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Clientelism, corruption, and the allocation of resources

OSKAR KURER
Queensland University of Technology, 2 George Street, GPO Box 2434, Brisbane Q 4001, Australia

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1. Introduction

It is generally accepted that corruption has a negative effect on the allocation of resources on the ground that resources are drawn into rent-seeking activities.[1] Beyond that, the revisionists have argued, corruption often leads to an efficient allocation of resources, or even to an improvement of allocative efficiency. It is shown that the revisionist claim hinges crucially on the nature of the political system. In a clientelist political system additional misallocation is likely to occur on a substantial scale.

In Section 2 a clientelist political system is outlined. Section 3 questions the crucial implicit assumption that politicians do not take into account expected corrupt gains when they deliberate policy issues. According to the revisionists, sub-optimal policies are pursued for reasons independent of corruption, and corruption is then shown as alleviating the negative consequences of these sub-optimal policies. As soon as it is accepted that the sub-optimal policies might be the consequence of corruption, the revisionist case breaks down.

Sections 4 and 5 address the revisionist argument that given the sub-optimal policies, allocation will often be optimal. Their main argument assumes that corruption is used by politicians to extract maximum bribe revenue. Since the most efficient producer can offer maximum bribes, allocation will still be optimal. This reasoning will be tested in the case of the allocation of licences and contracts and the production of goods and services by the government. However, if politicians also take into account effects on political support, misallocation is likely to occur. Further misallocation will result from an inefficient distribution of goods and services and from an oversized government sector.

2. The political environment

Most of the arguments dealing with corruption in less developed countries[2] suffer from the defect that the political system in which corruption takes place has not been specified, although common sense would suggest that the effect of corruption varies with the nature of the political system.

Our starting point is a clientelist political system. The actors in the model are patrons, clients, and non-clients. The patrons are the politicians in power who determine the size and the distribution of government revenue. The clients elect and support their patron politically in return for economic benefits derived from the association with the patron. Class, corporation, or ideology do not influence the behaviour of the clients.[3]

It is assumed that the bureaucracy has no independent decision making power. Government officials are appointed by a particular politician, to whom they are indebted to begin with, and on whom they rely for promotion and other favours, such as the employment of relatives in the government sector (Chubb, 1981: 70), or even the continuation of employment (for example Waterbury, 1989: 355–356). Given this situation, it is indeed likely that the position of the bureaucracy is weak, which justifies, at least partly, our extreme assumption.

It is assumed that patrons, or the politicians in power, maximize their personal gains subject to maintaining political support. These gains consist of government revenue minus what is transmitted to clients and non-clients in exchange for political support. The revenue of the patrons is derived from general taxation or from corrupt activities, such as the illegal sales of licences, foreign exchange, and contracts.

In exchange for political support clients receive benefits in the form of pork-barrel and patronage benefits. Pork-barrel benefits are collective benefits and typically include local schools, roads, wells and health facilities. Patronage benefits are necessarily individual benefits, such as the allocation of a job, credit, a contract, exemption from taxes or access to a particular government service.

Corruption is defined as behaviour violating laws, rules, and regulations aiming at private gains.[4] It is assumed that pork-barrel benefits are allocated according to accepted political and bureaucratic procedures; pork-barrel policies are therefore not corrupt. On the other hand, patronage allocation usually involves corruption since benefits are normally allocated to individuals in violation of accepted legal and bureaucratic procedures.

It is assumed that the actors engage in corrupt activities without inhibitions. Bureaucratic procedures are habitually disregarded, and the danger of punishment is extremely low, in fact zero. The assumption is not altogether unrealistic. The "use of public office for private enrichment is the normal and accepted practice in African states" (Andreski, 1979: 277). Corruption becomes "a fact of life that one cannot avoid and that had best be mastered" (Waterbury, 1989: 344).[5]

3. The revisionist fallacy

Revisionists assume that some governments pursue sub-optimal economic policies because of incompetence or ideological bias. Bayley (1966: 727), for example, argues that governments "have no monopoly upon correct solutions; governments are simply one among many bureaucratic institutions which may do stupid things". Nye (1967: 420) attributes the prevalence of suboptimal economic policies to the experience of imperialism which "has led to a systematic bias against the market mechanism". Leff (1964: 10) takes the example where "the government consists of a traditional elite which is indifferent if not hostile to development, or of a revolutionary group of intellectuals and politicians, who are primarily interested in other goals.

Corruption, the revisionist argument continues, may improve the situation first by persuading the government to pursue policy options more in line with social welfare. Leff (1964: 8), for example, claims that "if business groups are otherwise at a disadvantage in articulating their interests to the government, and if these groups are more likely to promote growth than is the government, then their enhanced participation in policy formulation [through corruption] can help development". Nye (1967: 20) argues that "corruption may provide the means of overcoming discrimination against the members of a minority groups, and allow the entrepreneur from a minority to gain access to the political decisions necessary for him to provide his skills."[6]

Secondly, the revisionists hold that corruption may alleviate the *consequences* of sub-optimal policies by undermining their negative effects at the execution stage. Nye (1967: 420), argues that "corruption helps to mitigate the consequences of ideologically determined economic devices which may not be wholly appropriate for the countries concerned." Bayley (1966: 727) believes that corruption "may serve as a means for impelling better choices." Leff (1964: 11) maintains that "if the government has erred in its decision, the course made possible by corruption may well be the better one."

According to the revisionist view of government, there is an initial stage where politicians draw up sub-optimal policies because of ignorance or special interest group pressures. It ignores the possibility that anticipated gains from corruption enter the deliberations about policy from the very outset. What can be called the revisionist fallacy is the assumption that the state of the world in which particular corrupt practices take place is determined independently from corruption.

In a clientelist system, corruption does affect policy making. Policies are selected and implemented solely with a view of generating income and political support. That course of action is chosen which maximizes independently the welfare of the politician, whether corruption is involved or not. Hence licensing, tariffs, quotas, nationalization of industry and excessive payments to government suppliers are seen as means to generate revenue which then can be appropriated by the politicians through various means such as bribes and kick-backs, or left to clients as remuneration for political support. The sub-optimal policies which lead to a distortion in the price structure and welfare losses become a consequence of corruption.

From this viewpoint, the revisionist case breaks down. If the suboptimal policies are a result of corruption, then it makes little sense to credit corruption for alleviating negative allocative effects for which it was responsible to begin with. If a system of licences was created to increase corrupt gains, then Leff's argument that the competitive pressure of a bidding procedure will increase efficiency breaks down. If discriminatory policies are designed because of expected monopoly gains by clients, corruption generates misallocation to begin with and may at best alleviate further welfare losses.

In fact, the revisionist claims are based on inconsistent behaviour on the part of the government. Revisionists discuss the case where politicians are corrupt, but they do not acknowledge that corruption affects policy making. In other words, politicians initially behave in a perfectly honest manner while sitting down discussing policies, but immediately get enmeshed in corrupt practices afterwards. It is only then that it can be assumed that sub-optimal policies are the result of considerations other than corruption. This is not to say that sub-optimal policies may not result from ideological bias, but as soon as corruption is allowed for then it must be presumed to constitute one of the elements in decision making.

This possibility that corruption may direct resources "into socially undesirable areas' was acknowledged by Nye (1967: 421). In particular, capital "may be channelled into sectors such as construction not because of economic profitability, but because they are more susceptible to hide corrupt fees" (p. 421). LeVine (1976: 101) finds empirical support for this suggestion in the Ghana case, where "fostering projects ostensibly designed to be economically profitable but actually designed to conceal diversion of capital to corrupt fees or procurement of cost-plus contracts and suppliers' credits ... most closely describes the visible situation in Ghana during the Nkrumah period." Scott (1972: 121) finds that patronage considerations are often reflected in the structure of development programs. The process of nationalization in Indonesia in the late 1950s and 60s "was as often motivated by the desire of important cliques for new fields of patronage and revenue as by a set of nationalist of socialist policy goals" (p. 82).[7] Similarly, the goals of reorganizing and centralizing the cocoa trade in Ghana "corresponded closely with the desire of CPP leaders to maximize the political utility of government employment and expenditure" (p. 130). Fieldhouse (1986: 94) describes the influence of patronage considerations on the nature of goods and services provided. Specific patronage developed in order that only those from whom political support is sought receive a share of the limited stock of benefits. "Licensing of all kinds is desirable because licences can be used either as rewards or as threats. Price controls to balance over-valued currencies are preferable to rational monetary policies because they can be used selectively. It is better to offer selective benefits (fertiliser subsidies, use of tractors, etc.) to small groups of larger farmers rather than to help all farmers by paying higher prices for their produce. Such practices have become endemic."

In the theoretical literature, Johnson (1975), takes up Nye's point and argues that governments use private firms to collect a 'corruption tax'. The private firms are able to collect such a tax "by obtaining monopoly rights *cum* special concessions from the government and will share in the tax proceeds by not handing over ... all the monopoly rent realized" (Johnson, 1975: 55). By doing this, governments are able to reduce the risk of criminal procedures taken against them, and reduce public opprobrium which diminishes the chances of re-election. A deadweight loss then results from '*x*'-inefficiencies and from allocative inefficiencies due to monopolization (p. 56). Quite clearly, in this scenario corruption *causes* sub-optimal policies.[8] At issue here, however, is not the need to avoid prosecution or opprobrium, but exclusively the need to maximize the personal gains of the politicians in power and remunerate their clients for their support. In fact, corrupt revenue judiciously allocated increases political support.

4. Government and the private sector: Licences and contracts

The second prop of the reasoning of revisionists is the perfect market assumption, which includes a process of competitive bidding by private firms for licences and government contracts. Given these assumptions, it can be shown that in many cases allocation will be optimal despite corruption. Supplies to government will be produced by the most efficient producer (Leff, 1964: 9; Beenstock, 1979: 23), and rent is eliminated from employment in the government sector (Beenstock, 1979: 16; Rose-Ackerman, 1978: 61). It will be shown that in a patronage system there is an in-built mechanism which prevents the elimination of rent. In this section it is argued that neither licences nor government contracts are likely to be allocated to the most efficient firm.

According to the revisionists, corruption in the regulative process may increase efficiency. Leff (1964: 11), for example, believes that "bureaucratic corruption also brings an element of competition, with its attendant pressure for efficiency, to an underdeveloped economy. Since the licenses and favours available to the bureaucrats are in limited supply, they are allocated by competitive bidding among entrepreneurs. ... Hence, a tendency toward competition and efficiency is introduced into the system."

Given this allocation mechanism, the revisionist' argument continues, licences and contracts will tend to go to the low cost producer. Prevalence of corruption implies that contracts are allocated to suppliers willing to pay a bribe. Since the low cost producer is able to pay the largest bribe, he will receive the licence or contract. Leff (1964: 9), for example, argues that "in the long run, the favours will go to the most efficient producers, for they will be able to make the highest bids which are compatible with remaining in the industry." Similarly, Beenstock (1979: 23) claims that "the most efficient supplier will tend to win the contract."[9]

The contention is perfectly true if patrons maximize bribe revenue. Clearly, in a reasonably perfect market low-cost producers will always be able to outbid the others in the long run, and we would indeed expect the result suggested by the revisionists. It may, of course, be argued that the web of secrecy surrounding the allocation of contracts and licences prevents the market operating effectively. However, there is a more fundamental problem with the argument.

First of all, the revisionists assume that an isolated government individual makes the decision whether or not to grant a licence or contract. For example, Beenstock (1979: 16) assumes that he "has the right to issue the licence and to place the stamp where required." In a patronage system, however, officials are often part of a clientele network, and it is ultimately the patron, the politician in power, who makes decisions, at least those of substance. However, the patron is not only interested in bribe revenue, but also in political support. The objective function assumed by the revisionists is therefore fundamentally flawed.

In what sense does the inclusion of political support in the objective function matter? One might argue that maximizing bribe revenue ultimately maximizes the amount of revenue available for patrons and clients, and therefore the means to purchase political support.

Let us assume a two-stage process. The politician allows the bidders to charge prices higher than the cost of production. However, the politician initially extracts all this rent through bribes and kickbacks from client as well as non-client firms. The total amount of rent is then, in the second stage, distributed among clients and patrons. Maximizing bribe revenue, one might say, is the optimal course of action for the politician to pursue.

If markets were perfect, that is indeed the case. Perfect competition assumes that any amount of output can be sold at market prices, there are no costs of exit or entry into an industry, and alternative employment opportunities at a well-defined market wage are readily available. In such a situation, a client-firm is only interested in rent derived from charging the government more than the market price. Since all its output can be sold at market prices, the loss of a government contract at market prices is of no importance to the firm. The only benefit it derives from its association with the government comes in the form of rent, the payment for political support. Whether this takes the form of excessive prices charged to the government of direct transfer payments is of no relevance.

Assume that a non-client firm is the low cost producer who overcharges the government but has to transfer the excess profits to the politician in form of bribes. If markets are perfect, clients and patrons are be better off if a contract is allocated to the non-client. At any given price the amount of bribes the non-client is able offer exceeds the benefit to the client. The client therefore can be compensated from the bribe revenue for his political support through transfer payments, and in addition the politician has increased his income. Hence the revisionist proposition that contracts tend to go to the low cost producer still holds.

In reality, however, markets are not perfect. The demand for output of a client firm is not perfectly elastic, cost of entry and exit are not zero, and alternative employment opportunities are not readily available at the going wage rate. In this situation, the firm is not going to be indifferent between winning and not winning the contract even at market prices, or at prices just covering cost of production in the absence of a market price.

The inclusion of political support in the objective function now becomes relevant. Maximizing revenue from bribes may not lead to an optimal outcome. The politician has to balance the gain in utility from an additional bribe to the loss of utility in terms of political support if he grants a contract to a non-client.

Assume a patron has a choice of allocating a contract either to a client or a non-client. The client is the less efficient producer. At any given price, the non-client will be able to pay a bribe higher than the client amounting to the productivity difference. If the politician allocates the contract to the non-client, he gains additional bribe revenue. However, the loss in political support may be greater. The additional bribe revenue may not be sufficient to compensate the client for the loss of the contract, and as a consequence political repercussions may be severe. In the extreme, the client firm may have to shut down, and the politician may lose a substantial number of votes by his action, or face hostility in other respects. This does not seem to be an unrealistic picture. The loss of employment in a client-firm located in the constituency of a politician is not a matter to be taken lightly.

The result can be generalized. At the extreme, the patron can allocate all licences and contracts to low-cost producers. This is shown by point b_1, in Figure 1, where the vertical axis b stands for bribe revenue in dollars, and the horizontal axis c for the percentage of contracts allocated to clients. Alternatively, the patron can allocate contracts to the less productive clients, which reduces the bribe revenue by the difference in efficiency between client and non-client firm. This can be thought of as the price of political support (P_c),

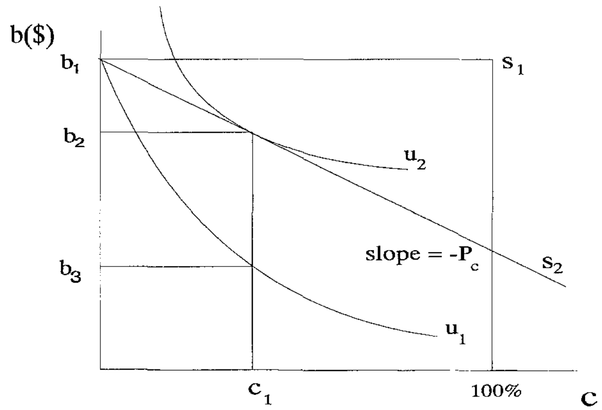

Figure 1.

the loss of revenue if an additional proportion of contracts or licences are handed over to clients.[10]

What is the indifference curve of the politician? It is reasonable to assume that the marginal utility of cash income from bribes as well as the political support from allocating contracts declines. To illustrate this with an example: Assume the government calls tenders for a large contract which may be allocated to several firms. Not giving any part of the contract to client firms may well spark off riots, imposing high costs in terms of political support, well in excess of the loss of revenue from bribes. But some parts may well be allocated to non-clients in return for bribes.

This leads to the familiar diminishing marginal rate of substitution c for b (indifference curve U_1 in Figure 1): The utility gain in terms of additional political support through handing out contracts falls relatively to the utility of the revenue from bribes. As a result, the politician is better off by the amount b_2b_3 by allocating a proportion c_1 of the total amount of contract to clients and foregoing b_1b_2 of bribe revenue.

The perfect competition solution corresponds to an extreme case. As client firms are indifferent to getting or not getting a contract at market prices, the utility gain to the politician from allocating contracts to clients is zero. MRS_{bc} becomes zero, and corresponds to b_1s_1. The optimal position is b_1, where all contracts are allocated to non-clients. In a second extreme case all firms are equally efficient. $-P_c$ drops to zero, and b_1s_2 becomes b_1s_1. If markets are perfect the patron is indifferent between allocating contracts to clients and non-clients. The argument leads to the reasonable prediction that as efficiency differentials between clients and non-clients increase, the politician is more likely to allocate contracts to non-clients. The slope of b_1s_2 increases in absolute terms, and the optimal position shifts to the left.

There is therefore little reason to believe that bribery leads to an optimal allocation of licences and contracts, if we accept the existence of market imperfections and the proposition that those empowered to allocate contracts are not only interested in maximizing the return from bribes, but are also interest in political support. Indeed, there is evidence that such an process of trading off political gains and bribe revenues is taking place. Licences are sometimes "given to the favourites of the government" and sometimes "in exchange for bribes" (Andreski, 1979: 276). Similarly, clients often receive preference in bidding for local public works contracts; but simultaneously large contracts go to outsiders who are then expected to pay large bribes, sometimes through "consultancy companies" expressly set up for the purpose of "laundering" illegal payments (Scott, 1972: 127, 129).

Corruption therefore leads to distortions in the economy first of all because it is responsible for the creation of sub-optimal economic policies and second because of inefficiencies resulting from the process of allocation of contracts and licences.

5. Production of government services

We have seen in the last section that prices of inputs bought by the government are likely to be distorted. In this section, it will be argued that corruption is responsible for additional distortions in the process of the government producing goods and services.

5.1. Labour inputs

Given our assumption we would expect first that government employment is provided as a means of remunerating clients for their political support. Second, we would expect that employment is provided at conditions more favourable than those in the private sector. This may take the form of wages being above the competitive level, of wages being augmented by bribes, or of employment conditions being particularly favourable. In particular, the work load may be nominal. Third, we would expect the government sector to be overstaffed.

The revisionists question the existence of rent in the government sector on *a priori* grounds. Beenstock (1979: 16) believes that "certain types of corruption may not reflect market imperfections, e.g., where bureaucrats are paid low wage rates and the commissions they hope to earn through corruption are effectively the competitively determined supply price for their labour." Similarly, Rose-Ackerman (1978: 61) thinks that "the promise of corrupt gains may lower the salaries which the government must pay to attract job applicants." The underlying assumption is, of course, that competitive bidding reduces employment conditions to a competitive level.

However, if our scenario is correct, this competitive bidding may not take place. Politicians may ensure that government employees earn rent as remuneration for their political allegiance. After all, it is only the rent element of the wages which counts as payment for political support. No-one is indebted to a politician if he receives what he could have got in the free market anyway.

The patron has the choice of remunerating clients either by employment in the public service or by a cash handout. The perfect competition argument suggests that politicians may want to keep wages down at the competitive level, and use the gains in government revenue to remunerate clients. Analogous to the argument about government contracts, an individual in a perfect market is indifferent between a job in government or in the private sector at the going wage, and is obviously not affected whether he receives an additional cash-handout or the equal amount in his pay packet. Political support is unaffected.

Again, markets may be imperfect; in particular, employment opportunities may not be open at the going wage rate. In addition, and perhaps more importantly, it is likely that the marginal benefit in terms of political support is larger from employing clients in the civil service then handing over cash. The government employee is indebted to the politician, relying on him to keep his position, to be promoted, and have his own relatives employed in the civil service. He not only acts as his representative in the administration, but provides the basis for the web or personal ties which characterize patronage relations. There are certainly good reasons to believe that it is perfectly rational for a politician maximizing his welfare to keep wages above the competitive level. The revisionist view is hardly plausible.

A different revisionist claim is made by Bayley (1966: 728): "The opportunity for corruption may actually serve to increase the quality of public servants" if wages in the government sector are below the competitive level because it attracts able candidates. This is unlikely to be the case if jobs are allocated on the basis of patronage. First, non-clients will not have access to government jobs, which reduces the pool from which officials are drawn. Second, jobs are allocated not according to ability, even within the client group. The major consideration for employment decisions is the utility of an individual's appointment in terms of political support. As Andreski (1979: 281) writes for Africa, "the allocation of posts in public services ... is mostly determined by criteria which have nothing to do with fitness for the job." Corruption, therefore, is likely to reduce the efficiency of the bureaucracy.

Lastly, we would expect staff *levels* to be mainly determined by considerations other than efficiency. Government will be mainly concerned with allocating resources to different kinds of pork-barrel and patronage uses where the patron's benefit of the additional dollar of government revenue is largest. These considerations have little to do with efficiency. Given that public employment is probably a very effective way of gaining and maintaining political support, it is hardly surprising that we find in developing countries where clientelism dominates an overstaffed public sector. Overstaffing, of course, is not only wasteful, but is also likely to reduce the efficiency of government services.

5.2. Production of government output

Here we have to deal with the revisionist claim that corruption is simply a means of allocating scarce resources, and an efficient one at that. A recent argument in this vein is by Trivedi, (1988: 1389), who believes that due "to congestion, government service has become rivalrous," and because civil servants have a large amount of discretion they can exclude some consumers. Payments to officials are simply a rationing device to allocate a given amount of government services because of congestion. If this is the case, the given amount of services may indeed be allocated optimally.

Trivedi's reasoning involves the by now familiar revisionist fallacy that corruption has no effect on the nature of public administration, in particular the supply of services. As soon as corruption is allowed to influence the amount of services the officials supply, the argument breaks down. In fact, apart from common sense that corruption is not unrelated to supply, there is empirical evidence to support it. Myrdal (1968: 553) quoted the Santhanam report commissioned by the Indian government which claimed that "certain sections of the staff concerned are reported to have got into the habit of not doing anything in the matter till they are suitable persuaded. . . . [T]his custom of speed money has become one of the most serious causes of delay and inefficiency." The supply of services, therefore, is not independent of corruption.

However, this has been questioned by Lui (1985) using a queuing model. In Lui's model, r is a measure of supply, consisting of customers per unit of time multiplied by the service time. The official will set the service time such that it maximizes bribe revenue. "He will not choose a speed that is too slow because too few customers will want to join the queue or pay any bribes. He also will choose a speed that is too fast because when waiting cost is very low, many people will have less incentive to pay bribes. . . . Suppose that before any bribing occurs the initial r is larger than [the optimal r] . . . only some customers joint the queue. After bribery is permitted, the server has the incentive to speed up the system rather than to slow it down. The contrary of Myrdal's hypothesis is therefore possible (Lui, 1985: 773)." This is undoubtedly true, but does not vitiate against Myrdal's (1968: 953), *empirical* observation based on the Santhanam report that the "popular notion . . . that corruption is a means of speeding up cumbersome administrative procedures, is palpably wrong." In fact, far from contradicting Myrdal, Lui's findings provide a theoretical underpinning for Myrdal's empirical observation.

Lui's (1985: 773–774) argument continues: The proposition "is useful in showing that it is unlikely for the server to slow down the system when bribery is involved. Assuming increasing marginal cost for the speed, with no bribery, the optimal strategy for the server is to do nothing at all. In other words, the service rate [is equal to zero], and r is infinitely large. If bribery is allowed, the speed can only be faster or remain the same. ... [T]he contrary of Myrdal's hypothesis is true."

The argument again falls foul of the revisionist fallacy: If the official is corrupt to begin with, which manifests itself by him flouting his contractual obligations of doing his work, then corruption will improve the situation because at least he does some work. As usual, in a corrupt environment corruption only alleviates some of its effects.

Corruption then not only leads to overpriced inputs of intermediate goods and labour in the government sector, but causes further inefficiencies in the production process.

5.3. Distribution of government services and size of the government sector

What will be produced by the government? What will be the size of the government sector?

A distribution problem arises first because there is no, or perhaps more realistically, little regard for the welfare of non-clients, and one would expect discriminatory policies to emerge. Clients are given access to government services at zero or lower cost than non-clients. This corresponds to the familiar observations where party brokers provide "selective access to agricultural loans, scholarships, and places in schools and universities, patronage employment, hospital treatment, fertilisers" (Scott, 1972: 135), "where loans are made to the most loyal farmers, not to the most efficient (p. 129)," and the police "guard effectively only the houses of important people or of those who pay them, while ordinary citizens have to rely on self-defence" (Andreski, 1979: 281). Assuming that the demand for government services is similar for both groups, consumer surplus is lost.

In addition to distribution problems, it is likely that corruption leads to an over-extension of the government sector. Whether an additional activity will be undertaken will depend on the gains in terms of revenue and political support, and not in terms of social welfare. Two examples where this leads to misallocations are given by Rimmer (1984: 262): "By scrapping statutory marketing, the generality of farmers would benefit. However, the government prefers to pay low prices and support agriculture by public works projects and subsidisation inputs." Similarly, borrowers would be advantaged by the removal of interest rate controls, but retaining those controls provides an avenue for patronge (p. 262). Given the large number of non-clients, by judiciously allocating agricultural support and loans to clients, these may benefit by such practices and political support increases, even so overall social benefits are negative.

The same argument applies to the nationalization of firms. The patron will have to decide whether nationalization is an efficient way to provide necessary political support. Assume first that patrons managed to extract excess profits in any case and that the firm operates as efficiently as it does before. The patron gains additional scope for patronage, and but loses political support from opposition of former owners. Whatever the decision, no efficiency loss occurs. However, even if efficiency decreases, it may still be in the interest of the patrons to nationalize the firm, if the gains due to additional patronage outweigh the losses of political support and possible adverse effects on revenue. In fact, much of the nationalisation programmes in Africa have been explained very much in these terms (see quotes on page 262).

6. Conclusion

Corruption has been shown to have more serious effects upon allocation than simply drawing resources into rent-seeking activities. If politicians anticipate gains from corruption in the policy making process, sub-optimal policies will be the result. Typical examples include excessive nationalization of industry, excessive regulation of the private sector through practices such as licensing and quotas with a view to extract the rent created by these measures. In addition, further misallocation will result at the execution state. It has been shown that the revisionists were wrong in assuming that licences and contracts will be allocated to the most efficient producers, that rent will be eliminated in government employment, and that corruption increases the efficiency of the bureaucracy. Moreover, differential access to government services leads to additional allocative losses.

Notes

1. The argument goes back to Tullock (1980). The best known paper on this issue is by Krueger (1974).
2. Rose-Ackerman (1978) does look at the political system in the case of the United States.
3. Descriptions of clientelism are found in Scott (1979) and Lande (1977).
4. Such a definition makes corruption relativistic, depending on time and circumstance. For practical purposes, that hardly matters.
5. In addition, Johnson (1975: 56) postulates the existence of additional welfare losses because of market imperfections for reasons familiar from the economics of crime: the most efficient firms may not participate in bidding because they may be especially averse to corruption as such or to the risk associated with it.

6. The factual truth of these claims is contested by Waterbury (1989: 345–354). But we are here not concerned with the truth of these assertions, but with the underlying view of the influence of corruption on government policy they entail.
7. Similarly in Thailand (Scott, 1972: 70).
8. Similarly, Appelbaum and Katz (1987: 685) argue that "regulators ... may be expected to set rents at levels which are determined by their own interests. Thus ... the determination of the rent itself should be endogenized to reflect the fact that the rent setters are, themselves, rent seekers." They are, however, not concerned with conventional welfare effects.
9. Assuming that all salesmen are equally dishonest and are equally discreet (Beenstock, 1979: 23).
10. There is no particular reason why b_1s_2 should be linear, but this matters little for the argument.

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