

The Political Economy of Corruption: A Philippine Illustration^a

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Working Paper No. 08-05
October 27, 2008

Abstract

This essay explores the nature, causes, and consequences of corruption as it pertains to entire regimes. Grand corruption is modeled as a type of unproductive rent-seeking at the highest levels of government. The economic costs of corruption are assumed to increase in the decentralization (and relaxation) of its governance, increase convexly in the percentage extracted, and decreasing in the opportunities for productive rent-seeking. Combining these assumptions with the benefits of corruption yields the results that optimal corruption revenues are increasing in greed of the regime and in economic opportunities but that the economic costs of corruption may be highest in the least avaricious regime. The theory is illustrated with a stylized account of corruption in three Philippine administrations, from 1973-1998. Policy implications are discussed, including the role of the economist in making corruption less attractive.

Keywords: Corruption, Philippines, kleptocracy

JEL codes: H11, K42, O5

^a This paper was originally drafted for the Western Economics Association International meetings in Seattle, July 1997, and was issued as University of Hawaii at Manoa Working Paper 97-10 under the title, "The Political Economy of Corruption." Thanks to Lee Endress and Roger Blair for helpful discussions, Majah-Leah Ravago for research and editorial assistance, and to an anonymous referee for constructive comments. All remaining errors are my responsibility.

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THE POLITICAL ECONOMY OF CORRUPTION: A PHILIPPINE ILLUSTRATION

James Roumasset

1. Introduction

Corruption, according to Rose-Ackerman (1996, p. 365), “occurs when officials use their positions of public trust for private gain.” It is “an extralegal institution used by individuals or groups to gain influence over the bureaucracy” (Leff, 1964, p. 8). That is, corruption involves transactions, typically between private parties and public officials, designed to manipulate the machinery of government. It may be of the permission-seeking type (quotas, licenses, permits, passports, and visas), the enforcement avoiding type (tax evasion, illegal pollution) or the competition-harassing type.

Corruption is closely associated with bribery that has been recognized since the 15 century B.C. as “a gift that perverts judgment” (Noonan, 1984, p. 12). Most of the literature on corruption and bribery is implicitly applied to lower level public officers (e.g. Mocan, 2008).¹ This essay explores the nature, causes, and consequences of corruption as it pertains to entire regimes – what Rose-Ackerman (1996, 1997) calls “grand corruption” or kleptocracy, including high level manipulation of policies and projects. We shall see that grand corruption is similar to rent-seeking at the highest levels of government and may be usefully regarded as part of the same “third-best” theory of government (Dixit, 1996), also known as *political economy*.

The purpose of the present paper is to extend the theory of corruption and imbed it in a more general political economy of public policy. To dramatize the theoretical points, I provide a stylized account of corruption in three Philippine administrations, from 1973-1998.² Inasmuch as hard evidence about corruption at the highest levels of government is generally unavailable,

¹ “Because an increase in *perceived* corruption in a country is thought to be associated with a slower rate of economic growth (Mauro 1995), a sizable literature has emerged recently to examine factors that impact the level of corruption across countries. For example, Ades and DiTella (1999) found that corruption is higher in countries where domestic firms are sheltered from foreign competition. Graeff and Mehlkop (2003) documented the relationship between a country’s economic freedom and its level of corruption. Brunetti and Weder (2003) found that a higher freedom of the press is associated with less corruption. Van Rijckeghem and Weder (2001) showed that the higher the ratio of government wages to manufacturing wages, the lower is corruption in a country” (Mocan, 2007).

² Marcos’s first two constitutional terms, 1965-73 are excluded from this account.

these accounts should be regarded as perceptions and common allegations, not fact.

2. Lessons from the Philippines: Marcos era

A stereotypical account of corruption in the Philippines may be used to clarify and extend Shleifer and Vishny's (1993, hereafter referred to as S-V) theory of corruption. In the Marcos regime, corruption was highly centralized. Imported goods, for example, were routinely seized and bribes paid to expedite their timely release and facilitate lower duties. Such operations had the tacit approval of higher authorities who were repaid with both bribe shares and political support.

Not only did the centralization of corruption permit both higher bribe collection and lower excess burden (S-V, 1993), it permitted greater grand corruption as well. According to President Aquino's Commission on Good Government, Transparency International, and the U.N. Commission on Drugs and Crime, the Marcoses and their cronies were able to accumulate \$10-15 billions in assets from various operations.³

But the styles of grand corruption were quite different even within the Marcos regime. Imelda Marcos allegedly extorted hefty percentages from many government contracts under her authority as Governor of Metro Manila and Minister of Human Settlements and expected wealthy business owners to contribute generously to her various public works projects.⁴ President Marcos, in contrast, devised numerous schemes to extract wealth under the guise of legitimacy.

³ Adams, 2008 <<http://www.eprf.ca/probeint/OdiousDebts/OdiousDebts/chapter13.html>>; Transparency International, 2004, the United Nations Office on Drugs and Crime; Hotland (2007) <http://www.etan.org/et2007/september/22/19suharto.htm>; and GMAnews TV <<http://www.gmanews.tv/story/119981/PCGG-Recovered-Marcos-wealth-now-at-193B>>.

⁴ Indeed, when Mrs. Suharto earned the nickname "Mrs. 10%," many Filipinos were envious. The figure 33% is often heard in connection with Metro Manila and Ministry of Human Settlements contracts, and may have played a part in the Transparency International estimate (footnote 3). Mrs. Marcos also reportedly expected a 35% discount on her numerous shopping sprees, during which other customers had to be cleared from the store <<http://www.people.com/people/archive/article/0,,20093327,00.html>>. The following quotes are illustrative: "I get my fingers in all our pies. Before you know it, your little fingers including all your toes are in all the pies." -- cited in *Ang Katipunan*, October 1980. "It's the rich you can terrorize. The poor have nothing to lose." ... "I'm like Robin Hood. I rob the rich to make these projects come alive... not really rob. It's done with a smile." -- in *Fortune*, 1979 – "The Wit and Wisdom of Imelda Marcos <<http://www.thewilyfilipino.com/imelda.htm>>

2.1 Legitimate Corruption

One of the most ingenious of such schemes involved the Philippine coconut industry. First a media campaign was launched to convince farmers and consumers of coconut products that they were being exploited by unscrupulous middlemen. Next an 18% tax was imposed on the gross (!) sales of coconuts and copra. Farmers were told that this tax was in exchange for shares in the newly formed United Coconut Planters Bank (UCPB), headed by Marcos' best crony. UCPB, however, had the status of a quasi-public corporation whose collections and disbursements were not fully revealed. UCPB then acquired United Coconut Oil Mills (UNICOM), a holding company for coconut oil processing plants, which quickly monopolized the industry thru bureaucratic harassment of the competition. UNICOM's monopoly position was further enhanced by banning exports of copra, thus leaving sale of whole coconuts to the very small domestic market as the only alternative outlet to the oil industry. These policies allowed UCPB/UNICOM to substantially increase the wedge between prices paid to farmers and charged to consumers. Figure 1 illustrates.⁵

S-V (1993) characterize the Philippines under Marcos as effectively a monarchy. While the Republic of the Philippines nominally retained its democratic institutions under Marcos, the legislature, judiciary, as well as provincial and local government offices were increasingly centralized under his presidency and later combined presidency/prime-ministership.⁶ Nonetheless, Marcos' power was also contingent on his ability to maintain the appearance of legitimacy. Once the government was no longer viewed as legitimate, due to the assassination of Benigno Aquino and other developments, popular and even military support waned, and the "People Power Revolution" was able to overthrow the regime.

⁵ See Clarete and Roumasset (1983) for further details.

⁶ "Under the 1973 Constitution, the President, in derogation of the traditional separation of powers, exercised legislative powers" (in cases thought by the President to constitute an emergency) "and retained the residual powers of the government." <http://www.ide.go.jp/English/Publish/Als/pdf/13.pdf> The 1976 constitutional amendments substituted an Interim Batasang Pambansa (IBP) for the Interim National Assembly and specified that the President would also become the Prime Minister.

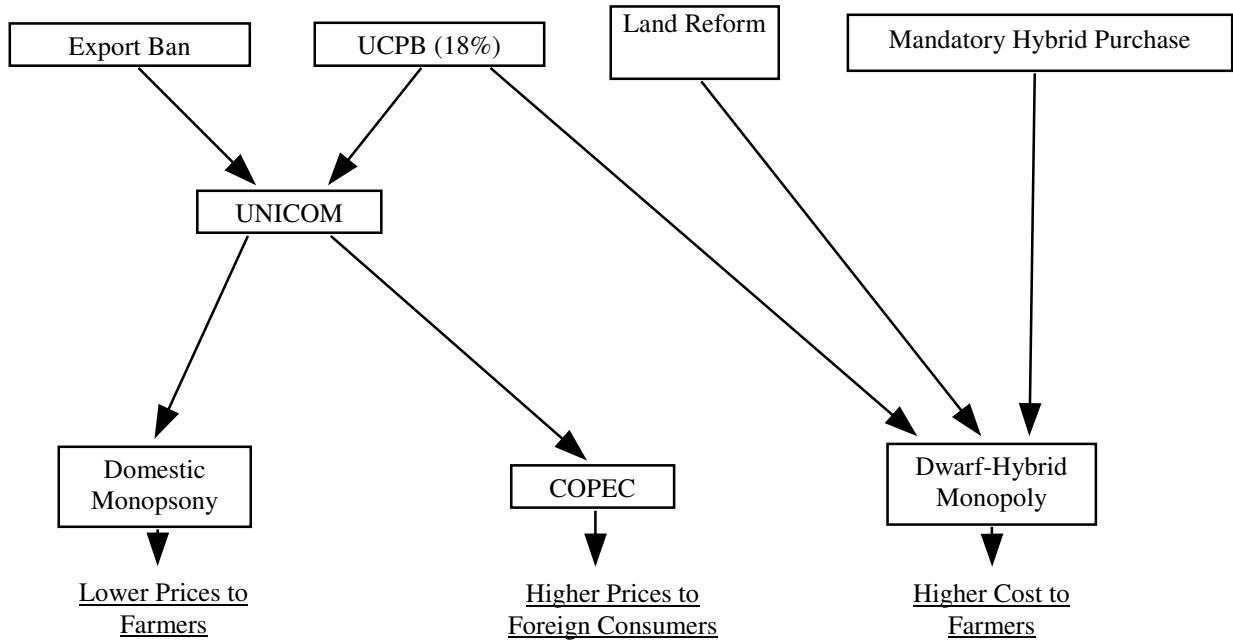


Figure 1: “Legitimate” Corruption of Philippine Coconut Policies

Thus, unlike a kleptocracy modeled along the lines of Brennan and Buchanan’s (1977) Leviathan, Marcos was not free to directly pocket the proceeds from the 18% production tax. Further entrepreneurship was needed to develop schemes that transferred wealth of the quasi-public entity, UNICOM, into private hands. One clever scheme involved using UCPB funds to purchase and plant an African hybrid variety on a plantation given to the head of UNICOM as “compensation” for a relatively small amount of land that he lost under the country’s land reform program. Moreover coconut farmers were mandated to replant their coconut farms to these same hybrids on the grounds that their higher yields would improve both farmers’ yields and the national economy.

In summary, under the guise of what appeared to be legitimate public programs, a single

private individual was given a monopsony on coconuts, a monopoly on coconut oil, and a monopoly on the one variety of coconut trees that farmers were required to buy. Moreover the oil and hybrid monopolist was not required to buy the industries but was largely gifted them thru the allocation of public funds.

2.2 Secrecy and Stupidity

Lucrative as it was, however, the scheme was “too clever by half.” The coconut oil monopoly, popularly known in the Philippines as “COPEC,” tried to imitate OPEC and stockpiled coconut oil in order to raise the world price. The plot backfired when the oil went rancid and, when it was eventually sold, spoiled the reputation of Philippine oil. As the result of this 18% tax and the nuisance value of the replanting requirement, the Philippines irreversibly lost its position as the world’s leading exporter of coconut oil. Moreover, the government was not in a position to exploit its oil monopoly on the domestic market. Cooking oil, like rice and gasoline is regarded as a basic commodity among urban consumers and the political repercussions of a rise in price can be severe. Finally, the African dwarf hybrid program was a bust. Farmers were unwilling to replant, even under the threat of law and a highly subsidized price, and the program became unenforceable.

These errors suggest a corollary to the proposition that bribery is more distortionary than taxation. The necessity of secrecy leads government officials to discourage more transparent activities in order to stimulate the more “bribable” sectors (S-V, 1993), to say nothing of differences in revenue disposition. While the coconut scheme described above was not entirely secret, neither was it the product of thorough public debate, which likely would have partially overcome the failure to foresee adverse consequences. That is, secrecy not only begets inefficiency in intersectoral resource allocation, it begets collective stupidity.

Another famous scheme involved the construction of a nuclear reactor project on the Bataan peninsula. The Westinghouse power plant, “originally estimated at \$500 million for two

reactors, ended up costing \$2.8 billion for a single reactor.”⁷ Again the transfer to private hands was achieved through relatively sophisticated means, relative to Mrs. Marcos’s more blatant alleged tactic of simply demanding a share of government contracts. A number of specialized or dummy corporations were set up to obtain contracts for the construction of the power plant, to insure the plant (for \$688 million), and to handle other aspects of the project. Both Marcos and his crony Herminio Desini had substantial interests in these companies. Desini was also apparently paid \$80 million for consulting services largely for his role in helping Westinghouse win the contract.⁸

The high level of corruption in the Marcos administration accords with Persson and Tabellini’s (2005) thesis that parliamentary governments tend to have a higher level of corruption than presidential ones. Marcos was able to establish himself as both President and Prime-Minister and to effectively limit checks and balances on his power (cf. footnote 6).

3. Post-Marcos Evolution of Corruption

After the legitimacy of the Marcos administration had waned and the government of self-proclaimed “housewife” and widow of Benigno Aquino came into power, corruption returned to the decentralized, Spanish-mestizo-dominated form that had prevailed before Marcos declared martial law on Sept 21, 1972.

The loss of central control of corruption has two deleterious effects. First, the number of expropriators and the level of effort expended in government plundering increases, much as in the Tragedy of the Commons.⁹ First the degree of “theft” from the highest level of government increases. This in turn feeds the further spread of corruption thru a kind of Gresham’s Law (corrupt officials outcompete honest officials for jobs and bribe-giving producers drive out their competitors: “observance of law does not survive in a competitive market” (S-V, 1993 p. 604).

⁷ Adams, 2008.

⁸ Ibid.

⁹ Hardin, 1968.

Second, and relatedly, the loss of central authority allows independent entrepreneurs to create or simply add more roadblocks to business ventures, in the limit driving “the cumulative bribe burden on private agents to infinity” (S-V, 1993 p. 615) and bribe revenue to zero. As a consequence, the Philippine economy stagnated during the Aquino regime, even recording negative growth in some years.

A common element in both the Marcos and Aquino administrations was the tolerance for corruption by relatives. Mrs. Marcos’ blatant extortion was tolerated in part because she was the President’s wife and in part because of her own political following (the analogies with Mrs. Suharto of Indonesia and Evita Peron speak for themselves). Mrs. Aquino’s brother allegedly directed government spending to marketing facilities and then sold space therein. His power to do so derived not from any official position but from his familial relationship with the President.

Because of the excesses of the Marcos administration in its later years and the decline in central authority during the Aquino regime, the Philippines missed out on the 1980's Asian growth “miracle.” It was not until the mid-90's under President Ramos that the Philippines grew out of its “stray cat” status (Vos and Yap, 1996; Roumasset, 1997). Ramos restored central authority through legitimacy, reputation, and ability. As a General in the Philippine Army under Marcos, he opposed the use of force to suppress the People Power Revolution. The nature of corruption, accordingly, became less burdensome. In addition, Ramos benefited from the increased demand for foreign investment, especially in real estate and industrial techno-parks, that was the inevitable consequence of low wages, low land values, and high literacy/human capital relative to other Asian newly industrializing economies (NIE). This afforded the opportunity for higher bribe revenues at lower per unit bribe prices.

If the Philippines is to sustain its current high rate of economic growth, it needs to keep corruption not only centralized but “growth-compatible.” The coconut scam described in section 2 was an effective pilfering mechanism in the short-run, but in the long-run it destroyed the incentive to invest in coconut farming and downstream industries.

Road construction provides a similar example. Suppose public officials wish to collude

with construction contractors to pilfer 50% of a road contract. Building the highway half as long as prescribed is not an option -- it is too transparent. Instead, suppose that they collude to make the highway somewhat less than half as deep (making allowance for costs of design, clearing, asphalting, etc.). The cost of keeping this operation “secret” is that the road will depreciate more than twice as fast as in the design, albeit road washouts and other types of deterioration can be conveniently blamed on acts of nature or road misuse. Clearly the inefficiency of corruption, measured as waste per peso of revenue, increases with the bribe percentage (see figure 2). For growth to be sustained, the percentages extracted need to be kept at manageable levels as exemplified by, say, Korea and the U.S.¹⁰

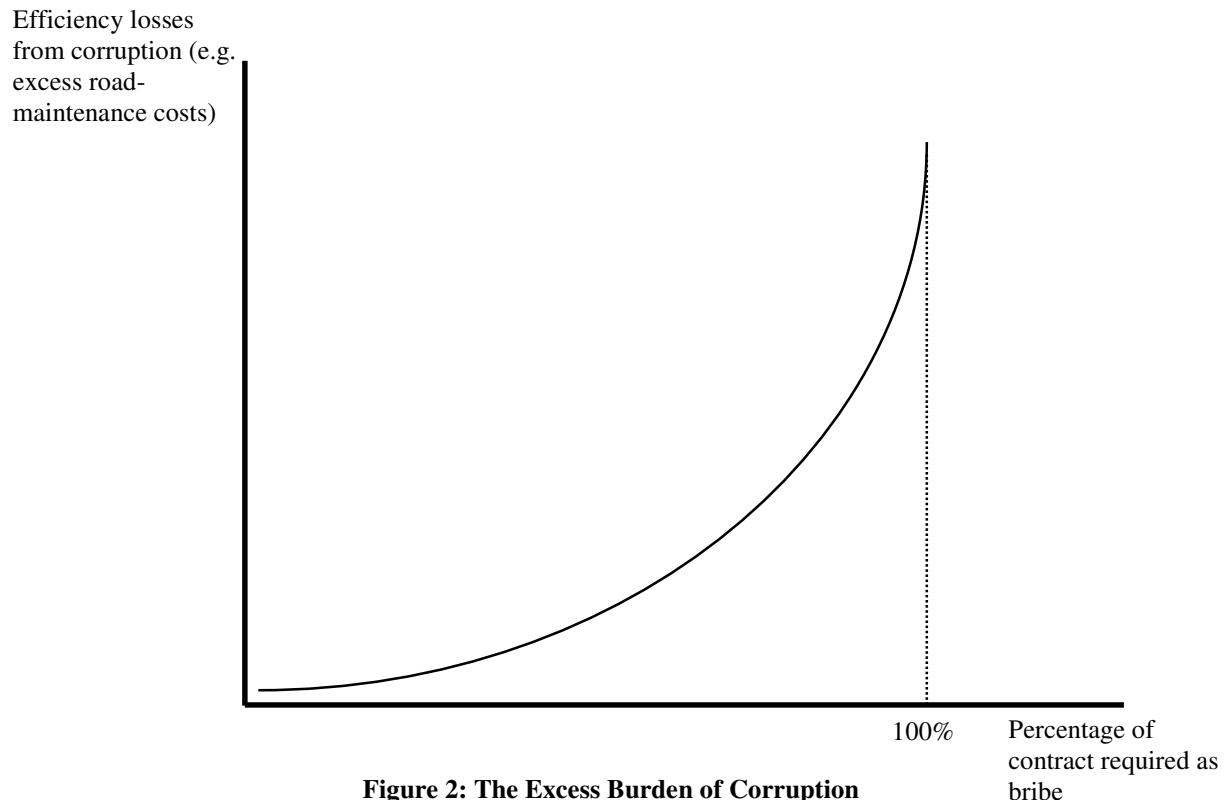


Figure 2: The Excess Burden of Corruption

4. Generalizations

In most of the corruption literature, the nature of central government is taken as given.

¹⁰ The tolerable percentage may also depend on the nature of the contract. The highest percentage take that I have heard of, for example, was 88% for curtains in selected government offices in Metro Manila under then Governor Imelda Marcos.

Either authority is centralized in an honest “principal” government that designs incentive compatible mechanisms to motivate corruptible bureaucrat-agents (Rose-Ackerman, 1978), authority is centralized in a kleptocratic (Rose-Ackerman, 1996), Leviathan (Brennan and Buchanan, 1980), monarchy (S-V), or authority is not centralized (and corruption is “S-V inefficient”). As Shleifer and Vishny themselves confess, this approach does not illuminate “the far deeper question” (S-V, 1993 p. 608) concerning the ability of high government officials to centralize corruption.

The case of the Philippines suggests that legitimacy is an important determinant of central authority. Power does not, as Chairman Mao suggested, emanate entirely “from the barrel of a gun,” though legitimacy and the ability to monopolize violence are clearly joint inputs in the production of central authority. To the extent that such authority is “gun-produced,” leaving it as exogenous in economic models is understandable. On the other hand, high-level and low-level corruption are co-evolutionary.

High-level or “grand” corruption may be distinguished from rent-seeking in shaping public policies on the basis of whether it is inside or outside of the law. Thus, Imelda Marcos’ extortion may be said to be corruption and the coconut scam said to be mere rent-seeking. This distinction may turn out to be superficial and elusive in practice, however. What surreptitious threats were used, for example, to deter opposition to new laws governing coconut policy? It may be recalled, for example, that Senator Palaez was shot for revealing consequences of these policies for coconut farmers. Similarly in the U.S., there is a fine line between policies than have been influenced by legal and illegal campaign contributions. Politicians’ need for campaign gifts in effect offers “protection for sale,” and special interest groups are willing buyers (Grossman and Helpman, 1994).

In any case, the economic causes of corruption and rent-seeking are very much the same, and the theory of political economy can be applied to grand corruption. Indeed, it has been suggested above that Imelda’s larceny was very much dependent on President Marcos’ ability to

maintain popular support and the appearance of legitimacy about his government.¹¹ Since petty corruption and grand corruption are also usefully seen as part of the same theory, this suggests a unified theory of rent-seeking which encompasses corruption as well. Figure 3 illustrates the application of neoclassical political economy¹² to the problem of how cooperation becomes more or less centralized. The downward sloping excess burden costs represent the S-V (1993) theory

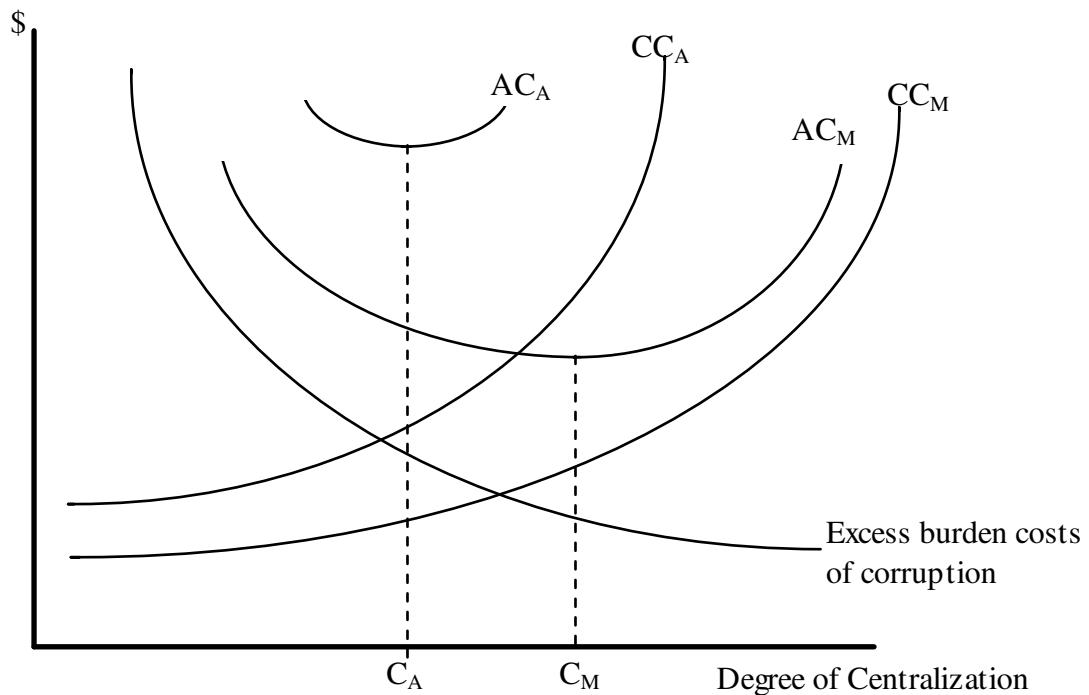


Figure 3: Equilibrium Centralization of Corruption

discussed above. For the same corruption revenue, the excess burden costs fall with the degree of centralization. The upward sloping curve, CC_M and CC_A represent the costs of centralization under Marcos and Aquino respectively. Marcos' entrepreneurial skill and credible commitment to punishing corruption-seeking independents is represented as a lower cost of organizing a

¹¹ Peter Kann, publisher and CEO of the *Wall Street Journal*, once referred to Marcos' martial law government as "smiling martial law." Marcos himself was extremely persuasive in arguing that martial law was itself consistent with the emergency power granted to the President under the Philippine constitution.

¹²Neoclassical political economy is also known as the "economics of the third-best" (Dixit, 1996; Roumasset, 1989).

sustainable central system of corruption. Agency costs, AC_A and AC_M ,¹³ represent the corresponding vertical summation of the two curves for the two administrations. The optimal degrees of centralization are where the agency cost curves are minimized, at C_A and C_M .

Figure 4, illustrates the plausible consequences of centralization and corruption opportunities for the three regimes discussed in this paper. The marginal costs of corruption, MC_A and MC_M , are derived by combining figures 1 and 2. As corruption revenue is increased, the excess burden costs shifts increasingly upward leading to the rising MC curves in figure 4. The position of MC_A above MC_M reflects the greater excess burden per dollar of corruption rents under the more decentralized Aquino administration relative to that of Marcos. The marginal cost of corruption under Ramos is shown as even lower than that of Marcos due to the opportunities before the Asian financial crisis, to take a smaller share from the greatly expanded

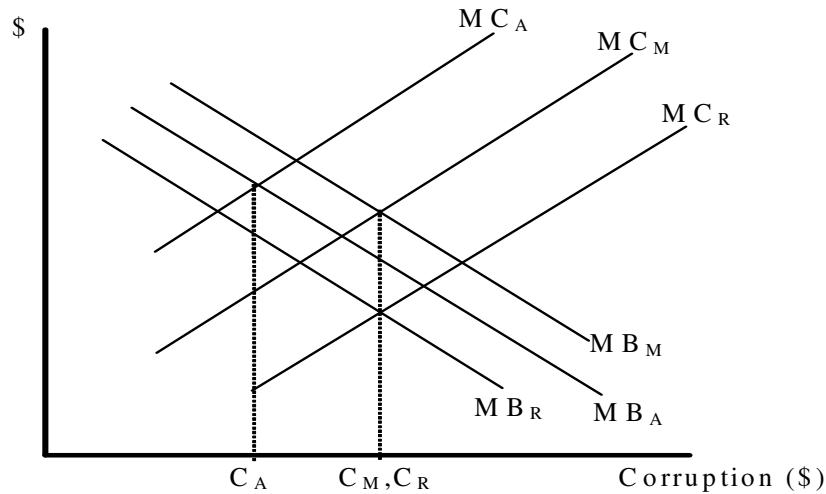


Figure 4: Comparative Corruption

private foreign investment. In addition, the marginal benefits are drawn to reflect the characterization that the Marcos's and their cronies were the most avaricious in their quest for corruption revenues. The figure illustrates the possibility that a less avaricious regime (Aquino) can be more costly to the economy relative to more centralized regimes (Marcos and Ramos)

¹³ Jensen and Meckling (1976) pioneered the use of agency theory in their theory of corporate governance, especially regarding corporate finance.

even though less corruption revenues were produced. Figure 4 also illustrates the logical possibility that a less avaricious regime (including the officials of local governments in the time of Ramos) could produce as much revenue as the more avaricious Marcos regime by in effect taking a smaller slice of a bigger pie.

4.1 “Good corruption”

Corruption can be welfare enhancing when it prevents “bad” laws from being enforced. Laws that prevent voluntary exchanges that have no third party effects, for example, are welfare reducing. To the extent that black markets reverse the effects of such laws and to the extent that corruption “greases the wheels” of those markets, corruption can be welfare increasing.

A more direct example concerns bribes paid to officials responsible for allocating water in irrigation systems (Wade, 1982; more generally, see Leff, 1964). If the highest willingness-to-pay users are the ones that end up “buying” water from the officials, the bribe is in effect a water price and a transfer payment. The bribe keeps the water price from increasing to its first-best efficient level, but even the lower water price helps allocate water towards the highest and best users. One can think of the bribe market as similar to an auction. At the equilibrium bribe price, the marginal user is indifferent between paying the bribe and not getting irrigation water. Irrigators with higher demand schedules successfully obtain water and earn inframarginal rents.

4.2 “Bad” Policies and an Impossibility Theorem

While good corruption can result from bad policies, it doesn’t fully offset the excess burden created by the bad policies. In the water case, the government could have charged for irrigation water in the first place or provided transferable water rights. Moreover “good corruption,” which improves resource allocation albeit through extra-legal means can also promote bad corruption. Indeed, Japan has been characterized as pursuing deregulation as a device to reduce opportunities for corruption (Schlesinger, 1999).

Prohibition of alcohol in the 1920's-U.S. and of mind-altering drugs today is suggestive

of a kind of prohibition “impossibility theorem.” In the alcohol case, prohibition initially reduced consumption by one-third and dramatically increased the wedge between production costs and sales price. This made it increasingly attractive for suppliers to find innovative ways to provide their product at acceptable risks to themselves and their customers. One such method was the corruption of law enforcement. As a result, alcohol consumption approached pre-prohibition levels even as enforcement efforts tripled (Roumasset and Thaw, 2003).

In general, characteristics of some products and the enforcement technology of their prohibition may be such that increased enforcement expenditures drive the wedge between production costs and sales price high enough to motivate enough additional corruption that effective enforcement actually declines and consumption of the product increases. That is, a higher monetary product price is consistent with higher sales when the expected punishment is sufficiently reduced.

The prohibition-impossibility theorem dramatizes the irrationality of evaluating policy proposals without evaluating their consequences for corruption and effective enforcement. Yet that is exactly what economists and policy-makers alike normally do.

4.3 Incentive compatible audits

It remains to connect the S-V theory of corruption and the more traditional principal-agency (P/A) theory (Rose-Ackerman, 1978 and McLaren, 1996). To some extent these are two sides of the same coin since P/A theory is germane to the question of how to keep lower-level officials from operating on their own.

The P/A mechanisms discussed in the literature usually presume an honest center and potentially corruptible lower official. Tax evasion by bribing a tax official is prototypical. McLaren paints an unnecessarily bleak picture of this problem. He explains that Myrdal’s suggestion of raising bureaucrats’ salaries is likely to be either insufficient to deter collusion or high enough to promote effort shirking. Moreover, paying tax officials on a commission basis may promote a corruption market where in taxpayers self-select into those willing and unwilling

to pay bribes, thereby violating both efficiency and equity conditions of desirable taxation.

The problem that remains to be solved is under what conditions privatizing tax collection can be effective. What is needed to prevent this from merely degenerating into the above result concerning bonuses or commissions is the possibility of developing guidelines for the tax collector's auditing procedure and the possibility of auditing the auditor. This of course presumes that some part of the central government is incorruptible, but it would still represent an advance over existing literature.

A related and also unsolved problem concerns how a kleptocratic center enforces centralization. Anecdotal accounts suggest that simple pyramid sharing-schemes are commonplace, with lower officials receiving higher percentage shares but higher officials receiving larger bribe revenues due to the nature of the pyramid.

5. Conclusions and Policy Implications

Grand corruption is modeled as a type of unproductive rent-seeking at the highest levels of government. The economic costs of corruption are assumed to increase in the decentralization (and relaxation) of its governance, increase convexly in the percentage extracted, and decreasing in the opportunities for productive rent-seeking. Combining these assumptions with the benefits of corruption yields the results that optimal corruption revenues are increasing in greed of the regime and in economic opportunities but that the economic costs of corruption may be highest in the least avaricious regime. The theory is illustrated with a stylized account of corruption in three Philippine administrations, from 1973-1998.

Most of the corruption literature presumes a social engineering perspective. From this vantage point, one can recommend the following sequencing of reforms analogous to the “sequencing of liberalization” literature. First, corruption should be centralized under the highest level of government. This will dramatically lower the costs of corruption and set the stage for the second step. Next, the per unit price of corruption should be reduced. This will promote mechanisms of corruption that are more conducive to growth without even necessarily reducing

the “take” of high officials. A third step involves liberalizing those policies whose enforcement increases corruption. The fourth step involves auditing systems that render government enforcement incentive compatible.

Since there is no such thing as a social engineer, however, one may ask about more pragmatic approaches. It is widely recognized that a free press and a demand for investigative journalism is one of the most effective weapons against bribery and rent-seeking generally. The government can be more proactive by improving auditing and reporting requirements so as to render the nature and consequences of government programs, policies, and projects more transparent to the public. Mandating benefit-cost analysis and reports such as environmental impact statements can similarly increase transparency. Indeed the Australian government at one time actually created a Transparency Agency to monitor government programs and to document who gained and lost from programs and how much. And Transparency International¹⁴, based in Berlin, ranks countries according to corruption as perceived by private companies. In the same vein, the Philippine government has over the years¹⁵ recognized that there is a need to fight graft and corruption and thus established agencies that are mandated to rebuke erring presidential appointees and government officials. In President Cory Aquino’s time, two other special agencies were created in reaction to Marcos’s abuses: the Commission on Human Rights and the Commission on Good Government (PCGG)¹⁶. The latter is tasked to reposess ill-gotten wealth allegedly stolen by the Marcoses and cronies.

Treisman (2000) finds evidence that the process of economic development may lessen corruption thereby promoting a virtuous circle inasmuch as corruption impedes growth. Education offers another way out of the stagnating sort of corruption inasmuch as education promotes civil vigilance, in part by leading to a broader social understanding of predatory practices and policies. The more people understand that win-lose strategies tend to generate lose-

¹⁴ <http://www.transparency.org/>

¹⁵ Starting from Pres. Elpidio Quirino’s Integrity Board of President in 1950 to Presidential Anti-graft commission of Pres. Gloria Macapagal-Arroyo. <http://www.pagc.gov.ph/page_predecessor.htm>

¹⁶ See e.g. <<http://www.pcgg.gov.ph/>> and Dolan, 1991.

lose results in situations where agents repeatedly encounter one another, they will be more inclined to employ win-win strategies. By characterizing and sometimes quantifying not only aggregate benefits and costs of projects and policies but their distribution, economists can make an important contribution to transparency.

I have emphasized the nature of the political regime as a cause of corruption. Other causes have and will be explored in the future as statistical patterns regarding the correlates of high and low corruption emerge. One example that may apply to the Philippines regards the role of religion. Treisman (2000) suggests that corruption tends to be higher in predominantly Catholic countries due to less tolerance of challenges to authority, less weight on individual responsibility (relative to human fragility protected by a forgiving church), less separation between church and state (leading to less autonomous monitoring of the state), and more weight on family over individual, leading to greater tolerance of “amoral familism” and nepotism (Treisman, 2000, p428). These forces may become part of a nation’s social capital and may help explain why the Philippines is often characterized as a Latin American country in Asia.

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