

OBSERVED DIFFERENCES IN CORRUPTION BETWEEN ASIA AND AFRICA: THE INDUSTRIAL ORGANIZATION OF CORRUPTION AND ITS CURE

Antti Talvitie

ABSTRACT

The paper presents a nonconforming view about corruption and an approach to its 'cure'. It seeks to explain the anomalous situation that despite pervasive corruption and weak institutions, emerging economies in Asia attracted a flow of foreign investment and achieved a remarkable economic growth and reduction in poverty. Fragile countries in Africa have not done so well.

The paper posits that the main difference in the corruption characteristics between the two regions is that in Asia corruption is part of the fixed cost and in Africa it is in the variable costs and consequently has less distortionary effect on investment and economic growth in Asia. Corruption becomes part of the fixed costs when it has a governance structure based on relationships. Although corruption and violent criminality are often correlated, many involved in corrupt governance structures are not evil.

An early version of this paper was written and presented ten years ago under a slightly different title, and in that sense the paper is anachronistic. The paper has been updated and its concept that there are two kinds of corruption—variable and fixed cost corruption—remains valid. The qualification that needs to be made is that there has been progress in both continents and the broad-brush generalization applies to countries that are stuck in fragility in a different way from those that are making sustained efforts to bring stability and reforms in their country. So, with a decade-long arc and a slight change in the title of the early paper, the regions are good proxies for calling attention to the two kinds of corruption and their associated dysfunctions, crime, violence and political instability.

The leaders are implicated as enablers of corruption. A further premise is that corruption is an emotional disorder and difficult to cure. The paper outlines modern group-psychoanalytic process to governance and to reorient corruption based on the hypothesis that the human drives, both positive and negative, that bring into being 'good

Copyright: © 2012 Antti Talvitie. Copyright for this article is retained by the authors, with first publication rights granted to the International Public Management Review (IPMR). All journal content, except where otherwise noted, is licensed under a Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Unported License. By virtue of their appearance in this open-access journal, articles are free to use, with proper attribution, in educational and other non-commercial settings.

Corresponding Author: aptalvitie@gmail.com

The views and conclusions in the paper are those of the author and should not be attributed to the organizations affiliated with the author.

enough' government and a cohesive country are the same forces that act as agents of corruption and as a safeguard against it.

Keywords - *Corruption in Asia and Africa, Fixed and Variable Costs of Corruption, Neoinstitutional Economics and Corruption, Organization of Corruption, Psychoanalysis and Corruption*

INTRODUCTION

This paper presents a nonconforming view about corruption and an approach to its 'cure', which in the authors' view is valid. The common definition of corruption is *abuse of public power for private gains* (World Bank 1997a)¹. This definition leads to the assumption that its causes lie in the existence of monopoly rents whose distribution is under the control of authorities that have discretionary power and operate in a non-transparent environment (Tullock 1967; and Rose-Ackerman 1997). Received theory and interpretation of empirical evidence have led to a hypothesis that high levels of corruption, weak institutions, and limited information disclosure discourage private sector investment and retard economic growth (Mauro 1997; North 1990; Tullock 1967; World Bank 1997a, World Bank 2011a). Because corruption is an obstacle to alleviating poverty, many have called for dislodging corrupt practices from economic activities. Successive World Bank Presidents, starting with Mr. Wolfensohn, have taken strong stands against corruption: It is wrong; it prevents or destroys social cohesion without which there can be no economic growth.²

The East Asian 'miracle' took place within an inadequate institutional framework, systemic corruption and crony capitalism. The region's crisis in the late 90s exposed what had been known but not spoken: the East Asian political economy was rigged with corruption and rent-seeking. The *chaebols*, once thought of as the engines of South Korean 'miracle', were culprits in economic 'crimes'. In Thailand, politicians received bribes for government contracts, exemption from taxes, regulations, competition or transaction costs. In China, ordinary citizens had to use the 'back door' to get essential services.³ In Indonesia, the former president's extended family and associates engaged in lucrative business deals, avoided transaction costs and competition, and received favorable government treatment. Businessmen paid bureaucrats to make decisions or police and gangs for protection. Several years later a new *leadership* has made much progress to uproot the most pervasive forms of endemic corruption (The *Economist Special Report* on Indonesia Sept 12, 2009), although there continues to be pockets of resistance to governance reforms, including decentralization, carried out by President Yudhoyono. Recently, in India (the *New York Times*, unknown date; the *Economist* August 27, 2011) government concessions to well-connected businesses caused Gandhi-like popular uprisings to force the government to enact Lokpal anti-corruption legislation with broad investigative powers. Despite widespread abuses of public power, these countries have attracted a large flow of foreign investment (figure A1 in the annex), register high levels of economic growth, and have achieved a remarkable reduction in absolute poverty in the past ten years. Other developing countries, particularly those in Africa, have not done so well.

The effect of corruption on investment decisions is believed to be more detrimental in Africa than Asia. After accounting for other variables such as the availability of infrastructure, regulations, and macroeconomic environment, a World Bank survey of the private sector, reported in the *1997 World Development Report* (WDR), found that firms consider corruption more of an obstacle to doing business in Africa than in Asia.⁴ Yet corruption in Asia is no less.

The recent IEG evaluation of the World Bank's Governance and Anticorruption (GAC) agenda (World Bank 2011a) is a comprehensive examination of governance and corruption issues, and shows that the "cancer of corruption" (Wolfensohn's apt words) is a 'moving target' and context specific. The GAC study also found that "the investment climate in a number of countries was constrained by public sector bottlenecks" (p. 96), which included customs, licensing and regulation, shadowy noncompetitive and market entry practices, and capture by politically influential persons, which consultative mechanisms only magnified. Earlier Kaufmann et al (2009) also concluded that "governance matters". Strong links between corruption and governance, economic growth, poverty reduction and aid effectiveness in general have also been reported (e.g. Kaufmann and Kraay 2003).

As a result of these findings, governance, institutional capacity development, sector restructuring, property rights, privatization, regulation, pricing reforms, and access to information all have significant bearing on the anticorruption agenda of aid entities. In many sectors risk assessment tools, specialized databases, or monitoring systems have been brought into use. Decentralization, community participation, engagement civil society organizations and increased transparency of decision-making have become integral parts of the reforms.

Nonetheless, the recent literature on corruption has not presented new theoretical or effective approaches to deal with corruption. It continues to wring its hands over and quantify the large losses from corruption and its negative effects on poverty reduction (Kaufmann and Kraay, 2008; Kaufmann, 2005). The profession is also active in the development of 'red flags' and elaborate surveys (Reinikka and Svensson, 2003) to measure, detect, prevent, inform and warn about corruptive practices (Kenny, 2006; Paterson and Chaudhuri, 2007) with intentions to pursue corrupt officials, persons and firms 'with zero tolerance' and with more effective and coordinated sanctions (World Bank 2011b) punish them.

The World Bank's GAC evaluation study (2011a) gives a multidimensional view of 'the cancer of corruption'. Corruption is not simply 'brown envelopes' to enforce or reward compliance or cooperation, padded contracts for civil works, cash to 'evil' officials to gain contracts, or delivery of poor-quality products. Bank-focused, the IEG evaluation recommends several practical measures, tailored to the context, that are essential and relevant for both lenders and governments: improve governance (in dimensions mentioned above); foster public sector and civil service pay reforms; use country systems; support information disclosure with multiple media; give operational meaning to 'zero tolerance'; strengthen lender-country dialogue to curtail elite or state capture and to empower citizenry; harmonize approaches to review and manage sector-level risks and not only transaction-level risks; and, for learning, improve monitoring of GAC responses.

The general tone conveys an emphasis on governance: for corruption to have significant negative effects it is not isolated, but endemic and part of the country's leadership and governance 'architecture'.

To sum up, there is no shortage of studies and evidence of the deleterious effects of corruption on economic growth, poverty reduction and social well-being and of advice to 'combat' it (World Bank 2009). But, here's the quandary: how can we explain the fact that in the presence of pervasive corruption, sometimes abetted by an availability of a rich endowment of natural resources, a country makes significant economic progress in a short time? How do we explain the perceptions of investors about corruption in different countries? An explanation in the 1997 WDR is that corruption in Asia is more predictable than corruption in Africa. If this is so, then *why* is it more predictable?

This paper studies this question through a complex two-pronged hypothesis of why corruption in Asia had less adverse effect on investors' long-term investment decisions and economic growth than in Africa, including its northern rim.⁵

We first posit that the difference between the corruption characteristics and its effects on economic performance is that corruption, anchored on the leader(s), is part of the fixed cost in Asia and in the variable costs in Africa. Therefore, in Asia corruption has not affected investment decisions at the margin, while it has done so in Africa.⁶ We then argue, using the conceptual framework of Cheung (1982) that the recent changes in many Asian countries, slow as they may be, are because the costs of operating their corrupted economy approached a level where the costs for operating a (relatively) uncorrupted economy plus the costs of changing the old system are less. The second prong of the argument is that corruption fundamentally derives from corrupt or violent leader(s), self-selected or elected, with pervasive long-term effects, and that this dysfunctional emotional basis of corruption makes it a much more complex problem than perceived in the extant literature. Finally, building on the notion that there is an emotional basis for corruption, we offer a proposal for a 'talking cure'. But first, we briefly review the relevant literature that covers the theoretical frameworks used in the analysis in this paper.

THEORETICAL UNDERPINNINGS: THE NEW INSTITUTIONAL ECONOMICS AND PSYCHOANALYSIS

The paper uses two theoretical frameworks: first, the New Institutional Economics and second (Modern) Psychoanalysis to analyze the problem of corruption and propose an approach to begin the work to resolve the dysfunctional basis of corruption.

The analysis draws on several trends in the NIE framework as developed by Coase (1937, 1960), Cheung (1982, 1983), Williamson (1975, 1985), and North (1990, 2005); and the development economics of Hirschman (1967, 1970). The NIE framework extends the methods of neoclassical economics and holds that institutions matter and different types of economic activities call for different forms of institutional arrangements (Williamson, 1985). The NIE focus on private property rights, transaction costs, and institutions, and its microanalytic approach to the study of economic organization is a

useful instrument to identify the factors involved in choosing a particular form of governance structure over other alternatives to organize economic exchange.

The NIE gives a conceptual basis for analyzing corruption and governance structures. But this approach lacks a theory of human motivation and methods to develop a *change process* for treating corruption. Modern psychoanalysis is a more useful candidate for both. It is articulated in the theory and technique for individual and group psychoanalysis developed by Freud (1917, 1921, 1933), Bion (1961), Ormont (2001), Spotnitz, (1952), Spotnitz and Meadow (1995), and Cohen et al (2002).

For the NIE, Professor Coase, in *The Nature of the Firm* (1937), was the first to identify the transaction costs within an economic system, and to provide a rationale for the emergence of non-market institutions. He argued that “the main reason why it is profitable to establish a firm would seem that there is a [transaction] cost of using the price mechanism” (p. 38). Cheung (1982) extends Coase’s work on property rights and applies it to the analysis of institutional change. He classifies transaction costs into two categories: (1) those incurred in the operation of an institutional arrangement; and (2) those incurred in adopting or changing an institution. North (1990, p.27) gives a more precise definition of transaction costs as “the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements.” Williamson (1985, p. 20–21) identifies *ex ante* and *ex post* transaction costs. The former includes the costs of negotiating and safeguarding an agreement. The latter includes the costs due to changed circumstances to correct *ex post* ‘misalignment’ to secure commitments. According to Williamson transaction costs become important when economic agents make relationship-specific investments. Without an array of safeguard mechanism, these can lead to opportunistic behavior by one of the agents. Bringing transactions into the firm limits opportunistic behavior; agent A is less likely to ‘hold up’ B if B is an employee of A than if B is an independent contractor.

Because the corrupted contract relationship is full of hazards—corruption is illegal after all—formal rules and courts cannot be used to solve contractual ‘hold up’ disputes; business investments under a corrupt regime are riskier than under a non-corrupt regime. In normal circumstances parties safeguard themselves by writing contracts *ex ante* that specify their obligations and attempt to spell out the adaptations to changing circumstances. However, the contracts will be incomplete and many adaptations have to be negotiated as the world evolves. If one of the parties to the contract had invested in highly specific assets, he is vulnerable to later opportunistic behavior by the other party. Therefore, an *ex ante* safeguard mechanism is necessary to support a vulnerable transactions. And this is what relationships, the fixed costs of corruption, accomplish.

The choice of relationship-building as an *ex ante* safeguard is a means to create trust and to avoid ‘hold-up’. Trust is an important factor in the disposition to corruption and in resistance against it. It operates both at individual and group levels and has a leader as its focal point. Freud (1921) conceptualized the role of the leader and the importance of identifications and emotional (libidinal) ties of members in ‘primary’ groups. Both the leader and the members’ emotional ties keep the group from dissolving.⁷ If the leader is corrupt, veneration makes corruption ‘legal’ and emotional contagion, a concept formulated by Spotnitz (1976), spreads it in association with antisocial influences. Anti-

social, destructive forces often fortify solidarity of a group. We will return to the important role of the group leader in Section 5.

Because corruption is a choice, even when it is endemic in a culture, motivation is required to change this dysfunctional behavior. For plastic change, motivation for change must come from within. Members of privileged groups will resist, also unconsciously, efforts to reduce corruption. Members of marginalized groups, NGOs, and international organizations can militate to the other direction. Pressure and sanctions are necessary but not sufficient. The emotional and monetary costs of corruption need to be seen, known and felt. ‘Talking cure’, developed by Freud (Freud 1917) and extended to groups (Freud 1921, Spotnitz 1976, Bion 1961) is the method of choice for working with group disorders such as corruption.⁸

Expanding the ‘talking cure’ technique to groups became an accepted practice long ago (Spotnitz 1952, Ormont 1995, Cohen et al 2002). Lear (1998) proposes that group analysis (*‘polisanalysis’*) started with Plato. ‘Polisanalysis’ also takes resistance and transferences in relation to the leader and within the group as its starting points, and study of emotional group relationships has an important role for the cohesion of a group or country; they, together with a new way of working with the Client, based on ‘contact function’, form the bases for remedial actions. These declarative propositions will be discussed and correlated with corruption in Section 5: *The role of the leader and the change process*, and in Section 6: *State reform*.

THE FIXED AND VARIABLE COSTS OF CORRUPTION

It was proposed earlier that fixed and variable costs of corruption are one facet that characterizes the corruption in the two regions. To understand why corruption in Asia is part of the fixed cost, the unit of analysis is corruption itself. And the focus is on how corruption is governed and organized instead of starting from speculations regarding its hedonic causes and consequences. This is not to suggest that the latter are unimportant, but there is an extensive literature on the presumed causes and consequences of corruption (see World Bank 1997a, 1997b, 2009, 2011a, and 2011b for annotated bibliography). Value is added by focusing on understanding the organization of corruption.

First the definition of corruption is modified: *corruption is a contractual relationship between economic agents for the misuse of entrusted power or position*. It is supposed that there are four agents in the economy: leader(s), private individuals, public officials and firms.⁹ The agents have contractual commitments to each other. The private interest pays a bribe to a public official to receive benefits or to avoid costs. If corruption is a nexus of contract between two or more independent agents, it entails transaction and other costs. The *ex ante* transaction costs include of determining who the actors are, the level and type of bribes and the rules and norms to consummate the transaction. The *ex post* costs include policing the agreement, ensuring compliance, adapting to changing circumstances, and resolving disputes. Deploying resources to observe the actors, measuring the terms of the contract, and studying the ‘rules of the game’ to minimize the dangers all entail costs.

Simplifying, the variable costs of corruption occur on the spot, such as when one bribes a police officer to get away with a traffic violation. This contract is a spot market exchange normally without a governance structure and does not require a long-term relationship between the two agents. It only involves tacit knowledge that bribing is possible. The ‘fixed cost’ corruption is a contractual relationship between the private interest and government agent. Corruption in government contracts, ‘businesslike’ evasion of taxes, regulations or transaction costs, and elite or state capture are instances where the exchange of bribes and favors occurs over multiple periods. This type of corruption is open to contractual hazards from uncertainties and opportunistic behavior by contracting parties due to its time span. The business investment will therefore be vulnerable above the normal economic risks and uncertainties. Suppose, for example, the private entity invests in project-specific assets in anticipation of a favor. This exposes it to opportunistic behavior by the government official. The official, after receiving the bribe, could renege on the contract or demand its renegotiation. He can do so because the investment has little value outside the project. In the jargon of the NIE, the public official ‘holds-up’ the private entity. Contingencies in subsequent periods may require that the contractual relationship be renegotiated, leading one of the parties to try to extract more rent from the other.

How do parties to a corruption contract then ensure compliance?¹⁰ In particular, how do they avoid a ‘hold-up?’ How, for example, does the private entity ensure that the government official will deliver after receiving the payment? Or, how does the government official know that the private party will deliver the money after he has made the ‘expected’ decision? Generally, how do the agents adapt to changing circumstances, especially if the new situation is such that one of the contracting parties has an incentive to ‘hold-up’ the other? Answers to these questions are at the root of the difference between the two kinds of corruption and their implications on investment decisions.

The Coasian insight suggests that when firms face ‘hold-up’ problems, they establish a governance structure (often a firm) to attenuate contractual hazards. According to Williamson (1985, p. 48), “transactions that are subject to *ex post* opportunism will benefit if appropriate safeguards can be devised *ex ante*. Rather than reply to opportunism in kind, the wise [contracting party] is one who seeks both to give and receive ‘credible commitment’.” Contractual hazards are attenuated when the costs of corruption are part of the fixed cost. The fixed investment allows both parties to minimize the *ex ante* and *ex post* transaction costs of a corruption contract. Both parties have a tacit understanding of the rules of the game, and their contract is self-enforcing. The fixed cost of corruption safeguards the contracting parties from the hazards of long-term contracts by ensuring compliance and facilitating adaptation to changing circumstances. For many reasons, including the asymmetry of information between the two agents, the danger of government entrapment, and the necessity for trust between the private and public agents to consummate corruption, the investment in ‘relationships’ is large and long term.

From the business point of view, investing in a fixed cost of ‘corruption infrastructure’ becomes a risk management technique. This investment makes the expected return of business investment in a corrupt regime similar to that in a non-corrupt regime. The

existence of corruption does not affect business investment decisions at the margin. This is what plausibly happened in Asia. Businesses have incorporated the cost of corruption into their fixed costs. Without that investment to organize corrupt exchanges, businesses would remain outcasts who lack a tacit understanding of the rules of the game, and face corruption risks beyond the normal economic risks.

The most important aspect of the fixed cost of corruption is the effort and cost deployed for ‘relationship building’.¹¹ From the NIE perspective, businesses that face contractual hazards opt for vertical integration. That option is foreclosed: the private interest and government officials cannot merge. Instead they develop ‘relationships’ grounded in trust, reputation and understanding. The next best thing to vertical integration is to ensure that the government official is a trusted ally or a family member, who is less likely to hold up the private interest.¹² This in part explains why many corrupt dealings in Asia involve family members or companies and political parties.

A sophisticated way of developing a relationship is repeated interaction—periodic maintenance of the fixed investment—between a government official and private interest. This encourages the two parties to cooperate to maximize their long-term benefits and refrain from short-term opportunism. This is akin to the repeated prisoners’ dilemma, where parties decide to cooperate only after several iterations (Axlerod, 1983). Interactions between the parties involve emotional investments in a relationship, which foster trust and good reputation. They become an asset in the transaction, and it is to the advantage of each party to honor the contract. Not doing so could incur serious consequences such as physical or emotional isolation, ostracism and even death. This emotional basis of corruption supports the paper’s two-pronged hypothesis.

Data, quantitative and qualitative, suggest that corruption in Asia is supported by a fixed capital to facilitate the exchange of bribes to minimize risks associated with opportunistic behavior (legalized in Europe and the US as ‘lobbying’; organized as elite/state capture in the former FSU and the Eastern European countries). Once this fixed cost is incurred, firms can do business as usual with little risk for the ‘hold-up’. In contrast, businesses shy away from Africa because corruption does not allow appropriating their investment. The contractual relationship for corruption in Africa is full of hazards and vulnerable to ‘hold-up’ or at least ‘social responsibility’. This is because the private interests and government agents, due to perceived government instability or violence, have not been in a position to invest in a ‘relationship’ and establish a governance structure for corruption.¹³ Businesses must pay bribes to obtain government favors and this opens them to opportunistic ‘hold up’. Like the physical infrastructure, the corruption infrastructure is also deficient in Africa.

A stable government and informal institutions—including common informal rules, norms, lobbying and customs of society—facilitate relationship building and reputation (North, 1990). Asia’s informal institutions have been important in the development of the economy by providing trust and norms for business exchange (Fukuyama, 1995). They are grounded in Asia’s cultural history, which values personal relationships, trust and honor. Often, contractual disputes are solved informally, and the court system is avoided as much as possible. The same cultural setting may also facilitate corruption by promoting firms to invest in dysfunctional relations with government officials to con-

summate corrupt transaction. Paradoxically, a stable government is essential for businesses to invest in a relationship, but, culturally, at least in Asia, informal relationships, formally outside the government, are equally important for business.

A reason then why corruption remains a variable cost in the African continent is the perceived instability (and in some cases short life span) of governments, violence, and lack of democracy. This leads, intentionally perhaps, to an unstable bureaucracy and unprofessional civil service and discourages businesses from investing in 'relationships'. On the other hand, bureaucracies in Asia have been stable and integrated with 'politics' (World Bank 1993).¹⁴ In Africa, violent leaders have acted as the sole sovereign guarantee and extracted the bribe income. Absent the fixed investment to organize the exchange of corruption, businesses face high corruption risks and the expected return of business investment is lower. When the productive life of an investment in a relationship with the government is short, even less than the perceived life span of the government, the private sector is reluctant to make sustained, long term investments whose returns accrue over a long period. That requires the cooperation of successive governments and is affected by the presence of corruption. This doesn't prevail in Africa but does in Asia.

It is concluded that a different interpretation of the 1997 WDR survey results would be that businesses find it difficult to integrate corruption in Africa as 'business as usual' because of the deficient corruption infrastructure and lack of a stable relationship and focal point to pay bribes and receive favors. In the short run, the bribe as a variable cost, without supporting fixed capital, affects business decisions more than 'organized' corruption. The 2011 GAC evaluation, which emphasizes the importance of governance, information disclosure and method of engagement (and working with the client), supports the arguments of this paper; the only thing missing is the importance of leaders.

Corruption and Rule of Law

Before discussing why a change from the prevalence of corruption appears inevitable in much of Asia, and which has already happened to a degree, it is important to point out an aspect of corruption and the rule of law. It is common knowledge that corruption erodes the rule of law. Laws enacted to govern economic activities are routinely violated in a corrupt regime.

The extent of the erosion of rule of law is affected by whether corruption is part of the fixed or variable cost of doing business. Using the same analysis as above, variable-cost corruption erodes the rule of law more than fixed-cost corruption in the following sense. Suppose the government enacts a rule on truck axle loads to limit road damage. Weigh stations and fines are established to enforce the rule, but truckers could pay a bribe to avoid it. If a trucker has to pay a bribe at the weigh station, then it is part of his variable cost of transporting the goods and his truck load will vary with the bribe. For example, a trucker was hauling goods that weigh "W" and cost "T" with net revenue "R" before the new rule; but, with the new rule he has to pay a bribe b to the official to transport "W" so that the cost of hauling is now " $T+b$ ". For the trucker to stay revenue-neutral, he increases the truck load by weight x to cover the bribe. In a competitive environment the trucker is a price-taker and the revenue-neutral weight will be a higher " $W+x$ ". Because

corruption is part of the variable cost of hauling the goods it results in a violation of the law and in damage to the roads.

On the other hand, if a trucker – or the owner of a fleet -- also invests in a relationship with officials when making capital investments that provide for the ‘permit’ that lets any truck go through at the weigh station, the cost would be part of the fixed cost of the truck. The cost of corruption is not part of the variable cost of hauling the goods. Instead it is incurred when decisions to buy a truck is made. The truck loads being transported do not vary, but will remain at “W”. This may be higher than what the new law is trying to achieve, but smaller than the “W+x” that was obtained when the trucker’s bribe was part of the variable cost.¹⁵

In sum, then, observations support the view that corruption in Asia is part of the fixed cost, while in Africa it is part of the variable cost. As a result it does not affect business investment decisions at the margin in Asia. But, in Africa, where corruption is a variable cost, investment decisions at the margin are affected and, additionally, the rule of law is violated more.

WHY THE CHANGE?

Since ‘fixed cost’ corruption is associated with rapid economic growth and reduction in poverty in Asia, it begs the question why change away from corrupted governance is inevitable. Indeed, irreversible change would be occurring regardless of whether or not there was the financial collapse of the 1990s. That was an endogenous event that merely speeded things up. The outcomes of this process, while clear, are by no means supported by self-evident causal reasoning. In this section the NIE method of Steven Cheung is used to outline the broad political economy reasons for change.

It has been argued that the Asian crisis in the 90s and its impact was due to the economic policies pursued by countries and international lenders, not corruption, and that the financial collapse and the successful challenge to political leadership were results and not causes.¹⁶ That argument does not ring true. The country’s leaders had pursued bad and corrupt policies for an extended period of time; they triggered corrupt behavior from international private lenders and the multilateral banks. This was an experiential perception of citizens and investors alike, especially about Indonesian society and its functioning. Not so latent discontent was widespread (as presently in the Arab and some other countries). Two prime factors caused the change in government. The first was simply that corruption became too expensive. The second equally dramatic factor, especially in Indonesia: the illness and dissolution of emotional ties to the leader. Later, the lack of positive emotional ties to the leader was manifested among the citizens in East-Timor and Aceh (and other Asian countries). The violence that erupted confirms the partial disappearance of emotional ties also among the members of a leaderless group. These two causes are elaborated further next.

Cheung (1982) proposes that institutional change occurs when:

$$\text{Cost of Operating the Current Institutions} > \text{Costs of (Adopting or Changing to a New Arrangement + Operating the New Institutions)}$$

I follow Cheung in classifying and assessing cost changes in both sides of the equation.

Costs of Operating the Current Institutions

Although similar mechanisms are in effect in other countries, Indonesia up to the mid/late 90s is the specific reference where the costs of corruption were very large. The bribes paid to the bureaucracy—the bureaucrats were paid poorly in both ‘dry’ and ‘wet’ positions—are a minor part of the costs. The real costs were elsewhere and derived from the lack of property rights. Corruption restricted the range of options for production and for institutions, and led to increased costs, thus choking off the true potential of the economy (Cheung 1983; Rose-Ackerman 1997).¹⁷ Corruption restricted entrepreneurs’ choices at least in three ways. First, it disregarded respect for private property rights, which the lack of fair courts compounded. Second, through the bureaucracy, privileged groups set government constraints to benefit only themselves or delayed decisions for competing entrepreneurs, which in turn reduced the income-generation potential of the entrepreneurs’ private property. Third, for a bribe, bureaucracies gave licenses, granted exclusive property rights, or built facilities for privileged groups’ businesses. Or, privileged groups decided to buy private property against the owner’s will, possibly offering him a minority stake in the enterprise. Or, they side-stepped regulations or avoided transaction costs that other groups could not. Examples could be cited to show of how private property rights were not respected and choices constrained in Indonesia, resulting in increased costs to the economy. The bureaucrats were either compensated with ‘wet’ positions for cooperation or isolated to ‘dry’ ones for the lack of it. Ongoing decentralization further increased the fixed costs of corruption because ever larger number of individuals was brought into the dysfunctional relationships and away from the productive ones. It is concluded that the costs of operating the current corrupt economic arrangement were increasing rapidly.¹⁸

Costs of Changing Institutions: Resistance by Privileged Groups

A significant cost component in the equation is wrapped inside the resistance by privileged groups.¹⁹ This resistance must be lowered gradually for nonviolent change to occur. As part of World Bank evaluation work the author visited Indonesia in late 90s just before and during the first week of the collapse of the Indonesian rupiah and interviewed more than 50 persons in government, the private sector, trade associations, and NGOs to discuss and evaluate the World Bank supported infrastructure projects. To the author’s surprise, there was great openness about corruption; the same candor was evident in the local press and in talks with ordinary people. No one liked corruption but was ashamed of it. Interviewees expressed a desire to have something done about it and a willingness to cooperate.

But there was also genuine resistance to change. The increase in economic well-being of many ordinary citizens over the past 30 years would be ruined, they believed, and this was one source of resistance. The low-salaried officials resisted changes because the absence of corruption income would put them below survival levels. There was uncertainty about how the uncorrupt institutions would operate. This was healthy resistance. Undoubtedly, the strongest resistance came from the organized coalition: the privileged groups. This resistance was fortified by their potential for violence: privileged groups controlled both the army and the police, and they had been willing to use violence to put down rioting. The unprivileged were also potentially violent; they had little to lose.²⁰

Resistance by privileged groups can be examined from many angles. As already noted, especially critical is the role of the leader(s). Members of a group or country identify with their leader; if he is corrupt, emotional contagion spreads it, often in association with antisocial and harmful influences. This has two practical implications. Because money is a 'normal' good—more is preferred to less—simply and only increasing officials' salaries is unlikely to have much effect on corruption. The leader(s)' corruption is an invitation to the officials to be corrupt. Their low salaries justify accepting bribes and make the leader(s)' corruption palatable. By an ingenious policy, the leader's dysfunction legitimizes officials' acquiescence and absolves them from guilt. Second, successful resistance to this emotional contagion isolates the resister (official) and there is little chance that isolated resister(s) can help institute anti-corruption policies. In the circumstances described, and when the economy was growing and poverty declining, there was little hope that the resistance of privileged groups would decline in favor of desirable social change. Culture also is a factor in resistance. In Asia, respect for authority is high, and one's honor and socially syntonetic behavior are highly valued; disobedience and even differences in opinion are punishable. Thus, despite the emotional guilt that accompanies corruption, the leader is protected for fear of reprisals. And the leader in turn gives the officials relief from self-reprimand, for he, too, is corrupt.

Indonesia's well-being was gone with Suharto's fall and released bent-up violence and anger. Perceptions and realities of the people changed quickly; acquired wealth disappeared almost overnight. There was no one to honor the corrupted contracts or to compensate for the losses. Even before the governance and economic collapse, two-three weeks prior, no one we spoke with in Indonesia liked the *status quo*, suggesting that pressure from inside was increasing; in fact it was almost tangible and the resistance of the privileged groups was crushed.

Reducing the costs of operating a non-corrupt regime: the Prisoners' Dilemma

An important element in reducing the costs in the right hand side of the equation, nearly always ignored but no less important, is the inclusion of the bribe givers in the change process. When corruption is viewed as a contract between two independent agents both agents must be included in the process. In this way the costs of operating a non-corrupt regime can be reduced. It is a surprise that until recently policy and academic discussions neglected the role of the private sector and the bribe giver when designing remedies for corruption. Businesses prefer not to pay bribes, because bribes are an added cost to them. But, individually they pay bribes to receive contracts or avoid costs because if

one businessman does not pay bribes the other will. Hence, there is a prisoner's dilemma situation where the dominant strategy of each individual businessman is to pay bribes. The outcome is suboptimal where every one pays bribes with no one willing to get out alone.

Therefore, policies to fight corruption need to approach also the private sector to help resolve the prisoners' dilemma. The private sector's trade associations can lobby for better ways to 'combat' corruption.²¹ The OECD measure to make it illegal for member countries to engage in corruption and the recent collective debarment policy of the multilateral banks will reduce the collective action dilemma (Hines 1995). Uncertainty about the future and the operation of new institutional arrangements can be reduced by giving the beneficiaries a greater voice in decision-making and thus reinforce the positive aspects of relationships. Technical assistance programs and the seemingly mundane issues of concern and of greatest difficulty in aid sponsored projects—construction quality, the political economy of infrastructure maintenance, procurement, and administrative decentralization—can be structured to increase local participation. These approaches frustrate the privileged groups by making corruption more costly. Privileged and non-privileged groups are helped change their behavior in response to pressure from within when they are partners in change. The problem is how this change process should be structured. To this problem we turn next.

THE ROLE OF THE LEADER AND THE CHANGE PROCESS

It has thus far been argued that corruption contracts are self-enforced by long-term relationships and reputations developed between businesses and government officials. In all cases a third party—the leader—is the arbitrator and often silent enforcer of the corruption contract and the sophisticated businesses will seek a high level relationship with the leader or his close associates to enlist them as a 'sovereign guarantee'. Events in Asia and elsewhere have shown that the leaders—and not (ideals such as) democracy and rule of law—are the sovereign guarantee.

The onset of the financial and social crisis, in Thailand, was one to two years before contagion began spreading in the fall of 1997. Some international Banks had discontinued their support for large ongoing projects, and withdrawn commitments from other projects, over concerns of the Thai government not honoring contracts. Concurrently, the political leadership problems continued with accusations of corruption and the baht exchange rate was fixed artificially high. All this was widely reported in the Bangkok press. The crisis in Indonesia was preceded by persistent rumors that President Suharto had fallen ill. A comparable pattern of challenge to leadership occurred in Korea and Malaysia (later in Georgia and in many Arab countries). Businessmen fearing that their contracts were no longer protected began pulling out their investments first from Thailand, then from Korea, Indonesia and Malaysia and made the 'disease' worse. What made the contagion a 'disease' was the insecurity and slackening of emotional ties with corrupt leadership, democratic or undemocratic. Fidelity toward same (different) religious ideas lessened (compounded) the consequences.

Although similar motivational mechanisms are at work in Asia, Africa, and other continents and countries, pointing toward communality in treatment regimes, the emotional ties with the leader and his inner circle influence corruption and its governance structure and costs. When the dominant emotional ties are positive, libidinal, corruption is arranged to be part of the fixed cost and enjoy permanence of object. When the dominant emotional ties are negative, hateful, and the group is held together by the force of violence, the corruption is primarily in the variable costs. Negative feelings can become powerful enough to change the object and depose the leader.²²

The removal of corruption in a libidinal group would involve transforming a complex web of relationships developed over a long period. A large number of beneficiaries and privileged groups will resist change on the strength of the emotional ties, also affecting the non-privileged groups. Consequently, violence is an ever-present threat unless managed with skill. If corruption is in the variable cost and the group is held together by force, the problem consists of encouraging indigenous culture, positive relationships, and emotional ties among the involved groups (Rich 1996). Only after that the focus may shift to corruption and the dysfunctions of the institutions.

These are distinctly different prescriptions from the current theories and techniques which in straightforward fashion argue for ‘zero tolerance’ combined with a changed regulatory framework and policies, and their enforcement—like changing a car engine. Thus, an increase in civil service pay, removing government restrictions, price controls, subsidies and tax privileges, and similar government policies would reduce corruption.²³ However, these proposals make the problems to be the solutions. If the change of government policies is compelled by outside forces—such as IMF, World Bank or G7—the problems will return in disguises. If the ‘costs’ of changing government are low, or if government officials change frequently, there is no guarantee that the change would be for the better. Governments that are perceived to be unstable or easily toppled are not able to negotiate and enforce uncorrupted regulations. Paradoxically, both a high level of government stability or capacity for uncontested violence is also associated with no corruption or with systemic corruption.

If persons and groups who design the collective rules are not corrupt, or if they are corrupt but desire a change, then the governmental constraints can be changed. That may not be easy. In what follows we discuss how changes could come about in a society where corruption is dominantly libidinal. The discussion is appropriate, but not sufficient, also for societies where corruption is dominantly secured by a violent leader and his ‘lieutenants’ or gangs.

STATE REFORM²⁴

According to philosopher and psychoanalyst Jonathan Lear, a significant insight from the last century’s famous philosophers, Wittgenstein, Heidegger, and von Wright, was that people live by their concepts. A central issue, though not the only one, in improving governance (and to getting rid of corruption in the process) is to help people change the concepts by which they live and work.

What constitutes ‘cure’ for a corrupt state? How could institutions strengthened and individual functioning change to improve governance? Freud’s metaphor of the chess game (for the ‘talking cure’) is relevant here: only the opening moves and the end-game can be described and taught. We proceed backwards and describe first the end-game, the broad outlines of the ‘cure’, and then the opening moves in the reform.

Without reviewing here the vast literature on institutional design we accept McDougall’s proposition (1920) for well-functioning organizations, be they ministries, administrations, private entities or civil society organizations. They fit well with Freud’s model for the organized group, as he himself writes (Freud 1923, pp. 14-19), and with our arguments in this paper.

McDougall proposes five (multidimensional) conditions that are fundamental to the healthy functioning of a group. They are (as described in Freud 1923, p.86):

1. There should be a degree of continuity in the group, either material or formal: material if the membership of the group is persistent; and formal, if there is within the group a system of fixed positions which are occupied by a succession of individuals.
2. The individual member of the group should have or form a definite idea of the nature, composition, functions and capacities of the group so that he may develop an emotional relationship to the group.
3. The group should be brought into interaction (perhaps in the form of rivalry) with other groups similar to it but differing from it in many respects.
4. The group should possess traditions, customs and habits, especially those that determine the relations of its members to each other.
5. The group should have a definite structure, expressed in specialization and differentiation of the functions of its constituents.

A sixth prescription for government entities should be added:

‘The organization should have transparent decision processes; requirements, including, to a degree, the Rawlsian prescriptions for equality, liberty and justice; public inquiries about progress and results of work; and an appeal process for plans and plan implementation’. For State as the group, the principles of inclusion, equal opportunity and fairness need to be added (although they could fall under the “traditions, customs and habits .. that determine the relations of members to each other”). (Talvitie 2012).

Freud notes (1923, p. 86) that “according to McDougall ... the collective lowering of intellectual ability is avoided by withdrawing the performance of intellectual tasks from the group and reserving them to the individual members of it.” McDougall’s group conditions need to be put in modern context.

Freud also shrewdly observed that the problem of a group, and in our case also the problem of organizational design, consists “in how to procure for the group [organization] precisely those features which were characteristics of the individual [that is], his own continuity, his self-consciousness, his traditions and customs, his own particular func-

tions and position” (p.86), and, I would add, his independent but co-operative performance in the team’s work tasks.

The change process environment

The proposal to improve governance rests on three pillars: the contact function; resistance to change; and transferences within the group participants. These are discussed in turn shortly. The setting is a regularly occurring group meeting (say once or twice a month) for a minimum of twenty sessions lasting about two hours about improvement of governance in the country. The participants, charged with ‘re-engineering’ of the concepts by which the country leadership lives, may be asked to read an assigned paper before the meeting. In the meetings the participants are asked to talk, and every one must talk. No particular topic or focus is prescribed although it is likely that work issues related to the paper are brought up. Periodic seminars may also be arranged where persons in leadership positions in the country or entity, suspected bribe takers or givers who engage in legal activities, foreign and local consultants and industrialists active in the country, and leaders in civil society organizations, are asked to make presentations.

The analyst/facilitator team should consist of three persons, one of whom is a silent observer of the process and the note-taker. All team members should have training in group analysis, and a good understanding of government processes and methods to study dysfunctional behavior.²⁵ If technical assistance consultants are active in the country, they also may attend as silent observers.²⁶

Contact functioning

The term and method of contact function was developed by Hyman Spotnitz (1976) to work with analysands and groups. Contact function simply means that the analyst team remains in tune with the analysands’ (group’s) verbalizations without disturbing them or introducing new ideas or interpretations. Therefore, discussions in the group meetings are not restricted to or focused on governance or corruption. The ‘talking cure’ proceeds in small steps toward a moving goal without a comprehensive reform plan. That plan and its implementation is the responsibility of the participants in their own work environment, not of the analyst team during the group sessions.

The group is directed to examine the issues, whatever they are, and the analyst team should analyze them silently, and break silence only to resolve a resistance or to protect a member. The objective is not to prescribe desirable behavior patterns but to remain ego-syntonic and solicit views. There is no need to rush the group to study corruption. Appropriate questions must fit the context of the dialogue, like in a chess game, rather than be structured in advance. “How could governance be improved?”; “Who should to lead the work?”; “What kinds of effects would these improvements have?”; “Why are these things not done?”; “Is there corruption and how does it work in this place?”; “Who benefits from it?” “Why do people participate in corruption?” “Why do private firms engage in corruption?” “How do they do it?” “How can it be prevented?” The responses to questions would be personal (concepts) rather than objective ‘truths’, and may raise new issues for examination. In time, ‘realism’ will gain the upper hand and the participants will take action on their own volition. The danger of failure is not with

delays to act, but with the analyst team's desire to 'speed things up' or require upfront commitments. The responsibility for taking action must rest with the client, and this may take time.

Resistance to change

Anyone who has worked in a corrupt country also knows that it is camouflaged by resistance to change. Many of these countries have signed the UN covenant against corruption. The service providers may also have signed similar pledges. Both sides, and also the public, know about the 'fixed cost corruption', but its workings are concealed and reflect the political economy of the country. If this well-oiled system is not faced up to it will continue until the collapse of its governance structure, often violently, or the country's financial sector can no longer support it.

There are at least two (unconsciously motivated) disorderly paths for discharging resistance to change. Both are of serious concern and require that their removal be gradual to prevent violence. The first, normally accompanying economic hardships, is when a majority pits itself against a minority, ethnic, political or religious. Anger is vented against minority groups, while sparing the privileged groups with whose (rich) members and leaders they (like to) identify. The second is the dissolution of emotional ties to the leader or among the people, or the fall of a violent leader, both resulting in violence and disorder.²⁷

Current approaches to 'combating corruption' are intellectual, cognitive and tilted toward punishment. Others, the 'positive' ones, consist of training and technical assistance to learn rules and processes that would prevent corruption or of lectures of the detrimental effects of corruption. Paradoxically, they may simply teach new ways to avoid detection of corrupt practices.

Without forums where all things that participants bring up can be discussed and explored (without judgment or fear) over a sustained period, unraveling the web of corrupt relationships is impossible. That is a demanding requirement. But, interestingly, relationships, though dysfunctional in corruption, do have positive attributes that will foster cooperation and rearrangement of personal and institutional functioning—provided there is motivation and a trustworthy leader to improve governance (as emerged in the first decade of 2000 in Indonesia).

An important part of dealing with resistance is the development of trust. Trust is necessary in order for the members of the group to feel confident enough to escape from the 'prisoner's dilemma', that is, where no 'player'—say a Minister, General Manager of an entity, the Chief of Police, a Director, or any person rewarded for cooperation—can make a move unilaterally because he owes his position to the leader or the leader's inner circle. To break the trust of that group would lead to isolation, severe punishment and even death. Therefore, protection from harm must be provided. Gradual loosening of the resistances in itself is protection; changes that take place slowly and in many places make them observable only after passage of time, a decade or more. Nonetheless, escaping from the prisoner's dilemma is an important milestone because it signifies an ability

to think and act independently—as McDougall postulated—a movement toward a well-functioning group and, therefore, requires protection from reprisals.

Transferences among the participants and the analysts/facilitators

In the regular (say monthly) face-to-face meetings (using a videoconference facility if necessary part of the time) with the analyst team, emotional transferences develop among the participants.²⁸ The ramifications of concepts, ideas, related behavior, all aspects of governance and corruption are discussed and examined without judgment. Patterns in other countries are studied if so desired. Solutions are explored and studied, but as a group no actions are promoted or taken.

Handling of multiple transferences in groups is difficult. It is very easy for the analyst team to see the group work as an objective brain-storming event. Much more difficult is being able to detect a team member's verbalizations as reflections of his behavior patterns at work, home or social settings, which were learned long ago and were now being projected onto the analyst (team) or a member of the group. An added difficulty is the analyst team's counter-transference reactions, which often take the form of recalling and presenting a similar problem in his native country and how it was solved, rather than remaining in the room and analyzing the meaning of the views being presented as being 'personal truths', fantasies and concepts by which the particular person lives.²⁹

Although there is much experience of how to work productively with therapy groups which have stable membership, very little experience exists on how to work with transient groups where members may change as bureaucracies or organizations evolve. Nonetheless, experiences with therapy groups, in conflict resolution, mediation and public inquiries, as reported in the references, strongly suggest that the proposal has merits for experiential learning.

Corollary

The proposals put forward in this paper have several practical implications. Two deserve a mention. The first concerns the practice, in the multilateral development banks, of staff rotation to move to another country or region normally after five years. This is counterproductive. The reason for rotation supposedly is 'cross-fertilization' and to prevent identification with and capture by the client. But, governance renewal takes many years, and it takes years to learn the sociopolitical economy of the country. It would help matters if the same team worked in the country as long as there is mutual interest in doing so. The development bank staff—directors, managers, team members—need to be trained not to be captured or co-opted and learn to limit socialization with the clients, but remain a transference figure capable for self-analysis of counter-transference feelings, and so help the clients become good professionals.

The second implication is the residence and language skills of the analyst (task) teams. Clearly, residence in the region is highly advantageous with some team members actually residing in the country. If well-trained, it does not matter if they are citizens or not. It is desirable that task team members learn to speak the language of the country. This is possible with long term commitment and would greatly simplify communication and effectiveness of the work.

CONCLUSIONS

The author believes that, as a broad-brush generalization and without violence to facts, governance is homogeneous within the two (proxy) regions but not between, and that working in the interface of the two theories employed in the paper, intermediated by leadership, has its benefits: a fresh approach to treat corruption. The paper should not be misread as a broad-brush generalization of Africa as one country. There has been progress in the last decade in Africa; many countries, starting from a low base, are experiencing (inequitable) economic growth, but many are not. Thus, to be precise a qualification is added: "fragile countries in Africa" rather than simply Africa; and, "the emerging economies" in Asia rather than simply Asia. Our concern is with countries that are stuck in fragility in a different way from those that are making sustained efforts to bring stability and reforms in their country.

Governance re-engineering takes time and is not analogous to changing an engine to a car. A long time span and perspective are required. Engaging and working with motivated clients requires experiential learning. Learning new 'concepts of living', living in truth and justice, is the key for improving governance and tackling corruption in which the most visible anticorruption efforts—sanctions, debarments, investigations, conjoint policies and other collective actions—are necessary defenses; as offenses they resemble an unfriendly and aggressive leader. Punishments are unlikely to 'cure' corruption.

Recent studies show convincingly that governance, institutional strengthening and capacity building are important for a country's socioeconomic development. They result from engaging the 'positive constellation of forces' (Spotnitz 1952) and marshaled against the 'negative constellation of forces' of the client. Punishment approaches against corruption will not foster good governance and are unlikely to sustain it. It is unfortunate that for many organizations of integrity, sanctions, debarments, and the like are their main instruments and accomplishments. The positive and negative drives can-

Antti Talvitie is Professor (em) in Aalto University, Espoo, Finland. Previously he worked in the World Bank, in the private sector, served as Director of Highway Construction and Maintenance in Finland, and as Professor and Chairman of Civil Engineering at SUNY in Buffalo. He has Ph.D. from Northwestern University, Evanston, IL, and Certificate in Psychoanalysis from Boston Graduate School of Psychoanalysis. He has private practice as psychoanalyst and consultant in the Washington DC area. E-Mail: aptalvitie@gmail.com

Acknowledgement

I am indebted to Dr. Binyam Reja of the World Bank for mentoring me in institutional economics. His contribution to this paper is considerable and he coauthored with me an earlier (2000) version of the paper. The present paper was read in the 2012 *Conference of the International Public Management Network: Innovations in Public Management for Combating Corruption*, in Honolulu. The paper reviewer Prof Robert Klitgaard, and Profs. Larry Jones, Laura Langbein, Fred Thompson, Jeffrey Ady and Tachyon Choi, and Dr. Clay Wescott gave insightful comments that benefited the paper. Profs Klitgaard and Jones elaborated on the existence of large within group variance. Prof Ady pointed out the tribal and cultural factors, while Laura Langbein and Tachyon Choi (who referred me to Peter Evans' observations on predation and embedded autonomy) gave tacit support to the paper's concepts. Prof Thompson suggested that the paper is really two papers: one from the neoinstitutional economics and another from psychoanalytic perspective. While all these comments contain truths, I believe that, as a broad-brush generalization and without doing violence to facts, governance is homogeneous within the two regions but not between, and that working in the interface of the two theories, intermediated by leadership, has its benefits: a fresh approach to treat corruption.

not be neutralized, but their negatives can be redirected for constructive work. It is worth repeating that the forces that help build good enough governments are the same that can act as agents of corruption and as safeguards against it. It is not clear what kind of reconciliation, amnesty or penalties, punishment or forgiveness, would be appropriate for past corruption; this issue must be discussed but decided in a different forum. There are international—even biblical—precedents.

The consultative process for strengthening the ‘positive constellation of forces’ needs trained analysts and facilitators. A project supported by a multilateral bank might provide an appropriate context but with a more frequent and regular pattern of cooperation. To complement the group sessions, forums are required where the leaders from government, the private sector and the civil society do the talking rather than being talked to. This is not the common practice in seminars where the imported experts do the talking. It may be asked if this transformative endeavor is a project. I think not. It would rather be a process grounded on the *contact function* in which the affected interests gather voluntarily at a modern polis to discuss *their governance issues*, including corruption, *their resistances to change* and *their defenses against turmoil and violence*, with the *same analysts* to preserve historical memory (as the political leaders and other actors may change).

It is emphasized in conclusion that in attending to the “cancer of corruption” as an emotional malaise it is important to strengthen not only the independent and co-operative personal capacities in team work but also the knowledge-based capacities for changes in governance, the real economy and in financial management. Governance improvement—sector restructuring, property rights, privatization, regulation, pricing reforms, and access to information and civil service—pays dividends. Reining in elite or state capture, empowering citizenry and changing government expenditure patterns must proceed in parallel. Technical cooperation must take the form of process consulting (Schein 1990, reviewed in Talvitie 2008 and 2009). Effective safeguards must also be established to protect the affected persons from violence in working for change in the ‘concepts of living’. Without the ‘reformers’, changes in the dysfunctional governance and socioeconomic patterns cannot take place. It is not uncommon at all that ‘whistle blowers’ are scapegoated or active participants for change killed (*New York Times*, September 18, 2011). Non-constructive and violent paths of discharging resistance to change are indeed of grave concern in confronting corruption.

NOTES

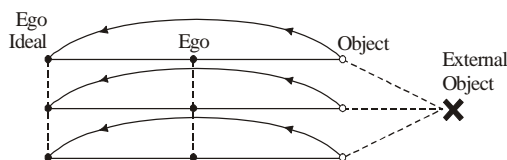
- ¹ This definition of corruption is used in the World Bank. It leaves open the issue to whose ‘private gain’ the public office is abused. Transparency International definition for corruption is the *misuse of entrusted power for private gain*.
- ² Christopher (OECD 1995), Wolfensohn, Wolfowitz, and Zoellick various speeches, including addresses at World Bank Annual Meetings and elsewhere.
- ³ See, Park (1995) on South Korea; Phongpaicht (1994) on Thailand; Mehmet (1994) on Indonesia; and Jakobson (1997) on China.

- ⁴ A private sector survey found that poor physical infrastructure in Asia was a greater obstacle to doing business than corruption, while in Africa poor infrastructure was a lesser obstacle to doing business than corruption (WDR 1997, p. 42).
- ⁵ The treatment is valid to all regions and countries, but this paper is mainly focused on Asia and Africa.
- ⁶ This is a broad-brush generalization we claim to be valid. Profs. Robert Klitgaard and Larry Jones have pointed out that there is much heterogeneity within both Asian and African countries. This is true. The claim for homogeneity is only with respect to governance dimension. An observation similar to ours regarding governance is made by Evans (1989, 1992).
- ⁷ Alternatively, an openly violent leader can keep a group together by force for a period of time. However, unless libidinal ties develop, as they may, such group is unstable. Although violence is an important part of corruption, the violence-bound groups are largely ignored in this paper. Their study would be important as they do exist in many countries. Many observations in the paper apply, however, as every group uses sanctions and (benign) violence to maintain itself.
- ⁸ The evidence for these conclusions is indirect, but observable. Experience in performance-based road maintenance contracts is that sanctions are not an effective means of compliance with quality requirements, bonuses for good work are better. Sanctions have not eliminated corruption or destructive behavior, although they do have effect, but they can also inspire new ways of corruption and destructive behavior, including lying. Finally, the most tangible evidence comes from psychoanalysis where sanctions and punishment are not effective treatment against destructive behavior.
- ⁹ This treatment of corruption applies to private sector corruption as well although the focus is on public sector corruption: corruption involving a private interest paying a government official for favors otherwise impossible or difficult to obtain.
- ¹⁰ One way of ensuring compliance in a corruption contract is through strong-arm technique and organized crime as is believed to be the case in many countries (Skaperdas 1992; Gambetta 1993). The extent of strong-arming in legal businesses involving heads of state, influential ministers or a chaebol is not known, though isolation or 'unexpected death' do occur.
- ¹¹ In Asia, 'relationship building' is regularly used as euphemism for paying money for what is a corruption contract. Variations exist. An Asian businessman explained to the author that he "never tried to influence the outcome of a decision by a bureaucrat, but sometimes he has had to pay one in order to get a decision made in a bureaucracy." In the West, companies invest emotionally for relationship building even in the fields where price competition holds. For example, normally consulting companies refrain from antagonizing government officials with complaints because that might hurt the relationship or exclude them from future contracts. That is neither corruption nor hypocrisy, simply controlled behavior.
- ¹² Interestingly, the *Alliance model* of procurement approximates vertical integration: all parties share the gains and pains.

- ¹³ It also is possible that violence rather than libidinal ties (religion, tribal kinship, party, and common cultural and legal heritage) hold together some countries in Africa, Middle East and the Former FSU countries. By definition, relationships are difficult in such social environment.
- ¹⁴ The World Bank report on the *East Asian Miracle* argues—wrongly we believe—that one of the factors that explains the Asian growth is that the bureaucracy and economic technocracy were insulated from political interests.
- ¹⁵ Mathematically, the ‘relationship’ builder would have to increase his truck loads to stay net revenue neutral. It is likely, however, that he would amortize the cost of ‘relationship’ as fixed business expense and use it to increase his reputation, goodwill, business, and power. The trucking company might even reduce its truck loads in return for favorable regulations by government to eliminate competition. This scenario shows the complexity of analyzing corruption and its causes and effects.
- ¹⁶ Furman and Stiglitz (1998) in an analysis of the East Asian crisis argue that neither macroeconomic aggregates nor the lack of ‘transparency’ (including corruption) were causes of the crisis. They assign the chief causes to rapid financial liberalization, to large short-term debt exposure that “made the East-Asian countries vulnerable to a sudden withdrawal of confidence” and the failure of temporary high interest rate policy. While these factors may have played a role, our observation of the situation in East-Asia does not accord with these authors’ arguments about transparency. Similarly, a large short-term debt exposure hardly causes ‘withdrawal of confidence’. The argument about temporary interest rates is plausible [and artificial fixed exchange rate (in Thailand) at that time]. But, were these policies exogenous? We believe not. These authors restricted their analysis to using economic variables without justifying that choice. We would also argue that the current (2008 -) financial crisis that started in the US, with enron-madoff side-shows, also had other causes than sub-prime lending. The crisis begs the question why the denial of the inevitable persisted as long as it did, and why did the crisis enter the consciousness, and with disastrous effects, at the time when it did—the US presidential elections for leadership.
- ¹⁷ Citing Alchian, Cheung argues that this assertion is well accepted and that it derives from property rights.
- ¹⁸ Public transport required a government license for the route. ‘Relationships’ mattered in the award or allocation of routes to the applicant firm. Within the firm, routes were given to crews who must pay the company a daily fee, which depended on the expected passenger demand; the crew kept the fare revenue. Crews invested in ‘relationships’ with the company’s management to get the best routes. Some arranged to pay the dispatchers in the terminals. Some paid the police for transgressions of traffic rules. The web of ‘relationships’ was endless. The government-owned bus company required a substantial annual subsidy, even though a dozen other companies made a profit under the same operating rules. Ultimately the taxpayers paid the bribe. The private sector bus companies freely admitted to paying for ‘relationships’ to gangs and the police, and for cultivating ‘relationships’ with the bureaucracy. They resisted the ‘new route method’ (which a local university has explored) whereby the crews would earn a salary and the fare-box revenue would be the company’s income, be-

cause in this way all the money would be accounted for. This pattern had city-specific variations.

- ¹⁹ Indonesia had several privileged groups. Foremost was the group associated with the former President Suharto. The other groups were composed of politicians in the Golkar party, the army, and selected public officials held together by a common university bond. The Chinese minority is not considered a privileged group, although some members of that minority may enjoy privileges because of corruption.
- ²⁰ This was grave warning signal. As will be discussed in the next section, violence will escalate if emotional ties between people dissolve or seriously deteriorate as a result of disillusionment with the leader. To complicate matters, rather than destroying the old corrupt system, violent change often replaces it by a new corrupt system. By now it is known that violence was a visible part of the change, but not in the way the authors anticipated at that time (1995; Reja and Talvitie 2000).
- ²¹ In Indonesia, in the late 90s, several trade associations signaled willingness to cooperate and proposed approaches to reduce corruption.
- ²² There is a third kind of group where group cohesion is propelled from outside: a common hateful object (e.g. ‘the West’ or the U.S.) is found outside the group and is subtly used to strengthen the group ties. The two prototype groups, one with dominant positive and the other with dominant negative emotional ties held together by the threat of violence, suggest that different paths may need to be followed to ‘cure’ corruption. A not so far-fetched hypothesis—for future research to test—is that the path from corrupt, force-dominated group to an uncorrupt one is via corrupt but libidinally held, cohesive groups (although their religious ideals may undermine the cohesion). These issues are discussed from the perspective of trust in Talvitie (2012). To clarify the group structure Freud’s drawing of it (1923, p. 116) is shown below with a brief explanation.



Freud defines a primary group as “a number of individuals [the solid horizontal lines] who have put one and the same [external] object [e.g. president, a religious figure, military leader, an idea] in the place of their ego ideal and have consequently identified themselves with one another in their ego”. [Clarifying words in the parentheses by the author].

- ²³ Klitgaard (1998) proposes corruption reduction competitions between governments, which reward the winner by superior support from international donors, and that prominent officials and politicians be prosecuted for corruption. We find these methods unconvincing, even unfair. Both ignore the emotional basis of corruption and also the other party, the bribe giver. Corruption reduction competitions are themselves corruption. It is common knowledge that when bureaucracies or political bodies

‘clean’ themselves, they simply root out the weakest perpetrators, punish them, and continue business as usual.

²⁴ There is much literature on *State Reform* from which the title is borrowed. For example, The 1997 *World Development Report: The State in a Changing World*; Shepsle, K. A. “The Political Economy of State Reform—Political to the Core”; *Comprehensive Development Framework* proposed by World Bank president J.D. Wolfensohn; Cohen et al (2002); and Talvitie (1997).

²⁵ Good references are Cohen et al (2002), Marshall (2006 and 2011), and Ormont (1995).

²⁶ If public administration capacity is very low, technical assistance is necessary on governance. Although the technical assistance should be independent of the group sessions, it would be a complementary training environment.

²⁷ In the paper by Reja and Talvitie (2000), based on Freud’s group model, both types of violence were predicted to happen in Indonesia (and they did).

²⁸ Transference is a process of the analysand’s (group member’s) unconscious transfer of his (early) relationships to the person of the analyst or a member of the group. Analysis of the transference leads to ‘cure’.

²⁹ In a country with no experience in competitive bidding for road works and making cost estimates for bids, a workshop was organized to discuss the concept of competitive bidding and calculating a cost estimate from the resources needed to do the work. There was much discussion, heated at times, why two companies would come to a different result: unit costs had to be the same. This view caused no small puzzlement in the project team, until finally a contractor put on the table a ‘white book’ that had government calculated unit costs in it. The concept held was that the other actors, say material suppliers, would sell every contractor resources at the cost indicated in the book. It took time for the contractors to deal with their suppliers to loosen the grip of the ‘white book’ and learn calculating unit costs from the resources used. It was no wonder why the bids had nearly the same cost estimates initially, possibly also because of collusion to divide the works. However, it would have been unfair to conduct an investigation and punish for collusion because the concept held was a carryover from the past economic regime. However, this cannot be generalized. Real unlawful collusion does exist also (Paterson and Chauduri, 2007). The task team has to make a judgment.

Transplanting solutions from one’s native country or a textbook to a developing country is a common and serious problem that is normally detrimental to development. In a country an exasperated Minister remarked to the second author that they already have this system from country X, organigram from country Y, and design standards from country Z. What he wanted to have were concepts and models that had a local ring to them, genuinely relevant, useful and acceptable.

REFERENCES

- Axlerod, R. 1983 *The Evolution of Cooperation*. New York: Basic Books.
- Bion W. R. 1961 *Experiences in Groups*. Tavistock, London.
- Coase, R. H. 1937 "The Nature of the Firm." *Economica*. 386-405
- Coase, R. H. 1960 "The Problem of Social Cost." *Journal of Law and Economics*, 3:1-44.
- Cheung, S.N.S. 1982 *Will China Go 'Capitalist'?* Hobart Paper 94, London: International Economic Association.
- Cheung, S.N.S. 1983 "The Contractual Nature of the Firm." *Journal of Law and Economics*, 26: 1-21.
- Coolidge, J. and S. Rose-Ackerman 1997 "High Level Rent-Seeking and Corruption in Africa Regimes: Theory and Cases." *World Bank Policy Research Working Paper (1780)*.
- Evans, P. 1989 "Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State" *Sociological Forum Vol 4. No. 4* 561-587.
- Evans, P. 1992 "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change" in *Politics of Economic Adjustment*, Chapter 3, Haggard, Stephan and Robert R. Kaufman eds. Princeton University Press
- Freud, S. 1917 "Introductory Lectures in Psychoanalysis." *Standard Edition, 15 and 16*. The Hogarth Press, London
- Freud, S. 1921 "Group Psychology and the Analysis of the Ego." *Standard Edition, 18:67-134*,
- Freud, S. 1932 "New Introductory Lectures in Psychoanalysis." *Standard Edition, 22:7-158*
- Fukuyama, F. 1995 *Trust: The Social Virtues and the Creation of Prosperity*. New York, N.Y.: Simon & Schuster.
- Furman, J. and J. Stiglitz 1998 *Economic Crises: Evidence and Insights from East Asia*. Paper for the Brookings Panel on Economic Activity.
- Gambetta, D. 1993 *The Sicilian Mafia*. Cambridge, Mass.: Harvard University Press.
- Hines, J. R. 1995 "Forbidden Payment: Foreign Bribery and American Business after 1977." *National Bureau of Economic Research. Working Paper Series: 5266: 1-31*.
- Hirschman, A. O. 1967 *Development Economics Observed*, Washington, DC: Brookings Institution.
- Hirschman, A. O. 1970 *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*. Cambridge, MA: Harvard University Press.

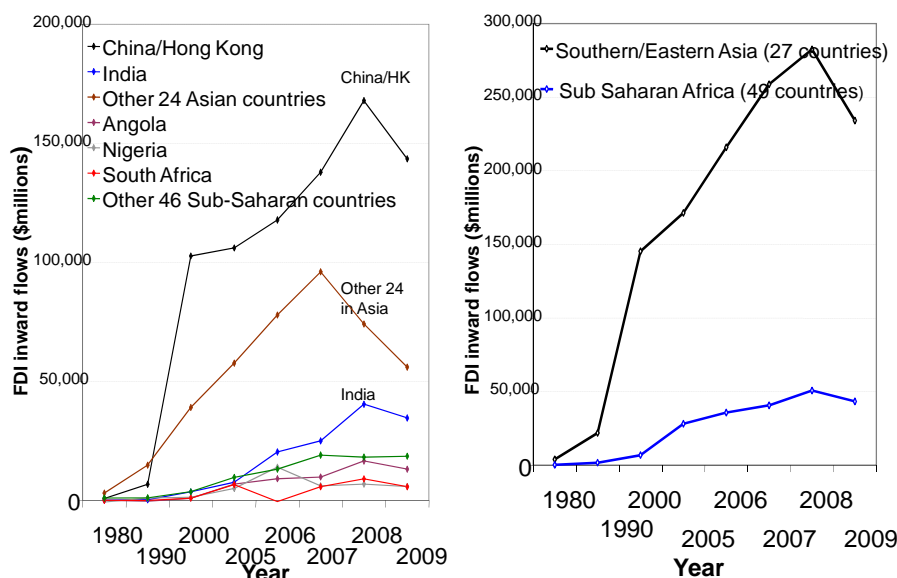
- Jakobson, L. 1997 *Tuhannen Totuutta - Vuosikymmen Kiinassa (Million Truths – a Decade In China)*. Asia Boom and Kirjayhtyma (in Finnish)
- Kaufmann, D. and A. Kray 2003 “Governance and Growth: Causality Which way? Evidence from the World in Brief.” World Bank Working Document. Washington DC.
- Kaufmann, D. 2005 “Myths and Realities of Governance and Corruption.” The World Bank.
- Kaufmann, D. and A. Kray 2008 “Governance Indicators: Where Are We, Where Should We Be Going?” Policy Research Working Paper 4370. Washington DC. World Bank
- Kaufmann, D., A. Kraay and M. Mastruzzi 2009 “Governance Matters VIII: Aggregate and Individual Governance Indicators, 1996-2008. Policy Research Working Paper No. 4978. Washington DC. World Bank
- Kenny, C. 2006 “Measuring and Reducing the Impact of Corruption in Infrastructure” Policy Research paper 4099. Washington DC. World Bank
- J. LaPlance and J.-B. Pontalis (1973) *The Language of Psychoanalysis*. W.W. Norton & Company. New York and London.)
- Klitgaard, R. 1988 *Controlling Corruption*. Berkeley, California: University of California Press.
- Klitgaard, R. 1998 “International Cooperation Against Corruption,” *Finance & Development*, 3-6.
- Lear, J. 1998 *Open Minded*, Harvard University Press, Cambridge, USA
- Marshall, R. J. 2006 “Suppose There Were No Mirrors: Converging Concepts of Mirroring.” *Modern Psychoanalysis* 31:2 pp. 289-312.
- Marshall, R. J. 2011 “On mirroring, fractals, chaos, and psychoanalysis.” *Modern Psychoanalysis* 36:1 pp. 52-94.
- Mauro, P. 1997 “The Effects of Corruption on Growth, Investment, and Government Expenditure: A Cross Country Analysis.” In Kimberly A Elliot, ed., *Corruption and the Global Economy*. Washington, DC: Institute for International Economics.
- Mehment, O. 1994 “Rent-Seeking and Gate-Keeping in Indonesia: A Cultural and Economic Analysis.” *Labour, Capital and Society*, 27:56-89.
- North, D. C. 1990 *Institutions, Institutional Change, and Economic Performance*. Cambridge: Cambridge University Press.
- Organization for Economic Cooperation and Development 1995 *Participatory Development and Good Governance*. Paris: OECD.
- Ormont, L. (2001) *The Technique of Group Treatment: Collected Papers of Louis R. Ormont*, Psychosocial Press, Madison, Connecticut.

- Ormont, L. 1995 "A View of the Rise of Modern Group Analysis", *Modern Psychoanalysis*, 21:31-42.
- Park, B-S. 1995. *Political Corruption in Non-Western Democracy: The Case of South Korea Party Politics*. Seoul: Kim Dae-Jung Peace Foundation.
- Paterson, W. and P. Chauduri 2007 "Making Inroads in Corruption in the Transport Sector through Control and Prevention" in *The Many Faces of Corruption*. Edgardo Campos, and Sanjay Pradhan (editors), Washington DC. World Bank.
- Phongpaicht, P. and S. Piriyaarangsarn 1994 *Corruption and Democracy in Thailand*. Bangkok: Chulalongkorn University, Faculty of Economics Political Economy Center.
- Reinikka, R. and J. Svensson 2003 "Survey Techniques to Measure and Explain Corruption." Policy Research Working Paper 3071, Washington DC. World Bank
- Reja, B. and A. Talvitie 2000 "The Industrial Organization of Corruption: What is the Difference in Corruption Between Asia and Africa", Paper presented under different title in ISNIE Conference (International Society for Neo-Institutional Economics), Tübingen, Germany, 2000.
- Rich, H. 1996 *The Angola Mission: Report to the World Bank*, unpublished paper.
- Rose-Ackerman, S. 1997 "Corruption and Development" Paper Presented in Ninth Annual Bank Conference in Development, April 30-May 1, 1997, Washington, DC: World Bank.
- Rose-Ackerman, S. 1978 *Corruption: A Study in Political Economy*. New York: Academic Press.
- Rosenthal L. 1987 *Resolving Resistances in Group Psychotherapy*. Jason Aronson. Northvale, New Jersey and London.
- Schein, E. 1990 "Models of consultation: What do organizations of the 1990s need?", *Consultation: An International Journal*, 9 (4): 261-275.
- Skaperdas, S. "Cooperation, Conflict, and Power in the Absence of Property Rights," *American Economic Review*. 82: 720-39.
- Spotnitz, H. 1976 *Psychotherapy of Preoedipal Conditions*. Jason Aronson. Northvale, New Jersey.
- Spotnitz, H. 1952 "Group Therapy as a Specialized Psychotherapeutic Technique." In *Specialized Techniques in Psychotherapy*, pp. 85-102, Bychovsky, G. and J.L. Despart, Eds. Basic Books, N.Y.
- Spotnitz, H. and P.W. Meadow 1995 "Toward Understanding of Emotional Contagion" and "Special Resistances in Group Analysis", in *Treatment of the Narcissistic Neuroses*, pp. 69-90 and 245-262. Jason Aronson. Northvale N.J and London.
- Talvitie, A. 1997 "Things Planners Believe In and Things They Deny"; *Transportation*, No. 24. Vol 1. pp. 1-31.

- Talvitie, A. 2008 “Model, Process, Technique and the Good Thing“ *Transportation*, 35: 375-393, 2008
- Talvitie, A. 2009 “Theoryless Planning”, *Planning Theory* 8(2):166-190
- Talvitie, A. 2012 “The Problem of Trust in Planning”, *Planning Theory* 0(0) 1–22. To appear.
- Tullock, G. 1967 “The Welfare Costs of Tariffs, Monopolies and Theft,” *Western Economic Journal*, 5: 224-32.
- Williamson, O. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications*. Free Press, New York.
- Williamson, O. 1985 *The Economic Institution of Capitalism: Firms, Markets, Relational Contracting*. Collier Macmillan, London.
- World Bank-IEG 2011a *World Bank Country-Level Engagement on Governance and Anticorruption (GAC). An Evaluation of the 2007 Strategy and Implementation Plan*. Washington DC. World Bank
- World Bank-IEG 2011b *Curbing Fraud, Corruption and Collusion in the Roads Sector*. Washington, DC, World Bank
- World Bank-IEG 2009 The World Bank Group Transport Papers-TP 27. *Deterring Corruption and Improving Governance in Road Construction and Maintenance*. This report has most extensive annotated bibliography on corruption in all the different phases and implementation and financing methods of road projects
- World Bank-IEG 1997a *World Development Report: The State in a Changing World*. Washington, DC, World Bank
- World Bank-IEG 1997b *Helping Countries Combat Corruption: The Role of the World Bank*. Poverty Reduction and Economic Management, World Bank.

APPENDIX A1

Figure A1: Foreign Direct Investment Inward Flows



Source: UNCTAD Handbook of Statistics (2010)
<http://www.unctad.org/templates/webflyer.asp?docid=14293&intItemID=2068&lang=1>

APPENDIX 1: GLOSSARY OF KEY TERMS (ALSO SEE LAPLANCE AND PONTALIS, 1973)

Contact function --- Term and method developed by Hyman Spotnitz to work with analysands; it complements “free association”. Contact function simply means to follow and remain with the analysand’s (client’s) thinking without disturbing it or introducing new ideas or interpretations.

Ego-syntonic --- Being or presenting oneself similar to the group analysands (clients). “To be on the same page” with the group (clients).

Libido, libidinal --- Libido, is the life drive in Freud’s dualistic theory of the instincts. It has the aim to create and support life and create and maintain ever greater unities. The death drive has the opposing tendency, aggression, and its aim is inanimate state, death.

Polisanalysis --- Term coined by Prof. Jonathan Lear to designate governance in ancient Athens where free men congregated at *Polis* to discuss and decide policy. Psychoanalytic groups have stable membership. In this paper *polisanalysis* designates transient, not permanent groups, normal in government and planning.

Resistance --- In psychoanalysis ‘resistance’ means words or actions of the analysand that obstruct his gaining access to his unconscious.

Transference --- A process of the analysand’s (client’s) unconscious transfer of his early relationships to the person of the analyst. Analysis of the transference leads to “cure”. For extended discussion see LaPlance and Pontalis (1973).

Counter-transference --- The analyst’s response (feelings) to the analysand’s transference (feelings).

About IPMR

IPMR The International Public Management Review (IPMR) is the electronic journal of the International Public Management Network (IPMN). All work published in IPMR is double blind reviewed according to standard academic journal procedures.

The purpose of the International Public Management Review is to publish manuscripts reporting original, creative research in the field of public management. Theoretical, empirical and applied work including case studies of individual nations and governments, and comparative studies are given equal weight for publication consideration.

IPMN The mission of the International Public Management Network is to provide a forum for sharing ideas, concepts and results of research and practice in the field of public management, and to stimulate critical thinking about alternative approaches to problem solving and decision making in the public sector.

IPMN includes over 1300 members representing about one hundred different countries, both practitioners and scholars, working in all aspects of public management. IPMN is a voluntary non-profit network and membership is free.

ISSN 1662-1387