a relative, rather than a public good or policy that applies to a broad class of people.⁹ The following is an example: "In Sicily, a student, interested in getting an introduction to a professor from whom he needs a favour, approaches a local small-town politician who owes him a favour. The politician puts him in contact with a cousin at the regional urban centre and the latter contacts an assistant to the professor who then arranges the appointment. The favour sought is granted and in return the student promises to campaign for the politician at election times."¹⁰

Patronage is sometimes distinguished from clientelism by scale; patronage relationships are typically face-to-face ones between patrons and clients and exist in all regimes whether authoritarian or democratic, whereas clientelism involves larger-scale exchanges of favors between patrons and clients, often requiring a hierarchy of intermediaries.¹¹ Clientelism thus exists primarily in democratic countries where large numbers of voters need to be mobilized.¹² What is traditionally referred to as the patronage system in American politics was by this definition actually a clientelistic system since it involved mass party organizations distributing widespread favors through complex hierarchical political machines.¹³

Clientelism is considered a bad thing and a deviation from good democratic practice in several respects. In a modern democracy, we expect citizens to vote for politicians based on their promises of broad public policies, or what political scientists label a "programmatically"

agenda. People on the left may support government programs to provide health care and social services, while conservatives may prefer that the government allocate resources to national defense. In either case, voter preferences are supposed to reflect general views of what is good for the political community as a whole, not just what is good for one individual voter. Of course, voters in advanced democracies cast their ballots according to their self-interest, whether that lies in lower taxes for the well-to-do, or subsidies for a particular type of business, or programs targeted at the poor. Nonetheless, such targeted programs are justified in terms of broad concepts of justice or the general good, and even when targeted must apply impartially not to individuals but to broad classes of people. The government is in particular not supposed to give a benefit to specific individuals based on whether or not they supported it.

In a clientelistic system, politicians provide individualized benefits only to political supporters in exchange for their votes. These benefits can include jobs in the public sector, cash payments, political favors, or even public goods like schools and clinics that are selectively given only to political supporters. This has negative effects on both the economy and the political system for a number of reasons.¹⁴

First and perhaps most important is the impact of patronage and clientelism on the quality of government. Modern bureaucracies are built on a foundation of merit, technical competence, and impersonality. When they are staffed by a politician's political supporters or cronies, they almost inevitably perform much more poorly. Stuffing a bureaucracy with political appointees also inflates the wage bill and is a major source of fiscal deficits. Unlike the private sector, the public sector does not face the threat of bankruptcy or have easy metrics for performance, which means that governments staffed with patronage appointments become very hard to reform.¹⁵

The second way clientelism undermines good democratic practice has to do with the fact that it strengthens existing elites and blocks democratic accountability. A clientelistic relationship is by definition between unequals, in which powerful and/or wealthy politicians in effect buy the support of ordinary citizens. These politicians are typically interested in promoting their own narrow interests. They may be interested in promoting the welfare of the clients who provide their base of support but not the public at large. In Europe, inequality was reduced in the course of the twentieth century due to the rise of programmatic parties such as

the British Labour Party or the German Social Democratic Party (see Part III below). These parties pushed for broad social programs that had the effect of redistributing resources from rich to poor on a relatively impartial basis. Many Latin American countries, by contrast, continue to experience high levels of inequality because the poor have tended to vote for clientelistic parties—the Peronist party in Argentina is a classic example—rather than programmatic ones. Instead of procuring broad benefits for the poor, clientelistic parties dissipate resources on what are in effect individual bribes for voters.

NATURAL MODES OF SOCIABILITY

Patronage and clientelism are sometimes treated as if they were highly deviant forms of political behavior that exist only in developing countries due to peculiarities of those societies. In fact, the political patronage relationship, whether involving family or friends, is one of the most basic forms of human social organization in existence. It is universal because it is natural to human beings. The big historical mystery that has to be solved is thus not why patronage exists but rather why in modern political systems it came to be outlawed and replaced by impersonal organization.

In Volume 1, I argued that human beings are social creatures by nature and that their social organization is rooted in biology. There are two basic biological principles that are shared not only by virtually all human societies but also by many other sexually reproducing species: kin selection or inclusive fitness, and reciprocal altruism.¹⁶ In kin selection, individuals favor genetic relatives, in proportion to the number of genes they share; it is the basis of nepotism. Reciprocal altruism involves the exchange of favors between unrelated individuals on a face-to-face basis.

Neither kin selection nor reciprocal altruism is a learned behavior; every human child regardless of culture instinctively tends to favor relatives and exchanges favors with those around him or her. Nor are these behaviors rooted solely in rational calculation; human beings are born with a suite of emotions that fortify the development of social relationships based on cooperation with friends and family. To behave differently—to choose, for example, a highly qualified employee over a friend or relative, or to work in an impersonal bureaucracy—is a socially constructed be-

behavior that runs counter to our natural inclinations. It is only with the development of political institutions like the modern state that humans begin to organize themselves and learn to cooperate in a manner that transcends friends and family. When such institutions break down, we revert to patronage and nepotism as a default form of sociability.

The earliest forms of human social organization are the band and the tribe. Both constitute what we would today call patronage organizations, and they were the only form of organization that existed for the first forty thousand or so years of human history. The band consists of small groups of a few dozen related individuals; the tribe is based on a principle of descent from a common ancestor, which allows the scale of the society to vastly increase. Both kin selection and reciprocal altruism are necessary to hold these two types of groups together: solidarity is based on genetic relatedness, and in both there is a reciprocal exchange of favors between the chief or Big Man who leads the group and his followers. Leaders in tribal organizations do not have the kind of absolute authority that they would acquire under state-level societies. If they fail to keep up the flow of resources to their followers, or make mistakes that hurt the group's interests, they can be replaced. There is consequently a real degree of reciprocity between leaders and followers in such organizations.

The patronage-dispensing Big Man and his followers has never been fully displaced as a form of political organization up through the present. This is not just because it comes naturally to people, but also because it is often the most efficient route to political power. Today, authority is mostly exercised through control of formal organizations such as states, corporations, and nongovernmental organizations. In their modern forms, they are structured to operate by impersonal and transparent rules. But these organizations are often rigid and hard to direct; leaders typically rely on smaller networks of supporters they have cultivated on their rise to the top. Joseph Stalin and Saddam Hussein based their power not just on their control of a state apparatus of army and police. They also commanded the loyalty of a much smaller group of followers—in Stalin's case, a group of fellow Georgians led by Lavrenty Beria, head of the secret police; in Saddam Hussein's, a network of kinsmen from Tikrit in central Iraq. These patronage networks were in turn used to control the state itself. Similarly, both Japan's Liberal Democratic Party and the Chinese Communist Party are riven with leadership factions based on patronage networks.

Many weaker and less politically developed societies are more overtly dominated by patronage organizations, such as the militias that have terrorized Libya, the Democratic Republic of Congo, Somalia, Sierra Leone, and Liberia.

Clientelism is a form of reciprocal altruism that is typically found in democratic political systems where leaders must contest elections to come to power. Compared to an elite patronage network, clientelistic networks need to be much larger because they are frequently used to get hundreds of thousands of voters to the polls. As a result, these networks dispense favors not based on a direct face-to-face relationship between the patron and his or her clients but rather through a series of intermediaries who are enlisted to recruit followers. It is these campaign workers—the ward heelers and precinct captains in traditional American municipal politics—who develop personal relationships with individual clients on behalf of the political boss.

Today, virtually every democracy makes overt vote buying illegal and discourages it through mechanisms like the secret ballot.¹⁷ The problem, then, for the politicians is how to monitor the behavior of the clients to ensure that they are delivering their end of the bargain. The patrons must, furthermore, persuasively signal that they will deliver on their promises of individualized benefits. One of the reasons that ethnic voting is so common in democracies from urban America in the nineteenth century to India or Kenya today is that ethnicity serves as a credible indication that a particular political boss will deliver the goods to a targeted audience.¹⁸

Patronage and clientelism constitute substantial normative deviations from good democratic practice for all of the reasons outlined above, and are therefore illegal and frowned upon in virtually all contemporary democracies. As such, they are often considered another form of political corruption. There are a number of reasons, however, why clientelism should be considered an early form of democratic accountability and be distinguished from other types of corruption—or, indeed, not considered a form of corruption at all. The first reason is that it is based on a relationship of reciprocity and creates a degree of democratic accountability between the politician and those who vote for him or her. Even though the benefit given is individual rather than programmatic, the politician still needs to deliver something in return for support, and the client is free to vote for someone else if the benefit is not forthcoming.

Moreover, clientelism is designed to generate mass political participation at election time, something we regard as desirable.¹⁹

In this respect clientelism is very different from a purer form of corruption where an official steals from the public treasury and sends the money to a Swiss bank account for the benefit of himself and his family alone. This type of corruption is sometimes labeled, following Weber, **prebendalism**, based on the feudal prebend where a lord simply granted a vassal a territory that he could exploit for his own benefit.²⁰ While there is plenty of clientelism in sub-Saharan Africa, political scientist Nicolas van de Walle argues that the region suffers from the much more serious disease of widespread prebendalism that has deprived citizens of control over their elected officials.²¹ As the successive wars in Afghanistan with the Soviets and NATO progressed, the traditional tribal relationships based on patronage and clientelism began to break down and were replaced by far more predatory forms of prebendalism in which individual governors or ministers simply appropriated vast sums of money without returning much in the way of services. The fact that a lot of these resources came from foreign assistance facilitated this process and served to deeply delegitimize the central government. In such a situation, a return to traditional patronage would constitute a huge improvement in the functioning of the political system.

A second reason for thinking that clientelism should be viewed as an early form of democracy rather than a form of corruption is that we see it taking hold in very many young democracies where voting and the franchise are new and politicians face the problem of how to mobilize voters. In societies where incomes and educational levels are low, it is often far easier to get supporters to the polls based on a promise of an individual benefit rather than a broad programmatic agenda. This was nowhere more true than in the first country to establish the principle of universal male suffrage, the United States, which in a certain sense invented clientelism and practiced it in various forms for more than a century.²²

Clientelism should be broadly related to the level of economic development. This is a simple matter of economics: poor voters can be more easily bought than rich ones, with relatively small individual benefits like a cash gift or a promise of a low-skill job. As countries become wealthier, the benefits politicians need to offer to bribe voters increase,

and the cost of clientelism rises dramatically. In the 1993 election, Taiwan's ruling Guomindang (KMT) bought enough votes to steal the election from the opposition Democratic People's Party, at the cost of around \$300 Taiwanese (US\$10) per vote, compared to \$3 per vote in a 1998 election in the neighboring but poorer Philippines. Due to the fact that 45 percent of the bribed voters nonetheless failed to vote for the KMT, and that the opposition party made vote buying itself a campaign issue, this practice has largely faded from Taiwanese elections.²³

Clientelism tends to retreat at higher income levels for reasons having to do with development of a robust market economy. Most poor countries lack a strong private sector and opportunities for entrepreneurship: indeed, this is why they are poor in the first place. Under such circumstances, politics is a much surer route to wealth for both patrons and clients. India today has a small but rapidly growing private sector; for the vast majority of Indians, however, participation in politics, either as a patron or a client, remains the main ladder of upward social mobility.²⁴

As a stronger market economy develops, the opportunities for privately generated wealth increase, both absolutely and relative to the level of rents than can be extracted by entering politics. Ambitious young people who want to make large fortunes in today's America don't go into government. They go to Wall Street or corporate America, or start their own companies in places like Silicon Valley. Indeed, persuading people who've made private fortunes to go into government is often difficult given the reduction in income this entails. Moreover, for many voters in rich countries, programmatic issues like regulation, the environment, immigration policy, and the ability of unions to organize become much more important to their lives and well-being than the small bribes that could be offered by a clientelistic politician.²⁵

Martin Shefter, whose framework forms the basis for much of the contemporary understanding of patronage and bureaucratic quality, argues that the supply of patronage is much more important than the demand for it. That is, patronage can exist only when politicians have access to state resources that they can distribute. This explains why what he labels "externally organized" parties like revolutionary Communist parties in Russia and China initially displayed much lower levels of patronage and corruption; they needed to be tightly disciplined and had no benefits to distribute before they came to power.²⁶

There is no automatic process by which the demand for clientelistic favors drops as countries become richer. There are wealthy countries that still practice clientelism, such as Italy, Greece, and Japan. Why this is so requires a more detailed account of their specific historical paths and other factors that explain why reform coalitions failed to materialize.