

Governance, Corruption, & Economic Performance

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The Economics of Corruption: An Overview

George T. Abed and Sanjeev Gupta

I. Introduction

Until the 1980s, scholarly research on corruption was largely confined to the fields of sociology, political science, history, public administration, and criminal law. Since then, economists have also turned their interest to this topic, largely on account of its increasingly evident link to economic performance. Much of the early research¹ focused on weaknesses in public institutions and distortions in economic policies that gave rise to rent seeking by public officials and the incubation of corrupt practices. It also highlighted some positive effects of corruption, which were discounted in the subsequent literature.

Since the early 1990s, there has been a virtual explosion of academic writing on the economics of corruption. The initial thrust for this work came from the transformation of the socialist economies of the former Soviet Union,² awareness of the costs of corruption in both developed as well as developing countries, and the construction of indicators of corruption that could be used in empirical studies. The flood of writings has continued unabated.³ As noted below, and as is clear from the contents of this volume, a considerable part of this research activity took place at the IMF and the World Bank. There are several reasons for the burgeoning interest of Bretton Woods institutions, and the economics profession in general, in this topic.

One factor is the accelerating trend of globalization and world economic integration. Together with an associated drive for economic liberalization, notably in the area of international trade, globalization has increased the pressure on countries to be more transparent and accountable in the management of their economies. More to the point, it created incentives for policymakers to reform policies and institutions for countries to benefit from the rising international flows of capital, technology, and information. While the countries most eager to exploit the widening opportunities were initially the larger emerging economies, other developing countries also sought to access markets and attract investment flows in the new environment.

Data on the size and composition of international capital movements in the 1990s underscore this point. Since the mid-1990s, the composition of capital flows to emerging and developing countries began to shift markedly in favor of the private sector, with multinational corporations, and financial markets more generally, dominating the field and eclipsing the role of official transfers. Thus, while at the start of the decade private capital flows to developing countries were about the same as official transfers, about \$50 billion each, by mid-1997 (on the eve of the Asian financial crisis) the former had grown to about six times the size of the latter. Not surprisingly, private capital flows to developing countries declined in the wake of the financial crises of the late 1990s, but they remained at levels that are a multiple of official transfers.

The importance of this development to growing interest in the economics of corruption is compelling, if at first not so obvious. Official flows to developing countries had been motivated, since the early postwar period, by the exigencies of the Cold War and the desire by the superpowers and their allies to

maintain political influence in various strategic areas of the globe. The strict criteria of economic performance and commitment to reform played only a minor role, if at all, in the distribution of bilateral official aid. In this environment, the pressure to reform was absent or minimal in many developing countries. A number of countries operated their economies under the protection of high tariffs and pervasive state intervention with only a minimum of transparency and accountability. However, they suffered neither the displeasure of aid givers nor the retribution of the markets, whose influence was too small to matter anyhow. Moreover, many countries were governed by regimes that, to say the least, did not adhere to the strictures of good governance, and most bilateral (and to some extent multilateral) donors and creditors often refrained from asking too many questions. The economics profession, with notable exceptions, lacking the requisite information or the will to challenge the prevailing political order, went on to other pursuits.

With the end of the Cold War, the breakup of the former Soviet Union, and the consequent unwinding of regional conflicts, many developing countries lost their privileged position in the global geopolitical game and were suddenly exposed to the more exacting requirements of market discipline. In the increasingly globalized and private-sector-driven world of the 1990s, developing countries (including the newly industrialized countries of Asia and the transition economies of Central and Eastern Europe) found themselves in a highly competitive environment where financial flows were now driven, above all, by expected rates of return on investment. Sound macroeconomic policies, a healthy regulatory environment, more transparent and accountable public institutions, and protection of property and investor's rights became essential prerequisites for attracting foreign direct investment and for accessing financial markets at reasonable terms.

The breakup of the former Soviet Union also brought on one of the most profound and far-reaching transformations of the twentieth century. The disintegration of the command structures in the old regimes triggered some of the most chaotic economic, political, and social changes in modern history. Absence of the rule of law and accountable systems of governance led to rent seeking, corruption, and outright thievery. While some governments, notably in Eastern Europe, quickly found their bearings and developed the institutional and policy frameworks needed for the operation of markets, others took much longer. In the meantime, professional economists could not help but be struck by the importance of sound policies and institutions for better performance in the newly created market economies. This "discovery" triggered a wave of research on rent seeking, the role of the state, governance, and corruption. While the awakened interest of researchers in corruption in the transition economies was somewhat distinct from that which focused on developing countries, the two developments were not entirely unrelated. Indeed, both had their provenance in the end of the Cold War and the shift in the risk/reward calculus from one based on geopolitics to one based on hard, economic criteria.

Another factor underlying the rising importance of transparency in government operations is the spread of democratic practices in the late 1980s and throughout the decade of the 1990s.⁴ In Central and South America, generally open elections for top officials and representative assemblies were held in virtually all countries, while in Africa the spread of presidential and parliamentary elections was also

notable. Although not necessarily immune to corruption, electoral democracies have been found to foster a vigilant civil society, increased government accountability, and a higher degree of transparency.⁵

Growing availability of data "measuring" corruption further stimulated the empirical research on its economic effects. During the 1980s, new statistical surveys of households, enterprises, public officials, and others became available to researchers. This led to the construction of summary governance indicators, such as the indices of "perception of corruption" that were then widely used in the empirical analysis.

II. International Organizations

Another factor that heightened interest in the economics of corruption, and more generally the promotion of good governance, is the growing role of the international financial institutions (IFIs) as well as trade and regulatory organizations in defining international standards as a basis for transparent policy formulation and implementation. Stimulated in large part by the desire to prevent the occurrence of global financial crises, such as those of Mexico, East Asia, and Russia in the middle and late 1990s, the IFIs took a number of initiatives to promote greater transparency and accountability in member countries. These initiatives were reinforced by the promulgation of codes and standards embodying good international practice in economic management and by newly created obligations for countries to widely disseminate statistical information on fiscal, monetary, and financial developments in a timely manner. In this regard, the IMF has taken the lead in work on standards and codes in the fiscal and statistical areas and jointly with the World Bank and the Bank for International Settlements on the promotion of standards and codes in the monetary and banking area (see below).

Moreover, the World Bank has recently adopted a framework for addressing corruption as a development issue, in the context of assistance it provides to member countries. The framework has the following components: (1) preventing fraud and corruption in Bank-financed projects by improving procurement and financial management policies related to the implementation of projects; (2) helping countries in their efforts to eliminate corruption; (3) taking corruption more explicitly into account in the formulation of country assistance strategies; and (4) adding voice and support to the international efforts to reduce corruption, including by collaborating with regional development institutions on anticorruption measures.

Interest in research on corruption and governance in IFIs was also stimulated by concern that public spending and aid were not having the desired impact on poverty and social outcomes. Questions have been raised on the extent to which budgetary allocations for unproductive programs or inefficiencies in public spending are attributable to corrupt practices. In fact, as the present volume demonstrates, these issues have received special attention from IFIs.

III. Nongovernmental Organizations

Other players on the international scene also became interested in more transparent and accountable conduct of economic management. Nongovernmental organizations (NGOs) and other organs of civil society, including the media, showed greater interest in the economics of corruption and in the conduct of officials entrusted with the management of public funds. A variety of motives spurred this awakened interest. For the media, the demise of the once overarching ideological confrontation of the Cold War created room for a wider coverage of economic news. Economic prosperity in a number of countries and regions became headline news (Japan and Europe in the 1980s, the United States, the Asian tigers, and peripheral Europe in the 1990s), stimulated by the technology and information revolution, fascinated large portions of the globe and made for good copy in the press. The growing reach of the Internet spread the news of economic success, as well as of economic failure. In the midst of all of this activity, stories of corruption and malfeasance fed the curiosity of a global audience and brought questions of good governance and economic performance to the forefront of academic and policy debate.

Other interested parties incorporated the problems of corruption into their agendas for yet different reasons. NGOs in industrial countries took up the cause of monitoring aid spending of their own governments, while seeking to enhance the capacity of the recipient countries to use such aid more effectively. This enterprise invariably involved the NGOs in questions of transparency and accountability of the donors (and the institutions through which they channel the bulk of their aid funds), and in the drive for instituting good governance and anticorruption safeguards in recipient countries. In time, many NGOs were brought into the deliberations of the IFIs on questions of debt relief and its use, development assistance, and governance.

Other NGOs took up the fight against corruption directly. Foremost among them is Transparency International (TI), established by a former World Bank staff member. It has grown to be a visible presence on the world economic scene, pressing its campaign in global forums (such as the biennial International Conference on Corruption) and through chapters in an increasing number of countries. TI's annual publication of country rankings on a "corruption perception index" is a major event and is widely noted by the countries so ranked, by academics and policymakers, and, above all, by financial markets.

Other organizations that have expanded their coverage of country assessments to include important indicators of transparency, accountability, and good governance are the Political Risk Services Group, which publishes the *International Country Risk Guides*; the Switzerland-based International Institute for Management Development, which publishes the *World Competitiveness Report*; and other credit-rating agencies. The International Chamber of Commerce has also added its voice and influence to combat corruption in international transactions through revised Rules of Conduct on Extortion and Bribery in International Business Transactions and through the creation of standing committees of

business executives, lawyers, and academics to mobilize support for adherence to the new rules.

IV. Multilateral Action

Since the passage of the U.S. Foreign Corrupt Practices Act in 1977, pressure on the international community has been mounting for multilateral action not only to specifically outlaw the bribery of foreign public officials but also to take measures to fight corruption in general. One of the more far-reaching efforts in this regard is that of the Organization for Economic Cooperation and Development (OECD), which, beginning in 1994, sought to end the tax deductibility of bribes and to criminalize the bribing of foreign officials. In a landmark decision taken at its ministerial meeting in May 1997, the OECD Council adopted recommendations of a working group on a Revised Recommendation on Combating Bribery in International Business Transactions. Compared with earlier recommendations, the Revised Recommendation was far more concrete and prescriptive, covering broad areas related to the conduct of international business and establishing a mechanism for monitoring implementation. The adoption of a Convention on Combating Bribery of Foreign Officials in International Business Transactions obligated signatory states, all 30 OECD members plus a growing number of nonmembers, to make bribery a crime under their laws.

In December 1996, the United Nations (UN) General Assembly adopted a Declaration Against Corruption and Bribery in International Commercial Transactions, as recommended by the UN Economic and Social Council. Although not legally binding, the declaration's wording on criminalizing foreign bribery and ending its tax deductibility signifies broad political agreement in the international community on this matter.

In May 1997, the European Commission (EC) issued a Communication to the Council and the European Parliament on a Union Policy against corruption. This communication sets out the EC's comprehensive policy on corruption inside the European Union as well as regarding relations with nonmember countries.

V. The Role of the IMF

The IMF has paid increasing attention to the importance of good governance in member countries in support of macroeconomic stability and noninflationary sustainable growth, the promotion of which is central to its mandate. This recognition is reflected in the IMF's three core activities: surveillance of economic policies of member countries, financial support for adjustment programs, and technical assistance to strengthen economic and financial management. The IMF's Interim Committee—now the International Monetary and Financial Committee—stressed the importance of good governance for macroeconomic policies in its meetings in September 1996 and September 1997.

The IMF is contributing to strengthening governance in member countries through various means. The first is by *supporting economic policies and structural reforms* that limit the scope for ad hoc decision

making, for rent seeking, and for preferential treatment of individuals or organizations. This approach is founded on the IMF's mandate to promote macroeconomic stability, and limits its role to those aspects of governance that could have a significant macroeconomic impact. A Guidance Note for IMF staff, for example, calls for

A more comprehensive treatment of governance issues in the IMF's core activities and policy advice.

- A more proactive approach in advocating policies and development of institutions that promote governance.
 - An evenhanded treatment of governance issues in all member countries.
- Enhanced collaboration with other multilateral institutions, in particular the World Bank and other IFIs such as the regional development banks, to make better use of complementary areas of expertise.

What forms have governance issues taken in IMF policy advice? In general, the IMF has required greater transparency and accountability in the management of public funds, including strengthening revenue administration, enhancing the financial accountability of state enterprises, monitoring the use of public resources for poverty reduction (part of the enhanced Heavily Indebted Poor Countries (HIPC) Initiative), consolidating extrabudgetary funds into the budget, enhancing transparency of tax and tariff systems, reinforcing central bank independence, strengthening prudential bank supervision, and improving the quality and timeliness of economic and financial statistics. Where issues of poor governance may have affected macroeconomic performance, the IMF has also urged member countries to address specific instances of poor governance and corruption (e.g., illegal logging in Cambodia following evidence published by Global Witness and fraud in government accounts reported by the Attorney-General in Kenya), and has recently strengthened policies to safeguard the use of IMF resources with regard to misreporting of information to the IMF. These measures have led to inquiries directed at central bank actions in Russia, Ukraine, and Indonesia.

In its approach to governance, the IMF has increasingly taken a proactive role along with the World Bank, stressing the importance of country ownership of policies for improving governance. Prevention is the centerpiece of the IMF's governance strategy. According to the strategy, participation in initiatives to strengthen governance, including the adoption of standards and codes, is voluntary. Furthermore, the strategy recognizes the importance of timely and well-targeted technical assistance to help alleviate constraints on institutional capacity.

The second principal means through which the IMF is contributing to strengthening governance in member countries is by *promoting transparency* in financial transactions in the government budget, the central bank, and the public sector at large. This is being done by developing standards and codes of best practices. They include

- Data dissemination standards. These standards guide member countries in the dissemination of

their economic and financial data to the public, and consists of two tiers:

- Special Data Dissemination Standard (SDDS). Established in March 1996 for those members that have, or that might seek, access to international capital markets.
- General Data Dissemination System (GDDS). Established in December 1997, it applies to all member countries and guides them in the dissemination of comprehensive, timely, and reliable economic, financial, and socio-demographic statistics to the public.
- The Code of Good Practices on Fiscal Transparency, which was adopted in 1998 and updated in March 2001. Adoption of this code is voluntary, and diversity across countries is fully recognized. One of the key objectives of the code is to promote open budget preparation, execution, and reporting.
- Reports on the Observance of Standards and Codes (ROSCs), adopted in 1999. These reports summarize the extent to which countries observe certain internationally recognized standards in the areas of direct operational concerns to the IMF. Numerous ROSC modules have been published on the IMF's external website.
- The Code of Good Practices on Transparency in Monetary and Financial Policies, adopted in 1999. Good governance calls for central banks and financial agencies to be accountable, particularly where the monetary and financial authorities are granted a high degree of autonomy.

The IMF also adopted Financial System Stability Assessments (FSSAs) and the Financial Sector Assessment Program (FSAP) in 1999. These instruments help countries assess vulnerabilities in the financial sector and identify the needs for corrective action. FSAPs, jointly conducted with the World Bank, have led to FSSAs, which become part of the IMF's core responsibility of surveillance. The IMF plans to conduct 24 FSAPs every year over the next couple of years. The IMF has also adopted, in collaboration with the Financial Stability Forum and the World Bank, experimental modalities for its approach to financial sector practices in offshore centers concerning financial system abuse, financial crime, and money laundering.

Since April 2001, the IMF has strengthened its efforts to counter money laundering, as well as terrorism financing. Together with other financial institutions, it has a key role in preventing the abuse of financial systems as well as protecting and enhancing the integrity of the international financial system. In this regard, IMF and World Bank staffs have prepared a draft methodology to assess a country's compliance with certain standards, and this methodology is being applied to several pilot cases. Anti-money-laundering concerns are being included in IMF's surveillance and other operational activities when they are relevant from a macroeconomic perspective.

Third, the IMF contributes to improved governance in member countries by helping them through *technical assistance* to strengthen their capacities for effective public resource management, as well as the design and implementation of economic policies. The focus of IMF technical assistance has been on areas in which the IMF has a comparative advantage--strengthening public expenditure management,

tax administration, banking systems, foreign exchange, and on improving the quality and timeliness of data. Since 1997, the IMF has developed new forms of technical assistance that attempt to ascertain the extent to which countries are complying with the above-noted standards and codes.

In recognition of a close nexus between weak public expenditure management systems and poor governance, both the IMF and the World Bank have initiated additional work in the area of public expenditure management in heavily indebted poor countries. The objective is to help strengthen the link between debt relief and poverty reduction and make government budgets more pro-poor. There is recognition that citizens and governments in donor countries need assurances that debt relief and other financial assistance are devoted to poverty reduction. Citizens and legislatures in recipient countries also need assurances that these resources are being used for the purpose intended, to strengthen country ownership of the poverty-reduction strategy.

VI. The Focus of This Volume

The fourth principal means through which the IMF is contributing to strengthening governance in member countries is through *policy research*. The IMF has thus contributed to the growing awareness of the causes, consequences, and remedies for fighting corruption. The empirical research has highlighted the impact of corruption on economic growth, public finances, poverty, income inequality, provision of social services, and the causes of corruption and anticorruption strategies. Many studies have been carried out by IMF staff since the mid-1990s. This volume compiles most of these studies, with the objective of contributing to the ongoing debate on the role of good governance in promoting growth and reducing poverty. As discussed above, the empirical research in this area has been facilitated by the efforts of IFIs and others to collect and construct indicators of governance in recent years.

In Chapter 2, Tanzi discusses issues related to the causes, consequences, and scope of corruption and possible corrective actions. The phenomenon of corruption affects many countries and is a source of disillusionment among the population of some transition economies and developing countries. Corruption cannot be substantially reduced without modifying the way governments operate, and in this sense, the fight against corruption is linked with the reform of the state. Thus, a multipronged strategy is needed, including reducing excessive and complex regulations and reforming the civil service.

How critical is the role of civil service salaries in curbing corruption? In Chapter 3, Van Rijckeghem and Weder find that an increase in civil service salaries in relation to those paid in the manufacturing sector has a favorable impact on the corruption index. Civil service wages are also highly correlated with measures of rule of law and quality of bureaucracy. A related issue is whether government officials responsible for fiscal management of a country should be paid bonuses, particularly when public sector wage levels are relatively low. Chand and Moene examine a country case in Chapter 4 and analyze the circumstances under which bonus payments to tax officers can promote less corrupt outcomes. They

further contend that this strategy is not sufficient: corruption at higher levels of government also needs to be contained--a strategy that would entail reforming the role of the state as suggested by Tanzi (Chapter 2).

In Chapter 5, Dabla-Norris argues that there is an optimal level of corruption, reflecting self-interested behavior of different players in a society. And because governments in some countries lack an effective monitoring mechanism, it may be optimal for them to pay lower wages to their employees—a policy recommendation that is contrary to the one contained in the study by Van Rijckeghem and Weder (see Chapter 3). Typically, most developing countries have a bloated civil service, and a corruption-reducing higher wage for all government employees is not sustainable from a fiscal perspective. This implies that the issue of a higher wage for government workers should be an integral part of a comprehensive civil service reform.

Charap and Harm (Chapter 6) contend that corruption is endogenous to political structures and helps maintain an "equilibrium" among different population groups. Elimination of corruption in such instances could then destabilize existing political systems and lead to anarchy, rather than enhancing economic efficiency. Under these conditions, a comprehensive reform of the civil service could be implemented only if a "ruler" gains stability from benevolence, rather than patronage. If the survival of the regime is threatened, this reform program is likely to be rejected.

In Chapter 7, Leite and Weidmann identify availability of natural resources as another factor that creates opportunities for corruption. Their statistical results show that capital- (labor-)intensive natural resource industries tend to induce a higher (lower) level of corruption, other things being equal.

Corruption lowers growth through limiting development of small and medium-sized enterprises, and has serious implications for a country's public finances. This is the subject of Chapter 8 by Tanzi and Davoodi. Because entrepreneurs have to devote their scarce time to bribing officials, the growth-promoting benefit of small and medium-sized enterprises is not fully realized. As a result, they estimate that due to this misuse of resources, economic growth is lowered by 0.4 percentage point for a sample of countries.

Understandably, the link between corruption and public finances is of special interest to the IMF in the conduct of its core mandate. The studies carried out at the IMF show that both expenditure and revenue sides of the budget are affected by corruption and rent-seeking behavior. By using cross-section data, Mauro (Chapter 9) shows that corruption is negatively associated with government expenditure on education. An increase in corruption by one unit (on a scale of 0 to 10) lowers the ratio of public spending on education by 0.2 percentage point of GDP. Corruption, therefore, could lead to a suboptimal composition of government expenditure. The reason for this result is that education programs are less prone to rent seeking.

The adverse impact of corruption is not confined to inappropriate expenditure allocations. Gupta, Davoodi, and Tiongson (Chapter 10) show that a high level of corruption has adverse consequences for

a country's child and infant mortality rates, percent of low-birthweight babies in total births, and dropout rates in primary schools. For example, an increase in corruption by one unit (on a scale of 0 to 10) raises the child mortality rate on average by 1.1 to 2.7 deaths per 1,000 live births. These results are consistent with predictions stemming from theoretical models and service delivery surveys. An important implication of the results is that improvements in health and education outcomes do not necessarily require higher public spending.

In Chapter 11, Tanzi and Davoodi provide further evidence on how corruption distorts the composition of public expenditure. It leads to allocations in favor of less-productive investment projects and against nonwage operations and maintenance expenditures, such as books and medicines, which reduce the quality and productivity of existing infrastructure. Corruption also reduces government revenue needed to finance productive spending.

There are other types of public spending that are affected by corruption as well. Gupta, de Mello, and Sharan (Chapter 12) show that corruption is associated with higher military spending as a share of both GDP and total government spending, as well as with arms procurement in relation to GDP and total government spending. Military spending is a monopoly of the state, and contracts are often drawn in secrecy and under considerable discretionary power of the authorities. The results from the study suggest that defense spending can be considered for constructing governance indicators.

A considerable amount of public spending takes places at subnational levels in a number of countries, and the share of this spending is increasing. De Mello and Barenstein (Chapter 13) find that governance can be enhanced through the decentralization of expenditure functions to subnational governments. The higher the share of subnational spending in total government expenditures, the stronger the positive association between decentralization and governance. The relationship between decentralization and poor governance also depends on how subnational expenditures are financed—the higher the share of nontax revenues in total revenues as well as grants and transfers from higher levels of government in total expenditure, the stronger the association between decentralization and corruption.

Studies have also focused on the revenue side of the budget. In Chapter 14, Ghura contends on the basis of data for sub-Saharan African countries that the level of corruption also influences the tax revenue-to-GDP ratio. Lower revenues, in turn, have an impact on the ability of the government to finance critical poverty-allocation programs. For a given tax regime and rate structure, measures taken to curb corruption can be expected to raise tax revenues.

Collecting taxes while minimizing evasion and corruption remains a challenging policy problem. Hindriks, Keen, and Muthoo (Chapter 15) find that the distributional implications of evasion and corruption are unambiguously regressive under most tax collection schemes, and that collecting progressive taxes without inducing evasion or corruption may require that inspectors be paid commissions, with the cost of this policy potentially creating a trade-off between equity and efficiency. Inducing honesty in the collection of taxes therefore carries a cost. Hindriks, Keen, and Muthoo thus

support the results of Van Rijckeghem and Weder (Chapter 3) as well as Chand and Moene (Chapter 4).

Poor governance also affects a country's income distribution and poverty. Dabla-Norris and Wade (Chapter 16) present a model to explain why the relatively wealthy choose rent-seeking activities such as employment in the government bureaucracy, army, and police rather than engaging in productive and entrepreneurial activities. Given imperfect capital markets, and lump-sum entry fees associated with rent seeking, those who are relatively wealthy to begin with tend to engage in rent seeking to protect their wealth from expropriation.

Gupta, Davoodi, and Alonso-Terme (Chapter 17) provide evidence of significant adverse distributional effects of corruption. They find that high and rising corruption is associated with higher income inequality and poverty. A worsening of the corruption index of a country by one standard deviation increases the Gini coefficient by 11 points, and one standard deviation increase in the growth of corruption reduces income growth of the poor by 4.7 percentage points a year.

The issue of governance has assumed increasing importance in transition economies in recent years. In Chapter 18, Abed and Davoodi conclude that corruption is mostly, but not entirely, a symptom of underlying policy distortions and weak economic institutions in transition economies. They argue that reform of the state—as noted by Tanzi in Chapter 2—is critical for reducing corruption and enhancing economic performance in transition economies. Increasing the reliance on market-based pricing and creating a sound regulatory environment should help in lowering corruption. Abed and Davoodi also provide evidence to show that structural reforms in these economies can help lower the scope for corruption, a point reiterated by Wolf and Gürgen (Chapter 19), who examine the indirect role played by the IMF in combating corruption in the Baltic and Commonwealth of Independent States countries through its policies for promoting structural reforms. The IMF's emphasis on deregulation, liberalization, privatization, and its technical assistance aimed at strengthening the budgetary process and institution building, help improve economic governance and reduce opportunities for rent-seeking behavior.

¹See Bhagwati (1982); Becker (1968); Buchanan, Tollison, and Tullock (1980); Klitgaard (1984 and 1988); Krueger (1974 and 1993); Murphy, Shleifer, and Vishny (1993); and Rose-Ackerman (1975 and 1978).

²For example, Shleifer and Vishny (1993).

³Bardhan (1997).

⁴Between 1987 and 2000, the number of electoral democracies rose from 69 to 120, representing 63 percent of the world's states (Freedom House, various issues). This roster is based on a stringent standard; elected national authorities must be drawn from free and fair elections.

⁵See, for example, Freedom House (2000) and Treisman (2000).