The Institutionalisation of Corruption: The Neglected Role of Power

OLLI HELLMANN

University of Sussex

o.hellmann@sussex.ac.uk

There is growing evidence that anti-corruption measures modelled on the dominant approach to the study of corruption – the “institutional economics” approach – are not working in the developing world, where corruption is often systemic and all-pervasive. As a response, a number of scholars have begun to analyse corruption through neo-institutionalist frameworks, claiming that, when corruption assumes systemic forms, many key assumptions of the institutional economics approach do not hold. However, these neo-institutionalist frameworks are themselves based on rational-choice theory and therefore replicate many of the general weaknesses of rational-choice institutionalism. This paper thus turns to historical institutionalism – and its power-based mechanism of path dependence – to develop an alternative neo-institutionalist perspective on corruption. More specifically, the paper argues that different corruption regimes emerge and persist because powerful groups benefit from them.

Introduction

Neo-institutionalism – in its rational choice, historical institutionalist and sociological versions – has, over the last three decades, become the dominant paradigm in political science. However, only recently have scholars begun to apply neo-institutional frameworks to the study of corruption. More specifically, this new neo-institutionalist strand within the corruption literature developed as a reaction to the growing criticism brought forward against the institutional economics approach, which, up until now, has guided the vast amount of research on corruption. Criticism revolves in particular around empirical evidence that shows that anti-corruption measures based on the institutional economics approach have had very little effect in the developing world, where corruption often takes systemic forms. Nevertheless, important continuities
persist across the two approaches, as the newly emerging neo-institutionalism approach to corruption carries over the core of rational-choice assumptions that underpin the institutional economics approach. Hence, reflecting ideas from the rational-choice variant of neo-institutionalism, corruption is conceptualised as a self-reinforcing equilibrium of interactions among rationally behaving individuals. In turn, however, this means that the emerging neo-institutionalist approach to corruption can be criticised on the same grounds as rational-choice institutionalism in general: It fails to account for the emergence of different equilibria, it needs to resort to exogenous factors to explain change, and it underplays the role of collective agents in the political process.

To address these weaknesses, this paper – through the framework of historical institutionalism – will provide an alternative neo-institutionalist perspective on corruption. Generally speaking, historical institutionalism, by conceptualising institutions as arenas for power-distributional conflicts, is able to explain institutional origins and change without having to refer to exogenous factors. Moreover, historical institutionalists tend to conceive of agency in collective terms, arguing that individuals form coalitions with other individuals – be it in the form of formal organisations or informal networks – to oppose and defeat other groups.

In particular, in this paper I focus on explaining the emergence of different corruption regimes in the developing world. Through a small-N comparison of six countries in East Asia, I demonstrate that different corruption regimes were set up at the critical juncture of postcolonial independence, with design choices conditioned by the distribution of resources in the “political marketplace”: When metropolitan elites enjoyed a near-monopoly of resources, “horizontal” corruption regimes were institutionalised; when provincial elites held a significant share of resources, a “vertical” corruption regime emerged. Once established, these regimes became locked in path-dependent trajectories, reproducing the relative power of collective actors that benefit from the regimes’ distributional effects: formal organisations in horizontal regimes and informal redistribution networks in vertical regimes. The more general argument developed in this paper is thus that conventional approaches to anti-corruption have largely been ineffective in the developing world, as informal networks benefiting from corruption have been able to adapt to reforms and recycle themselves over time.
Much of the academic literature that aims to explain the occurrence of corruption is based on rational-choice assumptions – that is, individuals are assumed to be rational beings who act to maximise their self-interest. Reflecting these meta-theoretical underpinnings, explanatory research on corruption has broadly followed the methodological development of rational-choice theory. In particular, scholars of corruption have, as rational-choice theory in general (see Shepsle 2008; Weingast 1998), begun to acknowledge that only some preferences being pursued by individuals are exogenously “given” – such as the drive towards self-interest maximisation – while other preferences may be endogenously determined by the behaviour of other individuals. In recent years, the rational-choice paradigm in corruption research has thus developed into two strands: the institutional economics framework and a neo-institutionalist approach. The latter – mirroring similar distinctions in rational-choice institutionalism (see Peters 2011) – can be divided into two sub-strands: a game-theoretic variant and a transaction costs version.

Although these three strands differ on a number of dimensions, they all tend to refer to the so-called principal-agent problem – or agency dilemma – as a foil against which to define corruption. At the most abstract level, corruption occurs when the agent – entrusted with power to act on the principal’s behalf – “betrays the principal’s interests in pursuit of her own” (Klitgaard 1988: 24). More concrete examples of corruption can be provided when the principal-agent relationship is described in more specific terms. This is usually done in one of two ways. In the first version, voters take on the role of the principal and elected politicians the role of the agent. Here, corruption occurs when politicians use the power that has been entrusted upon them by voters to serve particularistic interests rather than seeking the expectations and interests of voters – for example, by accepting bribes to push legislation favourable to the briber, awarding government contracts in exchange for a kickback, or embezzling public money for personal use. In the second version of the principal-agent relationship, politicians are seen as the principal and state officials as the agent. Here, an act of corruption is committed when an official engages in self-seeking behaviour rather than enforcing the laws and regulations passed by politicians. For example, in
exchange for a bribe, state officials may turn a blind eye to criminal behaviour, drop import duties and taxes, or issue licences and permits in violation of the law.

Beyond these basic conceptual questions, however, the three strands diverge considerably. Most fundamentally, as already hinted at above, they disagree on whether preferences are exogenously or endogenously determined. For the institutional economics approach, both the agent’s and the principal’s interests are exogenously given. More specifically, the general assumption underpinning the institutional economics approach is that the agent will seize any opportunity to pursue his or her own interest at the expense of the interests of the principal (i.e. engage in corrupt behaviour), while the principal’s aim is to prevent the principal from abusing his or her power (i.e. fight corruption). For example, in a much cited study of political corruption based on the institutional economics approach, Kunicová and Rose-Ackerman (2005) assume that voters (the principal) “prefer honest officials to elected ones who enrich themselves through pay-offs”, while politicians (the agent) are driven by the goals of “individual wealth and re-election”.

The institutional economics approach argues that, to prevent the agent from committing corrupt acts, the principal can design institutions in such a way as to lower the potential rewards of corruption, while at the same time increase the expected risk of being found out and punished. For example, research following the institutional economic approach suggests that agents can reduce the rents that can be appropriated through corruption by deregulating the market (Djankov et al. 2002) and reducing the size of the state (LaPalombara 1994). The monitoring capabilities of the agent, on the other hand, depend on institutional factors such as the decentralisation of government (Damania et al. 2004), the level of press freedom (Brunetti and Weder 2003), and bureaucratic discretion over the implementation of policies (Golden 2003). Finally, the risk to politicians of being punished for corrupt behaviour has, for example, been found to be higher in presidential systems (Panizza 2001) and under plurality electoral systems (Kunicová and Rose-Ackerman 2005).

In short, the institutional economics approach treats preferences exogenously: The agent is interested in maximising his or her own payoff from corrupt behaviour, while the principal is interested in minimising the welfare costs that come with corruption. Corrupt acts occur when agents, after performing a profit-risk calculation, decide that the potential profit of engaging in corruption outweighs the risks. Agents estimate both profit and risks based on the institutional structures within which they
operate – or, in other words, corruption is the product of institutional incentive structures.

Importantly, the institutional economics approach has not only dominated much of the academic literature on corruption over the past two decades but it has also strongly informed the development and implementation of anti-corruption measures. It has done so, however, with very little success. As various scholars have observed, there are very few cases of developing countries that have significantly reduced corruption since James D. Wolfensohn – the then World Bank president – gave his “cancer of corruption” speech in 1996. Instead, the general verdict is that countries that suffered from systemic corruption when anti-corruption interventions were first applied in the mid-1990s still suffer from systemic corruption today (e.g. Hough 2013: 29-30; Svensson 2005: 34-36).

The emergence of the two neo-institutionalist approaches to the study of corruption can be seen as a response to this criticism. Most significantly, the two neo-institutionalist approaches depart from the institutional economics approach by assuming that preferences may depend endogenously on how other individuals behave. That is to say, they disagree that individuals’ honesty or dishonesty can be assumed to be fixed exogenously; instead, whether an individual decides to remain “clean” or engage in corrupt behaviour is a function of interactions between individuals. More specifically, building on work by Bardhan (1997), the neo-institutionalist approaches argue that this decision is contingent on how widespread corruption is – that is, how many other individuals engage in corrupt behaviour: In a low-corruption equilibrium, where corrupt behaviour is sporadic and individuals expect other individuals to act in an honest way, the benefit of being honest exceeds the benefit of being corrupt; in a high-corruption equilibrium, where corruption is systemic and corrupt behaviour is the expected behaviour, the benefit of being corrupt exceeds the benefit of being honest. Beyond this common core, however, there are differences. In particular, the two neo-institutionalist approaches differ in their explanations as to why high-corruption equilibria persist.

The game-theoretic variant – much like the institutional economics approach – focuses on the problem of how to ensure the agent’s compliance with the principal’s instruction. However, while the institutional economics approach treats the principal as a unitary actor and conceptualises the process of compliance as being performed largely through formal rules and institutions, the game-theoretic strand of the neo-
institutionalist approach views the principal as a collection of individuals and models the process of compliance as a set of games played between these individuals. This allows the game-theoretic approach to demonstrate that, in high-corruption equilibria, the collection of individuals deemed to perform the role as principal faces a classic collective action problem: Because corruption is the expected behaviour, individuals cannot trust other individuals that they will act clean and play their part as principal. As a result – knowing that their individual contribution will make little, if any, contribution to holding the agent accountable for corruption – it is most rational for each individual to free ride on others’ anti-corruption efforts, while continuing to engage in corrupt behaviour and maximise the material benefits that they can derive from such behaviour. Put in more comparable terms, the game-theoretic strand of the neo-institutionalist approach makes the argument that, in contexts where corruption is systemic, implementing formal institutions that provide strong monitoring and punishment mechanisms will – contrary to what the institutional economics approach claims – not prevent the principal from engaging in corrupt behaviour because there will simply be no principals to “operate” these institutions and hold agents accountable for their corrupt behaviour. It is only in settings with low-corruption equilibria that playing the role of benevolent principal becomes a rational choice (e.g. Rothstein 2011; Persson et al. 2012; Persson et al. 2013).

The transaction costs version of the neo-institutionalist approach, on the other hand, places much less emphasis on the question of compliance. Instead, this particular approach highlights the fact that corrupt exchanges are not cost-free; they require individuals to invest in information (Quality of the required service? Potential partner’s capacity to provide the service?), bargaining on the exchange contract (“Price” of the service?), and mechanisms to ensure the enforcement of the contract. Such transaction costs are intrinsic to any economic exchange, but – and this is a key point – they are considerably higher in the corruption market than in the formal economic market – because of three reasons:

First, corruption does not allow for legal recourse; second, corruption must be hidden from the public; and, third, because of the ever-present threat of mutual denunciation, partners of a corrupt agreement are “locked-in” to each other even after an exchange has been finalized.
However – and at this point the endogeneity argument kicks in – the level of transaction costs is negatively associated with two factors: first, the extent of mutual trust between the exchange partners; second, the number of individuals participating in the corruption market. The first point builds directly on the claim that opportunistic behaviour is more likely to occur in the illegal corruption market than in the formal economic market. Potentially beneficial exchanges may thus not occur because individuals calculate that the risk of the other side defaulting on the exchange contract is too high. This pessimistic calculation only holds, however, if the corrupt act is modelled as a one-off exchange; if the corrupt act is carried out repeatedly between the same partners, mutual trust will grow stronger, thus generating the expectation that the other side will abstain from fraud or betrayal. In other words, repetition – through the mechanism of trust – helps minimise uncertainty and lower the transaction costs associated with corrupt exchanges (Graf Lambsdorff 2007).

The second point, on the other hand, can be explained as follows: Larger numbers of participants in the corruption market lower transaction costs because information and skills will be more widespread, and because the large-scale reproduction of corrupt exchanges may have prompted the emergence of actors who specialise in the enforcement of exchange contracts. Moreover, a higher density of participants in the corruption market also decreases the risk of being denounced or punished. High-corruption equilibria emerge – and are maintained – as investments in know-how and networks produce positive feedback loops, signalling that large profits can be collected through corruption with very low risks. This will create incentives for maintaining existing investments and for new actors to enter the corruption market and make similar investments (Della Porta and Vannucci 2004; 2012).

To sum up the discussion so far, the two variants of the neo-institutionalist approach argue that the institutional economics model does not have any analytical value when corruption is systemic – either because there will be no actors willing to play the role of the benevolent principal (the game-theoretic variant) or because the institutionalisation of corruption significantly changes the agent’s cost-benefit calculation (the transaction costs variant). However, despite this critique, it should have become clear that the neo-institutionalist approach shares with the institutional economics model a rational-choice underpinning. As such, the theoretical
conceptualisation of systemic corruption mirrors rational-choice institutionalism’s view of institutions as equilibria. Essentially, what the neo-institutionalist approach to corruption argues is that systemic corruption persists because no actor has an incentive to change it – either because they are locked in a collective action dilemma (the game-theoretic variant) or because investments in corruption know-how and networks create a positive feedback loop (the transaction costs variant).

Although the emerging neo-institutionalist approach – in its game-theoretic and transaction costs variants – must be praised for injecting new ideas into the debate over why anti-corruption measures based on the institutional economics model have had very little effect on fighting systemic corruption, it suffers from a number of serious weaknesses. In particular, by conceptualising systemic corruption as an equilibrium, the neo-institutionalist approach to corruption replicates the general errors of rational-choice institutionalism. To begin with, and reflecting widespread criticism of rational-choice institutionalism (e.g. Peters 2011: 60; Eriksson 2011: 145-146), neither the game-theoretic nor the transaction costs framework offer a systematic explanation of how different equilibria emerge in the first place. Moreover, there is the challenge for any theory of institutions that it “must account both for institutional change and for institutional stability. That is, a convincing account of institutional change must contain within itself its own negation, and yet somehow remain consistent” (Immergut 2005: 243; emphasis in the original). Rational-choice institutionalism – much more so than other strands of neo-institutionalism – struggles to explain the switch from stability to instability. This is because, by thinking of institutions as an equilibrium outcome of actors’ preferences, institutional change only becomes possible if individuals change their preferences. However, if institutions endogenise preferences, it is difficult to explain why individuals would suddenly prefer a new set of institutions. As a result, to account for institutional change, rational-choice institutionalism has to turn to exogenous factors (Greif and Laitin 2004: 633; Peters 2011: 62-3; Eriksson 2011: 147). The game-theoretic approach to corruption illustrates this perfectly: Rothstein, for example, explains the implementation of successful anti-corruption reforms in Sweden and Denmark as a result of “crushing military defeats (and ruined state finances as a consequence) that threatened the very existence of both states” (2011: 245). Put differently, rational-choice institutionalism is unable to account for change through reference to the nature of institutions themselves; it needs to bring in exogenous shocks. Finally, similar to
rational-choice institutionalism (e.g. Lowndes and Roberts 2013: 105-106), the neo-institutionalist approaches to corruption can be criticised for theorising agency primarily in individualistic terms, not in collective terms. It thus fails to recognise the basic nature of politics as a conflict for power between different coalitions of actors – be it in the form of formal organisations (such as political parties) or informal networks (such as mafia clans).

To address these weaknesses, the following section will provide an alternative perspective on systemic corruption through the lens of historical institutionalism. By emphasising the power-distributional implications of institutions, historical institutionalism is – in contrast to rational-choice institutionalism – able to explain institutional origins, accommodate the possibility of endogenously generated change, and include collective forms of agency.

**Historical institutionalism and corruption**

Although agreeing with rational-choice institutionalism that individuals’ preferences are not exogenously fixed but endogenously shaped by institutions, historical institutionalism does not model institutions as equilibria of strategic interactions. Instead, starting from the basic assumption that “conflict among rival groups for scarce resources lies at the heart of politics” (Hall and Taylor 1996: 937), historical institutionalist see institutions as “distributional instruments laden with power implications” (Mahoney and Thelen 2010: 8; emphasis in the original). More specifically, historical institutionalists argue that institutions have “unequal implications for resource allocation”, disproportionately advantaging some groups over other groups. And it is precisely these distributional effects that explain the reproduction of institutions over time, as advantaged groups will use the additional power that they gain through the unequal distribution of resources to defend the institutional set-up against pressure for change from disadvantaged, less powerful groups (Mahoney 2000: 521-523).

When conceptualising institutional “path dependency” as an ongoing power struggle between advantaged and disadvantaged groups, the most obvious mechanism of institutional change is that of balance-of-power shifts. At times, such shifts – with either advantaged groups increasing their power even more or disadvantaged groups
becoming more powerful vis-à-vis groups empowered by the institution – may constitute so-called “critical junctures”: short periods of time during which the constraints on agency are lifted, thus increasing the number of options for institutional re-design significantly (Capoccia and Kelemen 2007: 348). At other times, balance-of-power shifts may be less radical, only opening up space for incremental institutional change. For example, institutional challengers, having received a boost in power, may engage in gradual displacement – removing existing rules and introducing new ones – or layering – introducing new rules on top of or alongside existing ones (Streeck and Thelen 2005).

To explain balance-of-power shifts, historical institutionalists frequently call attention to exogenous factors. However, and this is where they depart from rational-choice institutionalism, they argue that power shifts can also be generated endogenously. For instance, distributional effects persisting over time may, at some point, trigger divisions among institutional power holders or resource allocations from different sets of institutions may strengthen disadvantaged groups (Mahoney and Thelen 2010: 9-10). In short, by adopting a power-based explanation of path dependency – as opposed to game-theoretic or utilitarian explanations proposed by rational-choice institutionalism – historical institutionalism is able to explain institutional change with reference to institutions – in particular, their effects on resource distribution.

At this point, it should be pointed out that rational-choice institutionalism does not ignore the concept of power. However, as Moe explains, although often referring to power, “the fundamentals of the theory have not changed. They take their orientation from the same framework that guides all economic theory: voluntary exchange among rational individuals” (2005: 215). This can be illustrated with reference to the game-theoretic approach to corruption. Advocates of this approach argue that the benefits of engaging in corruption are not equally distributed: “The closer to the top you find yourself in the hierarchy, the more likely it is that you are going to benefit in absolute terms from engaging in corrupt practices” (Persson et al. 2012: 12; also see Persson et al. 2013: 266). However, and this is the crucial point, systemic corruption does not stay in place because of unequal distributional effects; instead, it is reproduced – as explained in detail earlier – because of a collective action problem. Following Dowding’s (1991: 114) discussion of the role of power in game theory, we can even argue that those individuals receiving an unequal share
from corruption are *lucky*, not powerful, as they simply benefit from others’ collective action problems.

Having established historical institutionalism’s ability to explain institutional change as an endogenous process, it needs to be said that historical institutionalism does not have much to say about *informal* institutions, such as corruption. This is because historical institutionalism’s power-based mechanism of path dependency stresses that, generally, institutions “are specifically intended to distribute resources to particular kinds of actors and not to others” (Mahoney and Thelen 2010: 8; emphasis added); informal institutions, on the other hand, “do not possess a centre which directs and co-ordinates their actions” (Lauth 2000: 25), which, essentially, makes them unavailable for deliberate design by conscious actors. However, historical institutionalists are starting to understand that formal and informal institutions are linked in an interactive relationship – in particular, they may mutually stabilise and transform each other (see Tsai 2015).

Based on this idea, I will subsequently argue that different types of corruption regime in the developing world can be explained by reference to critical junctures at which elites – through their strategic choices – launched certain trajectories of institutional development. More specifically, I identify post-colonial independence as a critical juncture and argue that whether, at this particular moment in history, elites invested in bureaucratic capacity – that is, universalistic procedures and professional norms to govern the operation of state organisations – has had a lasting impact on the organisation of corruption.

To make this argument, I borrow de Waal’s concept of the “political marketplace”. In this marketplace, the rules for bargaining are as follows:

Provincial elite members seek to maximize the price they can obtain for their loyalty from metropolitan elites (mostly governments). They do this using the tools at their disposal, which includes votes, extending or withdrawing economic cooperation, and the use of violence. Metropolitan elites want to minimize the price they need to pay. They too have economic tools alongside the option of violence.  

(De Waal 2009: 103-104)
Post-colonial independence constitutes a critical juncture precisely because – by removing the key “buyer” of loyalties (i.e. colonial authorities) – it marks a dramatic shift in market conditions. Considerable space opens up for leaders of the post-colonial state and provincial elites to negotiate the price for political allegiance. Crucially, each side has different objectives that they bring to the bargaining table: While state leaders want to strengthen the state as a means to enhance their ability to mobilise local populations directly, provincial elites aim to prevent the state from achieving this. Or put in the words of Migdal (2001: 91),

State leaders view the state as a mechanism to create a single jurisdiction – a rule of law in which the rules are the same from border to border. This is the desideratum of the modern state … [S]trongmen, whether they are village chiefs, urban caciques, or rich peasants, work for precisely the opposite effect.

We can thus draw the following implications for state building in the post-colonial context: If state leaders need to buy the loyalty of provincial elites – as these elites have the ability to mobilise human and other resources – investment in state organisations based on impersonal and meritocratic principles will be small. This is because provincial elites will demand weak state organisations as the price for their loyalty. If, on other hand, state leaders do not face elites with significant resources at their disposal, investment in bureaucratic capacity and formal governance structures will be high.

In turn, these strategic decisions shape the organisation of corruption. Here, I introduce two different corruption regimes: the horizontal and the vertical regime (see Table 1). If investment in formal legal directives to govern the operation of state organisations is high, this will produce a horizontal corruption regime in which the “access points” to corruption are limited and generally only open to actors at the highest levels of the formal political system. Thus, in horizontal corruption regimes, formal state organisations – that is, organisations tasked with the implementation of public institutions (e.g. the courts, civil service, police) – and political parties – that is, those organisations responsible for designing public institutions – will play the key roles in the political process. Corruption tends to take the form of quid-pro-quo exchanges between economic and political elites – either as one-off instances of
bribery to influence policy-making or as more institutionalised exchanges within reciprocity networks. A particularly illustrative example of a horizontal corruption regime – an example that will be discussed in more detail below – is South Korea, where, under military rule (1961-1987) a highly institutionalised system of kickbacks emerged whereby senior party officials collected fixed payments from business conglomerates in exchange for access to public resources (credit, import licenses etc.).

If, on the other hand, elites do not make a significant investment in formal governance structures, this will facilitate the emergence of a vertical corruption regime, in which access points to corruption are numerous and decentralised. In this corruption regime, the particularistic allocation of public resources does not primarily occur on the basis of bribes but rather on the basis of personal connections, mainly in the form of patron-client networks. More specifically, informal networks – in competition with each other – extract public resources out of the state to secure the support of clients, thereby increasing their power vis-à-vis other networks. One example of such distributive arrangements are the predatory “big man” networks in African neo-patrimonial regimes, which “foster the continuation of vertical (communitarian, nepotistic or clientelistic) social relations and contribute to the creative blurring of the boundaries between the public and private spheres” (Chabal and Daloz 1999: 104). Another example are the camarillas in Mexican politics, which have been described as “pyramidal networks of corruption” through which clients “exchange loyalty to superiors for patronage and other benefits as they follow their chosen patron from one political post to another” (Morris 1991: 29). In vertical corruption regimes, such informal redistribution networks – rather than formal organisations – are the main provider of loyalties and are thus the key to understanding political outcomes.

For completeness’ sake, it should be pointed out that clientelism may also feature in horizontal corruption regimes. However, here, clientelistic exchanges are usually organised by political parties as abstract organisations, not by informal networks that are the private property of individual actors.

[Table 1 about here.]
Choices made at critical junctures as to whether to invest in bureaucratic capacity are difficult to reverse, which makes it very likely that these corruption regimes endure over time. This is because governance structures set up at critical junctures will distribute resources unevenly: Governance structures that rely on formal organisations for the mobilisation of loyalties benefit elites who are in control of such organisations; governance structures that depend on the ability of informal redistribution networks to gather followers benefit elites in control of such networks. Subsequently, those who benefit unevenly from distributional effects will defend the institutional setup against less powerful groups. That is to say, horizontal corruption regimes will reproduce the relative power of formal organisations (and possibly the power of reciprocity networks), while vertical corruption regimes will reproduce the relative power of informal redistribution networks.

I thus argue that institutionalised corruption is subject to path-dependent effects because it is embedded in governance structures with unequal distributional effects. Informal networks – be it reciprocity or redistribution networks – that benefit from these effects will use their power to resist institutional transformation – that is, a strengthening of formal norms to govern the operation of state organisations. More generally, I argue that we need to move away from the principal-agent framework to conceptualise corruption as the rational-choice approaches do. Instead, we need to create space for the role of informal networks in the analysis of institutionalised corruption: In many countries in the developing world, corruption is best conceptualised either as exchanges within reciprocity networks or flows of resources to strengthen loyalties within redistribution networks. This also explains why conventional anti-corruption measures based on the institutional economics approach have had very little effect in the developing world: Reform measures aimed at reducing the incentives for individuals to engage in corrupt behaviour ignore the fact that individuals are connected in informal networks that provide resources and share information. Because of these properties, informal networks are highly adaptive and have the ability to adjust within changing institutional settings. More generally then, the argument is that agency in the corruption market needs to be theorised in collective terms, not in individualistic terms.

The following section will apply the theoretical ideas just developed to account for the emergence of different corruption regimes in East Asia during the process of decolonisation. As will be briefly discussed in the conclusion, these regimes have –
despite significant changes in the formal institutional structures in which they are embedded – proven highly persistent and thus still structure corruption today.

A power-based explanation of corruption regimes in East Asia

Independence from colonial rule constitutes a critical juncture in the development of East Asia that can help explain the emergence of different corruption regimes across the region: horizontal corruption regimes in Taiwan, Singapore, South Korea and Malaysia, and vertical corruption regimes in the Philippines and Indonesia.¹ These corruption regimes still persist today, despite substantial political reform in recent decades, such as the liberalisation of previously state-led economies and the democratisation of autocratic regimes. Historical institutionalism’s framework of path dependency makes it possible to account for this persistence.

State building in East Asia: Political marketplaces and rival explanations

The end of colonialism in East Asia was achieved through different modes: a top-down, managed transition in the cases of the Philippines, Malaysia and Singapore, external liberalisation in the cases of Taiwan and South Korea, and armed struggle by insurgent groups in the case of Indonesia. However, irrespective of how independence was acquired, in all six countries the close of colonial rule – whether it was sudden or gradual – constituted a critical juncture in the sense that considerable space opened up for domestic elites to make major choices over the institutional design of the new state. In particular, elites had to decide whether to invest in bureaucratic structures – that is, formal chains of command – and thus set up a horizontal corruption regime, or whether to invest in clientelistic structures, and thus establish a vertical corruption regime.

In South Korea, Taiwan, Singapore and Malaysia, strategic choices made during the critical juncture of post-colonial independence resulted in high-quality bureaucratic institutions, which is reflected in the fact that these countries are

¹ For comparability purposes, the case selection only includes capitalist regimes that experienced colonial rule. Hence, countries that adopted command economies (China, North Korea, Vietnam, Laos, Cambodia, Myanmar) will be excluded, as will Thailand, which was never placed under colonial rule.
commonly subsumed under the “developmental state” (Johnson 1987; Pempel 1999) or “administrative state” label (Esman 1972). However, at this point, it is important to stress that bureaucratic reforms implemented after the end of colonial rule were not typically extended to the whole administrative apparatus. Certain state agencies were designated as “dispensers” of political favours and targeted particularistic benefits, and thus deliberately insulated from reform efforts. Nevertheless, state designers still ensured that most bureaucratic organisations would be run on meritocratic principles and strong formal internal rules. Critically, these strategic choices ensured state designers control over horizontal corruption regimes through which to consolidate their power. Design choices were thus not a simple matter of more or less high-quality state organisations, but design choices were made with the aim of institutionalising a particular corruption regime. This becomes even clearer when one draws a comparison with the Philippines and Indonesia where state designers only created small “pockets of bureaucratic efficiency”, leaving the most part of the state apparatus to be governed by informal norms. Here, the goal was to institutionalise a vertical corruption regime.

To explain these divergent outcomes at the critical juncture of post-colonial independence, I argue that institutional design choices were conditioned by the political marketplace: In the Philippines and Indonesia, the political marketplace was skewed towards provincial elites who used their control of clientelistic “vote banks” and coercive means, respectively, to extract from metropolitan elites a payment for their allegiance. Metropolitan elites made this payment by refraining from investing in formal rules to govern the operation of state organisation – and in the case of Indonesia even dismantling existing rules – so to establish a vertical corruption regime that provided provincial elites and their networks with institutionalised access points to corruption. In contrast, in South Korea, Taiwan, Singapore and Malaysia the political marketplace gave metropolitan elites an advantage over provincial elites, as the former monopolized coercive power and – through their control of relatively strong state structures and/or “mass parties” – commanded a significantly larger share of mobilisational resources than provincial elites (see Table 2). State designers were thus able to implement horizontal corruption regimes.

[Table 2 about here.]
To demonstrate the plausibility of this argument, we need to control for other factors that may explain elites’ incentives to engage in state building (see Table 3). To begin with, a number of authors argue that prolonged elite conflict will lead to underinvestment in formal bureaucratic structures – either because elites are driven by the immediate need to secure their rule rather than longer-term goals of development (Waldner 1999), or because elites will institutionalise an incoherent compromise solution that divides authority among a number of factions (Vu 2007). Turning the argument around, this means that high elite cohesion should result in coordinated state building efforts. However – and without even addressing the problem that “elite conflict” is an extremely vague and slippery concept – the comparison of our six cases reveals that the theorised link between elite conflict and state building does not hold in the Philippines: Although, “in characterizing relations between Philippine elites, one can assess them as cohesive” (Case 2002: 209), this cohesion has not resulted in bureaucratic reforms that strengthened the state as an autonomous actors.

Secondly, parts of the state building literature make the argument that a rich endowment of mineral and fuel resources creates incentives for elites to underinvest in bureaucratic capacity – either because resource revenues reduce the need to extract taxes from citizens (Besley and Persson 2010), or because the enlarged size of the “honey pot” makes the state prone to capture by powerful interests and to widespread corruption (Arezki and Brückner 2011). However, again, the evidence from East Asia does not support this argument, as Malaysia – which is endowed with significant deposits of oil, gas and tin – developed relatively strong state structures.² Third, another major argument in the literature on state building revolves around the role of inter-state war and external threats. The proposed mechanism suggests that, to withstand attacks from aggressive neighbours, elites need to extract resources out of the population as a means to fuel the war machine. Conversely, this means that countries that do not face external threats will not develop strong states (Desch 1996). If we apply this theory to East Asia, Malaysia – once again – presents a contradictory case. Moreover, it is not clear whether the theorised causal mechanism can explain the simultaneous presence of severe external threats and high-quality bureaucratic institutions in the cases of South Korea and Taiwan: Both countries – between the end

² For a discussion of possible explanations of why Malaysia was able to escape the so-called “resource curse” see Sovacool (2010).
of WWII and the mid-1960s – received billions in US economic aid, which should have undermined incentives for strengthening the state’s extractive abilities.

[Table 3 about here.]

While the three theories just discussed – and ruled out as rival explanations – focus on politicians’ rational incentives to explain the emergence of high-quality bureaucracies, other work conceives state building as a long-term process, stressing that “institutional and organizational developments … build on what is there already” (Rueschemeyer 2005: 160). In particular, scholars have focused on the institutional legacies of colonial rule as a significant constraint on state reforms. One argument in this regard is that the distinction between direct and indirect forms of colonial rule has a path-dependent effect on the development of the post-colonial state: Whereas direct rule typically left behind infrastructurally powerful states, indirect colonial rule “gave scattered strongmen the wherewithal to build their social control in fragments of the society”, which, in countries that experienced indirect rule, has seriously inhibited state building in the post-colonial era (Migdal 1988: 141; also see Lange 2009).

Based on this causal mechanism emphasising the degree of fragmentation of social control, however, it seems more appropriate to treat colonialism as a factor that shapes the political marketplace rather than a competing explanation for the emergence of different corruption regimes: Direct colonial rule strengthens the position of metropolitan elites, indirect rule the position of provincial elites. Yet, crucially, colonialism is only one factor that influences the competitive dynamics in the political marketplace. This becomes clear when we compare the Philippines and Indonesia, both of which featured post-colonial marketplaces with powerful “sellers” of loyalties; however, only the Philippines had gone through indirect colonial rule, while Indonesia – similar to Malaysia – had been subjected to a hybrid combination of direct and indirect rule.

**Institutionalising vertical corruption regimes**

The Philippines – which was under Spanish possession between the mid-16th century and 1898, and subsequently American control until 1946 – never experienced a
significant investment in bureaucratic structures by colonial authorities. During the period of Spanish colonialism, the Filipino archipelago lay at the periphery of the colonial empire, as the Spaniards focused their attention mainly on areas with rich gold and silver deposits in Latin America. Reflecting its peripheral and unimportant status, the Philippines was administered through a system of indirect rule that relied on the Catholic church and local strongmen for the exercise of political power (Sidel 1999: 14-15). The latter saw a significant boost in their power when, in the early 19th century, the Spaniards commercialised Filipino agriculture, thus giving strongmen the opportunity to amass vast tracts of land to establish *hacienda*-like plantations. Thus, by the time the Americans arrived, the Philippines had seen the consolidation of provincial fiefdoms built on strongmen’s economic power and social control over local populations through patron-client networks. The Americans, similar to the Spaniards, did not invest in territory-wide bureaucratic institutions. Instead, driven by the goal of preparing the Philippines for independence and self-government, US colonial authorities prioritised the implementation of elections as a mechanism of political control. And, significantly, the way in which elections were rolled out – starting at the local level and moving up to the national level – allowed provincial strongmen to turn their local fiefdoms into electoral bailiwicks (Anderson 1988: 7-11).

Indirect colonial rule and the particular process of decolonisation thus created a political marketplace in which metropolitan elites did not possess significant mobilisational resources, while provincial strongmen exercised control over clientelistic vote banks. As a consequence, politicians striving for national office saw themselves forced to “buy” the loyalty of these provincial elites, which most visibly manifested itself in the emergence of loosely structured political parties that were merely “a working alliance of patron-client systems” (Landé 1964: 75). To facilitate the buy-in of provincial elites, state designers created a bureaucratic apparatus that would be only weakly insulated from politicians’ demands. To begin with, national legislators were given wide discretion over the disbursement of pork-barrel funds and making patronage appointments in bureaucratic agencies. This not only allowed

---

3 Elections in the Philippines were implemented in the following order: municipal office (1901), provincial governors (1902), Philippine Assembly (1907), bicameral legislature (1916) and Commonwealth presidency (1935).
national politicians to fuel patron-client ties with provincial elites in control of significant vote banks – who, in turn, would use these payments to further strengthen the loyalty of their vote banks (Hutchcroft and Rocamora 2003: 271-272) – but, at the same time, the “systems of patronage overwhelmed the capacity of central agencies to supervise lower levels of government” (Hutchcroft 2000: 296). The result of the latter was that provincial elites effectively came to exercise “monopolistic personal control over coercive and economic resources in their territorial jurisdictions or bailiwicks” (Sidel 1999: 141). Overall then, these design choices institutionalised a vertical corruption regime under which the state apparatus would repeatedly be choked by “an anarchy of particularistic demands” (Hutchcroft 1998: 13) from distributive networks seeking to fuel patron-client ties with public resources.

In Indonesia, the post-colonial marketplace allocated the largest share of mobilisational resources to metropolitan elites. And colonialism was again an important factor that influenced these market dynamics. First, while initially making heavy use of indigenous political structures to sustain political power over the Indonesian archipelago, the Dutch colonialists increasingly moved towards a more direct form of administration. For one, during the second half of the 19th century, indigenous elites were, step by step, integrated into the colonial Beamtenstaat, which significantly undermined traditional modes of social control (Sutherland 1979). Moreover, although formally retaining a dualistic legal system that featured two sets of courts and laws – one based on European norms, the other one on traditional (adat) laws – in reality, the system became more and more subjected to control from the centre, thus effectively stripping customary courts of their powers (Lev 1985). Hence, when the first elections were held in 1955, metropolitan elites were able to use the institutional structures that the Dutch had left behind as a vehicle for voter mobilisation. In particular, the winner of these first elections, the Indonesian Nationalist Party (PNI), relied heavily on the vote-getting abilities of civil servants (Liddle 1973: 295).

Second, in combination with the peculiar form of feudal landownership in pre-colonial society, the growing importance of the colonial state in managing economic activity produced a system of capitalist agriculture that was dominated by foreign-owned plantations and wage labour (Robison 2009: 10-15). The political marketplace, unlike in the Philippines, did therefore not put provincial elites in control of significant clientelistic vote banks. This is not to say that patron-client ties did not
matter in structuring social relations in rural areas – in fact, a number of parties, such as *Masjumi*, capitalised on landowners’ clientelistic control over peasants in the 1955 elections – however, the dominance of foreign-owned plantations meant that a large number of peasants were able to escape clientelistic practices, which made them available for alternative modes of mobilisation by metropolitan elites (Utrecht 1976).

Third, whereas de-colonisation in the Philippines unfolded through the implementation of elections from the local level upwards, Indonesia achieved independence from colonial rule through a prolonged campaign of armed insurgency. In particular, the struggle against the Dutch allowed the Communist Party of Indonesia (PKI) to lay the foundations for creating an extensive mass membership organisation after independence and thus become one of the main pillars of Sukarno’s Guided Democracy regime (1957-1966).

However, while the political marketplace thus gave metropolitan elites unequal access to mobilisational resources, the same cannot be said about coercive resources. Most significantly, years of guerrilla warfare against the Dutch meant that local military units had become largely self-sufficient by developing an independent economic base – often in the illegal economy. As Anderson (2008: 50) explains, “[s]ome provincial military commanders, headed towards warlord status, began to create their own hidden budgets by protecting smugglers, controlling local export revenues and practising extortion”. When the central government sought to turn the revolutionary guerrilla forces into a disciplined and professional army – which would have resulted in reduced informal profit-making opportunities for provincial commanders – this triggered a series of local armed revolts (Crouch 1985: 54-55). Although successfully crushing the revolts, metropolitan elites continued to perceive “danger of political adventurism by regional military leaders” and thus largely shelved their reform plans (Mietzner 2009: 49). Instead, metropolitan elites decided to set up a vertical corruption regime as a mechanism to buy the loyalty of coercive entrepreneurs. The first step in this direction was to abolish the dualistic legal structure inherited from the Dutch in favour of the weaker *adat* side of the structure, which “made it much easier for Indonesia’s military and political elites to gut the legal system of its autonomy and subordinate it to executive power” (Winters 2011: 153). Subsequently – first under Sukarno, then to an even greater extent under Suharto’s New Order regime (1966-1998) – army officers were placed in key government and administration roles, and a massive expansion of military business
activities was encouraged. Provincial commanders were thus given ample opportunities to fuel their personal networks through corrupt activities – either by “selling” public licenses, permits and contracts to private market actors, siphoning off funds from military-controlled companies, or running illicit operations (such as illegal logging or mining, smuggling, or drug trafficking) (Crouch 1975; McCulloch 2003).

**Institutionalising horizontal corruption regimes**

In contrast to the Philippines and Indonesia, political marketplaces in post-colonial South Korea, Taiwan, Singapore and Malaysia did not contain any significant sellers of allegiances. Regarding the distribution of mobilisational resources between metropolitan and provincial elites, the first thing to note is that, unlike in the Philippines, colonial powers instituted direct forms of administration and invested heavily in bureaucratic infrastructure. This is particularly true of South Korea and Taiwan, where – due to geographical proximity and shared cultural traits – Japanese colonial authorities were driven by the long-term objective of eventually integrating the two colonies into an expanded Japan (Kohli 1994: 1272). The British in Malaya initially followed a hybrid model that combined direct rule in the Straits Settlements (including Singapore) with indirect rule relying on indigenous sultans in other parts. However, when the British returned to Malaya after WWII to face a strong communist insurgency, they implemented significant reforms aimed at centralising political power and extending the reach of the colonial state (Esman 1972: 62-66).

In South Korea and Singapore, where metropolitan elites had not developed mass membership parties by the time of independence, these institutional legacies of colonial rule came to play a key role in elections.⁴ In South Korea, both the Rhee Syngman regime (1948-1960) and the Park Chung-hee regime (1963-1979) depended heavily on the state’s “administrative organization as the basis for party strength and political power” (Han 1972: 132) – albeit with significant differences: While Rhee’s electoral success was mainly based on systematic electoral fraud orchestrated by the police and the large-scale mobilisation of military personnel as voters, the Park

---

⁴ In Singapore, the People’s Action Party (PAP) started out with the goal of developing into a mass party. However, in 1961, leftist factions split away from the party over the question of a Singapore-Malaysia merger, and took about two-thirds of party members and most of the party bureaucracy with them.
regime professionalised the security sector and, instead, built a base of support in the countryside by distributing clientelistic goods (such as credit and fertilizer) through the local bureaucracy (Lee 2011: 348-349). In Singapore, the People’s Action Party (PAP) turned to local government units – such as Community Centres – to make up for its lack of grassroots branches (Mauzy and Milne 2002: 95-96). Moreover, the party institutionalised a clientelistic exchange process whereby constituency-specific programmes – such as infrastructure, social welfare provision, and housing subsidies – would be explicitly tied to support for the PAP (Seng 1998: 389).

In Taiwan and Malaysia, on the other hand, the state became “colonised” by mass parties – the Kuomintang (KMT) and United Malays National Organisation (UMNO). The KMT, originally established on the Chinese mainland in 1912, was reorganised along the lines of the Communist Party of the Soviet Union in 1923. The party underwent another reorganisation in the early 1950s – after losing the Chinese Civil War to Mao’s communists and being forced to retreat to Taiwan – when the leadership around Chiang Kai-shek came to the assessment that “the weakness of the KMT’s own organization [had] contributed to its defeat” (Dickson 1993: 58). Sticking to Leninist principles of party organisation, the KMT created a network of cells and committees to reassert its control over the state bureaucracy and the military. The UMNO, in the meantime, had been created under colonial rule in 1946, in the context of the war against communist insurgents. The British regarded the UMNO as their “natural ally” in this conflict and “did all that was in their power to allow the movement to emerge as the major political party in Malaya” (Stockwell 1977: 510). In particular, they relaxed the rules that banned civil servants from engaging in political activities, which, in turn, allowed the UMNO to fill the lower ranks of its mass organisation with local officials and schoolteachers, thereby establishing the basis for a “strong state and ruling party coalition” (Slater 2010: 147).

As regimes in South Korea and Singapore, both the KMT and UMNO used their control over the state to fuel clientelistic linkages with voters. The KMT’s preferred strategy in this regard was to “buy” votes from local factions (difang paixi) – interpersonal networks held together by informal social ties (kinship, friendship, neighborhood, school) – in exchange for privileged access to public resources (such as loans by provincial banks, contracts for public construction projects, or protection for illegal businesses) (Bosco 1992). The UMNO targeted primarily peasants as recipients of clientelistic benefits (such as fertiliser or livestock), exploiting its
command over local Village Development and Security Committees and government-sponsored Farmers’ Associations to turn these state organisations into efficient vote-getting machines (Crouch 1996: 40-41).

This impressive stock of mobilisational resources gave metropolitan elites a dominant position in the political marketplace vis-à-vis landowning elites. Metropolitan dominance was most pronounced in Singapore where sheer geographical size had prevented the emergence of a significant landed class. In South Korea and Japan, landholding elites had been considerably weakened under Japanese colonial rule and subsequently experienced a further blow to their power through the implementation of extensive land reform programmes after WWII: In South Korea, reforms were achieved under the pressure from US military authorities who feared peasant unrest and political instability (Booth 2007: 179); in Taiwan, the KMT – driven by similar concerns – enacted reforms on its own initiative, facilitated by the fact that, having arrived from “outside”, the party enjoyed a great deal of autonomy from local landlords (Wang 1999: 324). Likewise, landowners in Malaysia were not able to rival the mobilisational resources of metropolitan elites – for mainly two reasons: First, similar to Indonesia, colonialism had resulted in a large share of agricultural land being controlled by foreign-owned plantations. Second – and unlike in Indonesia – arable land was still in abundant supply, which offered peasants ample opportunities for squatting (Booth 2007: 182). Hence, unable to demand a high price in return for their loyalties, landowners and their patron-client networks just became another cog in the UMNO machine, recruited primarily as the heads of local party branches. As Doshi (1988: 491) summarises, “peasant loyalty in the post-colonial period was maintained through party-directed and state-funded elaboration of rural clientelistic structures”.

While political marketplaces thus allocated an unequal amount of mobilisational resources to metropolitan elites, the picture is even clearer regarding the distribution of coercive resources. Crucially, unlike in Indonesia, processes of decolonisation did not result in a fragmentation of military power. In Malaya, the British – once they had crushed the communist insurgency – initiated a controlled transition to independence from above. Taiwan and South Korea, on the other hand, experienced “automatic”

---

5 However, it needs to be pointed out that most plantation workers had been brought in from China and India.
decolonisation after Japan’s defeat in WWII. And although both countries were subsequently dragged into violent conflicts – the Chinese Civil War and the Korean War, respectively – coercive resources remained centrally controlled by the state. In the case of Taiwan, this was facilitated by the fact that, when the Kuomintang (KMT) withdrew to Taiwan in 1949 following the communist victory on the mainland, only the most loyal elements of the army followed party leader Chiang Kai-shek (Gold 1986: 59). In South Korea, it was the official subordination of the armed forces to United Nations commands that put a constraint on any centrifugal tendencies.

In short, in all four countries, political marketplace conditions were not favourable for provincial elites to fetch a high price for their loyalties, simply because metropolitan elites controlled the largest share of both mobilisational and coercive resources. As a result, metropolitan elites – unlike in the Philippines and Indonesia – were able to strengthen the state as a mechanism to exercise direct political control over territory and people. At the same time, these design decisions established a horizontal corruption regime, in which access points to corruption were highly centralized in the hands of state leaders. However, corruption took different forms: While, in Taiwan and Singapore, corruption remained limited to one-off incidents of bribery, in South Korea and Malaysia, corrupt exchanges became institutionalised in reciprocity networks. This can be explained by the fact that, in South Korea and Malaysia, political elites decided to nurture a domestic capitalist class, which subsequently came to function as an important dispenser of illicit funding for political parties.

In South Korea, the Rhee regime planted the seeds for the emergence of large business conglomerates (the so-called chaebol) by selling Japanese-owned assets to loyal supporters for a fraction of their real worth and by gearing the US-funded programme of import substitution industrialisation towards cronies; however, it was the Park regime that – by paving the way for the inflow of commercial Japanese loans and by shifting to more capital-intensive export-oriented industrialisation – really accelerated the growth of the chaebol. The government’s main tool for industrial coordination was its tight control over the allocation of credit, which had been made

6 For detailed accounts of state building efforts in Taiwan, Singapore, South Korea and Malaysia, see Gold (1986: ch. 5); Cheng et al. (1998); Vu (2007); Quah (2010: chs 3 and 7); Esman (1972).

7 For examples of corruption scandals in Singapore, see Haggard and Low (2002: 303-304).
possible by nationalising the banking sector. As briefly mentioned above, this quasi-monopoly on credit allowed the Park regime to institutionalise a system of bribery, whereby high-ranking government officials would provide the chaebol with access to loans in exchange for the payment of fixed kickback rates. The illicit payments extracted from private business were an important source of funding for the regime’s Democratic Republic Party (DRP) (Kang 2002; Han 1972: 133-134).

In Malaysia, the UMNO initially relied on its links with the cash-rich Malaysia Chinese Association (MCA) – a coalition that was formally registered as the Alliance Party – for the funding of its operations. The UMNO became more financially independent after the introduction of the New Economic Policy (NEP) in 1969 – a programme aimed at promoting ethnic Malay entrepreneurs to help reduce the dominance of ethnic Chinese over the country’s business sector. For one, the UMNO set up a number of party-owned enterprises. However, more important for the discussion here, party leaders used their control over NEP resources to tie the newly nurtured Malay business elite into informal reciprocity networks. Corrupt exchanges between the two sides took on an increasingly institutionalized nature, as business elites came to “ultimately rely on their connections with top UMNO leaders to secure continued patronage while, in turn, providing financial and other backing for their political patrons” (Jomo and Gomez 2000: 296; also see Gomez 1996).

In contrast, in both Taiwan and Singapore, state leaders decided against nurturing a domestic capitalist class with public resources. Reciprocity networks similar to those in South Korea and Malaysia did thus not emerge. In the case of Taiwan, the “alien” KMT regime mainly relied on fiscal – rather than monetary incentives – to coordinate industrialisation, which was to a large extent driven by party leaders’ fear of creating too strong a Taiwanese capitalist class that could have developed into a threat to the party’s dominant position (Cheng 1990: 150). In Singapore, the PAP initially considered plans for a programme of import substitution industrialisation that would have assigned a key role to domestic business. However, when the short-lived merger with Malaysia (1963-1965) came to a sudden end – thus depriving Singaporean companies of access to the Malay market – the PAP switched to a strategy of export-oriented industrialisation based primarily on investment by multinational companies (Rodan 2006: 141-142).
Conclusion

The literature on corruption has recently witnessed the emergence of a neo-institutionalist approach. This approach – in its game-theoretic and transaction costs variants – must be praised for making an original contribution to the question of why anti-corruption measures based on the dominant institutional economics model have been largely ineffective in fighting systemic corruption in the developing world. However, by carrying over the core rational-choice assumptions of the institutional economics model, the neo-institutionalist approach replicates the weaknesses of rational-choice institutionalism: It cannot explain the emergence of different corruption equilibria, it needs to refer to exogenous shocks in order to explain change, and it underestimates the importance of collective actors in the political process.

To overcome these weaknesses, this paper introduced a historical institutionalist perspective to the study of corruption. By adopting a power-based explanation of path dependency – as opposed to game-theoretic or utilitarian explanations – historical institutionalism is able to provide a coherent explanatory narrative of institutional origins and change, while at the same time also offering analytical scope for the inclusion of collective agents.

Based on these meta-theoretical ideas, the paper focused in particular on the question of how different corruption regimes emerge. Through a small-N comparative analysis, I developed the argument that, in East Asia, corruption regimes were set up through deliberate state building efforts – or the lack thereof – during the critical juncture of post-colonial independence. Strategic choices were, in turn, conditioned by the political marketplace: In Taiwan, Singapore, South Korea and Malaysia, where metropolitan elites held a near-monopoly over mobilisational and coercive resources, a horizontal corruption regime was institutionalised; in the Philippines and Indonesia, where the political marketplace allocated a large share of resources to provincial elites, a vertical corruption regime ensued.

While this has not been the primary focus of the paper here, it can be observed that these corruption regimes have been incredibly resilient to change. In particular, it is noteworthy that institutionalised forms of corruption through informal networks – either reciprocity or redistribution networks – remain firmly in place. This can, first of all, be explained by the fact that networks recycle themselves over time, with existing network changing “ownership” or new networks entering the market. For example, in
the Philippines, while a number of networks of traditional landholding families continue to hold on to their local bailiwicks, other networks have risen in prevalence, controlled – for example – by political clans with an industrial manufacturing background or by cronies of the Ferdinand Marcos regime (1972-1986) (Hellmann 2011: 102-103). Second, informal networks – more generally and irrespective of ownership – have demonstrated a remarkable ability to adapt themselves to changes in the institutional setting in which they are embedded. Hence, institutional reforms, which – according to the institutional economics approach – should have helped to fight corruption, did not produce any significant effects. For example, Gomez and Jomo (1997: ch. 4) outline how, in Malaysia, reciprocity networks were able to hijack the programme of privatisation and market deregulation that was rolled out in the 1980s to strengthen their position in the political system. Likewise, the “third wave” of democratisation that washed away a number of autocratic regimes in East Asia in the 1980s and 1990s did not do much to weaken corruption networks. Wad, for instance, observes how, in South Korea, “the structure of [the] ‘politics-economy’ collusion was not dismantled with the rise of democracy” (Wad 2002: 210). Rather, the introduction of free elections meant that the number of horizontal reciprocity networks multiplied, with the chaebol channeling financial resources to those politicians with a good chance of winning the presidential office (Park 2008: 115). Hadiz makes an argument along similar lines about Indonesia, claiming that predatory networks that had been nurtured through Suharto’s autocratic regime were not only able to survive democratisation, but they took advantage of decentralisation reforms to establish “local fiefdoms fed by decentralised corruption” (2004: 704).

In short, this paper has highlighted two lessons for the study of systemic corruption. First, power matters – not only as a factor to explain the emergence of different corruption regimes but also as a factor to explain the path-dependent trajectories of these regimes. Second, rather than conceptualising systemic corruption through the atomistic assumption of the principal-agent framework, it seems more fruitful to place greater emphasis on collective actors – in particular, informal networks – as the key agents in the analysis of systemic corruption.
References


<table>
<thead>
<tr>
<th></th>
<th>horizontal</th>
<th>vertical</th>
</tr>
</thead>
<tbody>
<tr>
<td>quality of state organisations</td>
<td>generally high: loyalties based on impersonal commitments and meritocracy</td>
<td>mostly poor: loyalties based on personal ties and individual advantage</td>
</tr>
<tr>
<td>access points to corruption</td>
<td>limited and centralised</td>
<td>numerous and decentralised</td>
</tr>
<tr>
<td>dominant types of corruption</td>
<td>quid-pro-quo exchanges (e.g. bribery, toll-gating, kickbacks)</td>
<td>“transmission” of public resources through patron-client relations</td>
</tr>
<tr>
<td>principal actors</td>
<td>formal (state) organisations and reciprocity networks</td>
<td>redistribution networks</td>
</tr>
<tr>
<td>Country</td>
<td>Mobilisational resources</td>
<td>Coercive resources</td>
</tr>
<tr>
<td>-----------</td>
<td>--------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td></td>
<td>State infrastructure</td>
<td>Urban-based mass party</td>
</tr>
<tr>
<td>Indonesia</td>
<td>strong but not extensive</td>
<td>yes (PKI)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>strong but not extensive</td>
<td>yes (UMNO)</td>
</tr>
<tr>
<td>Philippines</td>
<td>weak</td>
<td>no</td>
</tr>
<tr>
<td>Singapore</td>
<td>strong and extensive</td>
<td>no</td>
</tr>
<tr>
<td>South Korea</td>
<td>strong and extensive</td>
<td>no</td>
</tr>
<tr>
<td>Taiwan</td>
<td>strong and extensive</td>
<td>yes (KMT)</td>
</tr>
<tr>
<td>Country</td>
<td>Control variables</td>
<td>Critical antecedent</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td></td>
<td>Colonial rule</td>
<td>Mineral/fuel resources</td>
</tr>
<tr>
<td>Indonesia</td>
<td>hybrid</td>
<td>abundant (oil)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>hybrid</td>
<td>abundant (oil, gas, tin)</td>
</tr>
<tr>
<td>Philippines</td>
<td>indirect</td>
<td>scarce</td>
</tr>
<tr>
<td>Singapore</td>
<td>direct</td>
<td>scarce</td>
</tr>
<tr>
<td>South Korea</td>
<td>direct</td>
<td>scarce</td>
</tr>
<tr>
<td>Taiwan</td>
<td>direct</td>
<td>scarce</td>
</tr>
</tbody>
</table>