Corruption and the Capitalist Transformation: Analysis, Policy and Problems of the Real World

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Abstract: Developing countries are in general more corrupt than advanced countries. From this widely observed correlation has sprung a powerful body of analysis and policy identifying the importance of governance reforms. However, the economic theory driving this agenda is still weak in identifying the causal chains between social change, corruption and economic performance. Economic theory *has* identified some of the reasons why underdevelopment should be associated with greater corruption but it has largely ignored some of the *most* important reasons. In particular, it has focused on low bureaucratic salaries and weak institutions of disciplining public officials. This is not irrelevant but it misses out much more important structural processes that make corruption endemic in developing countries. This paper will focus on two of these structural processes. The first is the problem of political stabilization in a context of structurally weak fiscal capacity. If fiscal capacity is sufficient, political stabilization can be achieved through transparent social democratic transfers. In contrast, weak fiscal capacity, which is structurally related to low per capita incomes, leads to many different variants of patron-client politics to achieve political stabilization. The price is that now off-budget funds have to be maintained, and corruption is politically sanctioned to raise funds. Fighting this structural motivation is almost impossible until economic and institutional development allows sufficient redistributive resources to be raised through the tax system to stabilize the polity through legal means. The second structural driver of corruption is the process of primitive accumulation. The collapse of pre-capitalist production systems leads to many variants of non-market transfers of assets to new classes and groups. In some cases these transfers lead to the emergence of a viable capitalist class, in many other cases, it leads to plunder and further impoverishment. However there is no historical precedent of capitalism emerging without fundamental transformations of pre-existing property rights through *both* market *and* non-market mechanisms. The issues of political stabilization and primitive accumulation are deeply intertwined, and the specifics of thing first affects the dynamics of the second. We conclude that corruption is a useful lens through which to understand the specific characteristics of patron-client networks and the specific types of primitive accumulation that they support. This knowledge can be used to intervene more effectively in the underlying political and institutional processes in ways that can accelerate a viable capitalist transformation. But fighting corruption in general is not likely to be of much use.

The recent policy interest in corruption has been motivated by the observation that developing countries that can least afford to waste resources typically suffer from high levels of corruption. Corruption has obvious economic costs in the form of lower investment, unstable property rights and misallocations of resources, and developing countries can least afford these costs. There is no dispute that these costs are real and that development would be assisted if they could be reduced. However, there are analytical and historical questions about the *sequence* of reforms that are likely to prove efficacious in sustainably reducing corruption over time (Khan 2002a). In particular, there is a question about whether the success of *general* anti-corruption policies are a precondition for development. This does not mean that corruption is unimportant from a policy perspective. If corruption cannot be reduced across the board in a developing country, the policy implication may be that we should focus on particular *types* of corruption that are particularly damaging in terms of development.

Most economists recognize that a poor country that cannot pay its bureaucrats proper salaries will be exposed to some amount of corruption. However, we argue that theory and evidence suggests that the salaries of bureaucrats are at best a minor contributor to overall corruption. Neither does poverty in general drive individuals to corruption since the poorest sections of a society are rarely the most corrupt. In this paper we focus on two other structural constraints that make it very difficult to significantly reduce corruption across the board in the typical developing country. The first is the problem of maintaining political stability in a context of severely limited fiscal capacities. If taxation raises a relatively small share of GNP and the GNP is itself small, there are likely to be very limited resources for maintaining political stability through official and audited processes of redistribution. Political stabilization will then happen through other mechanisms, in particular through the use of different variants of patron-client politics, where off-budget redistribution is focused on organizationally powerful clients as a way of maintaining stability. Patron-client networks play an important role in the analysis of corruption in the neo-patrimonial school, but our analysis is fundamentally different. In the neo-patrimonial analysis, both patron-client networks and systemic corruption are manifestations of the absence of a modern bureaucratic state and the absence of accountability and democracy. In our explanation patron-client networks are driven by hard economic calculations. While they are not intrinsic to developing country cultures or the deepness of democracies, they are also more difficult to get rid of in a context of pervasive poverty.

The second structural process standing in the way of a generalized reduction of corruption in developing countries can be described as "primitive accumulation". We define primitive accumulation as politically driven accumulation in a context of social and economic transition. Developing countries characteristically have variants of pre-capitalist economies in the process of (not necessarily successful) transitions to variants of capitalism. In advanced capitalist countries, most accumulation happens within the dominant capitalist sector that drives the economy. Developing countries by definition do not have a dominant capitalist sector and are characterized by the collapse of pre-capitalist economies and the re-allocation of assets and resources to new classes and groups, driven largely by "political" processes. However, while primitive accumulation happens in *all* developing countries, it results in the emergence of a viable capitalism in very few cases. In most developing countries, primitive accumulation is simply associated with plunder and unproductive accumulation.

The relevant analytical question may rather be to ask how primitive accumulation can be directed to make the emergence of different types of viable capitalism more likely. We argue that both political stabilization and primitive accumulation make many types of corruption *systemic* in developing countries, but our explanation of this systemic corruption is very different from conventional explanations coming from, for instance, the neo-patrimonial framework or the good governance framework that focus on the absence of democracy and political will or on low bureaucratic salaries to explain the widespread corruption observed in developing countries. We argue that underdevelopment itself generates pressures supporting different types of corruption. It follows that attempting to directly target corruption *in general* is likely to be futile in developing countries. However, our analysis also points to an important area for further analysis that is likely to be very relevant for policy. We argue that patron-client networks and primitive accumulation *interact*, such that the types of patron-client networks through which political stability is maintained can strongly affect, even if they do not always determine, the types of primitive accumulation going on. This is an area where much more analysis is required and it is also an area with potentially large policy relevance for reform in developing countries.

The rest of this paper is organized as follows. In the first section we discuss the concept of systemic corruption and the weaknesses of conventional approaches to systemic corruption. In the second section we look at the implications of political stabilization and the importance of the structure of patron-client networks. In the third section we define primitive accumulation and discuss some of the ways in which it operates. Finally in the last section we look at the interaction between political stabilization and primitive accumulation. This explains both why corruption is systemic and why its effects differ significantly between developing countries.

Systemic Corruption

Developing countries are, on average, not only much more corrupt compared to advanced countries, but corruption in these countries is also often described as *systemic*. This means that corruption is found at all levels of the state and is widespread at each level, and therefore corruption describes important aspects of the operation of the state. Two empirical observations raise particular analytical questions. First, *all* developing countries have high degrees of corruption, and indeed corruption is most strongly correlated with per capita incomes (Mauro 1995). Secondly, the fact that corruption is high in all developing countries also raises a problem for models assessing the effects of corruption. The assumption in conventional models is that corruption is *in general* damaging, which is true in the sense that all corruption represents a waste of resources. However, the developing countries that managed to achieve a capitalist transition not only achieved high growth rates, but also high rates of investment and efficient investment allocation *despite* high rates of corruption. Since corruption is supposed to have an effect on growth by reducing investment and the quality of investment, the co-existence of high corruption with high investment and high-quality investment in all the successful transition cases raises particular problems for conventional models. Thus we need to explain first why corruption is systemically high in *all* developing countries, and secondly why it seems to be associated with different effects in different countries (Khan 1996b).

The mainstream literature is weak in addressing the second question but there are many contributions addressing the first. A large literature has developed addressing why corruption is systemic in developing countries (for reviews of some of this literature see Andvig, Fjeldstad et al. 2000, and Bardhan 1997). A number of explanations focus on conjunctural possibilities, such as a previous history of high corruption that then creates a high corruption equilibrium (Andvig and Moene 1990). These explanations are useful for explaining how corruption can become entrenched, but they do not explain why corruption is systematically so high in *all* developing countries. A related set of arguments look at the opportunity cost of corruption and the incentives created by low bureaucratic salaries. Higher salaries are theoretically expected to lower corruption because they increase the opportunity cost of corruption provided there is some probability of being caught and fired (Gould and Amaro-Reyes 1983, Klitgaard 1988). High wages for bureaucrats operate like efficiency wages, in this case creating incentives for non-corruption. This incentive mechanism breaks down if, as is usually the case in developing countries, the probability of getting caught, and/or of being actually fired when caught, is very low (Besley and McLaren 1993, Huther and Shah 2000). In that case, the higher salary is just a bonus since the bureaucrat can continue to be corrupt. The cross-national empirical evidence shows, as expected, that there is very little if any relationship between bureaucratic pay increases and the reduction of corruption (Treisman 2000, Rauch and Evans 2000).

Nevertheless, the analysis of the role of bureaucratic salaries suggests the need for a systemic analysis since the reason that high salaries often fail to reduce corruption is that institutional and political structures in developing countries systematically fail to punish corruption.

As a result it has been recognized that explanations of systemic corruption must themselves be systemic, identifying the interaction of a number of features of the developing country polity and economy. This has driven a number of analytical models, including the so-called neo-patrimonial and good governance models. The neo-patrimonial analysis was pioneered by Eisenstadt (1973) and Médard (2002) and focuses on how the absence of democracy and accountability results in a number of processes that contribute to make corruption systemic. The key characteristic of the neo-patrimonial state is the personalization of power allowed by the absence of democracy and accountability. It is argued that this distinguishes these states from Weber's modern bureaucratic state where bureaucrats follow rules and protect property rights. Instead, the neo-patrimonial state is the "property" of the leader who rules with the help of his close clients. It follows that formal rules are regularly violated, and by definition corruption is widespread. The leader and his clients also use political power to accumulate, and the result once again, is widespread corruption.

These mechanisms explain why corruption is *systemic* in these states, being widespread and operating at all levels of the state. Not only that, corruption is also systemic in the sense of driving the economic logic of this state system. The politically driven accumulation of the leader and his clients describes the creation of damaging rents in the form of monopolies and extortions. As a result, the economy is debilitated. Thus the neo-patrimonial analysis identifies the prevalence of patron-client politics and of systemic corruption and explains both in terms of the personalization of politics that in turn derives from the absence of democracy and accountability.

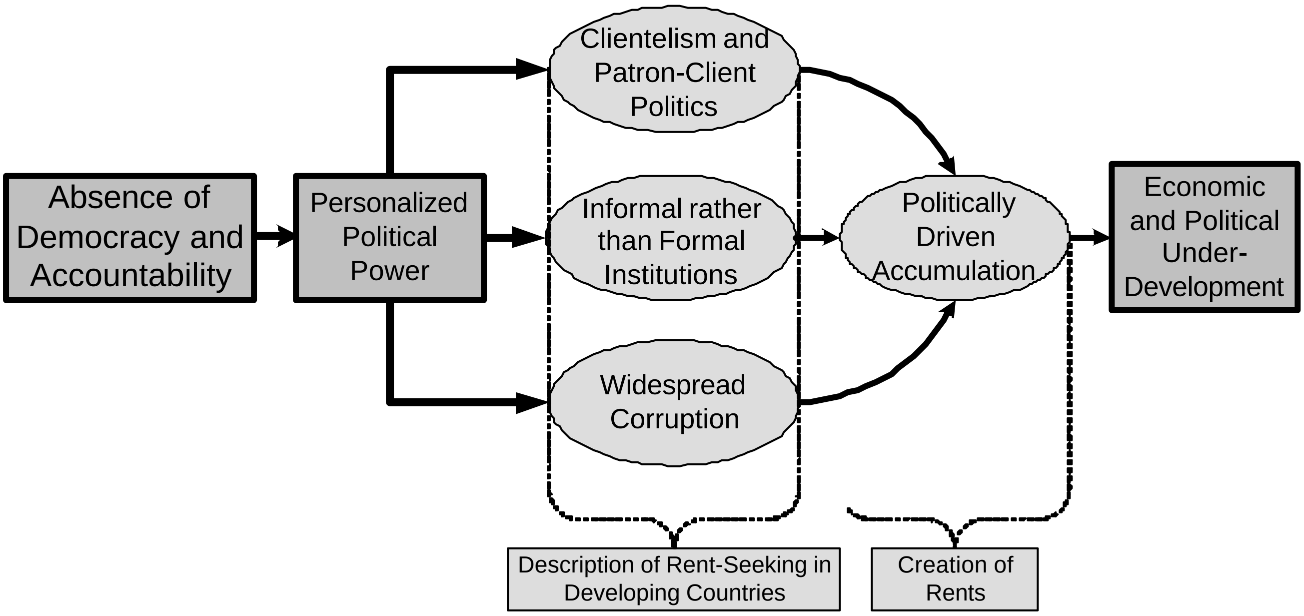

Figure 1 The Neo-Patrimonial Analysis of Systemic Corruption

Figure 1 summarizes the neo-patrimonial analysis. It has to be remembered that this analysis was developed in the context of Africa and does appear to make sense for many countries in that continent. However, when we look at East Asia, for instance, the model is far less satisfactory, and this raises questions about whether it identifies the right issues even in the African context. In East Asia we have a number of examples of rapid development in countries that had many of the characteristics of the neo-patrimonial model, such as the absence of meaningful democracy, the presence of personalized power (think of Park Chung-Hee, Mahathir Mohammed or Chiang Kai-Shek), the domination of formal institutions by informal networks, and most important of all, the use of political power to drive accumulation by patron-client networks with access to political power. But in the East Asian cases, although corruption was systemic in the sense of being widespread, it was not systemic in the sense of defining the operation of the system, and economic development was rapid. Finally in terms of its policy recommendations, the neo-patrimonial analysis is contradicted by the historical evidence in its claim that a properly working democracy in a poor developing country *could* end politically driven accumulation and ensure a modern bureaucratic state, which could in turn drive an efficiently working market economy. There is simply no evidence that democracies in poor countries have this kind of effect. Asian countries such as India that have long-running democracies prove that developing country democracies do not necessarily have lower corruption or enjoy faster transitions to capitalism than non-democracies like China (Treisman 2000, Khan 2000 a, b, Harriss-White and White 1996).

A related set of models derived from New Institutional Economics and the New Political Economy have contributed to the emergence of the so-called good governance analysis of corruption and economic performance in developing countries. This is a policy-oriented collection of theoretical arguments derived from current economic and institutional theories. Once again, democracy is identified as a critical variable. It is argued that the absence of democracy allows corruption to get away unpunished, allowing more rent-seeking than would otherwise have been the case. The corruption and rent-seeking drives destructive rent-creation that in turn is responsible for economic inefficiency, as summarized in Figure 2. Once again, the assumption is that rent-seeking in developing countries creates primarily damaging rents in the form of monopolies and restrictions that destroy value. These argument are in fact derived from a partial reading of new institutional and new political economy authors like Olson and North, and yet they have enormous influence on policy-makers in the World Bank and other international agencies (see, for instance, World Bank 2000).

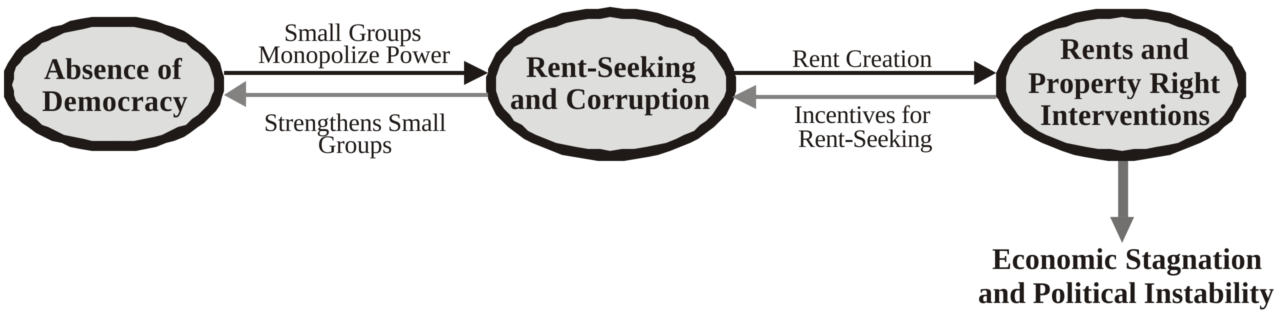

Figure 2 The Good Governance Framework

The new orthodoxy faces the same empirical problems as the neo-patrimonial framework in terms of the relationship between democracy and corruption, and between corruption and development and is theoretically challenged by many propositions of mainstream economics (see Khan 2002a). The partial reading of theory and evidence is arguably driven by the contemporary political presumption that strong states are likely to be predatory unless constrained by society through democracy and the voice of civil society organizations. And yet, as Bardhan (1997) rightly points out, corruption is more serious when states are *weak* rather than when they are strong.

Political Stabilization and Patron-Client Networks

We will focus on two quite different factors that contribute to systemic corruption in developing countries. We look first at the process of political stabilization in developing countries, which has implications for corruption that have been inadequately analysed. In advanced capitalist countries, democracy works to stabilize the polity through redistribution to *broadly defined* categories of recipients. These can include the unemployed, the sick, the elderly, students, or broadly defined regions, groups, or sectors. The amount of resources that are typically redistributed through these processes is difficult to separate from many service-delivery functions of the state in such areas as health and education. In aggregate, though, the share of GDP that is taxed in advanced capitalist countries ranges from 30 to 40 per cent of GDP. Much of this is effectively redistribution, though not necessarily redistribution to the poor. Nevertheless it is redistribution that is carefully calibrated and regulated through the political process to maximize political stability.

In the typical developing country, the GDP per capita is by definition much lower than in an advanced country, and a much smaller fraction of this can be taxed given that much of the economy is still outside the “formal” or capitalist sector. Peasants, the informal sector and often emerging capitalists too cannot be taxed, or taxed sufficiently, for a combination of technical and political reasons. The typical tax to GDP ratio in developing countries ranges from 10 to 20 per cent and of course per capita GDP is also much lower. In many of the poorest developing countries tax revenue is insufficient even for paying the salaries of bureaucrats, with frequent deficits on revenue account. In others the tax revenue is somewhat greater, but in all developing countries, tax revenues are barely adequate to cover critical demands for infrastructure construction and basic services such as the protection of internal and external security. There is typically almost nothing left over to be used for redistribution to stabilize the polity. So how do developing countries survive as societies?

Here the role of patron-client networks is of great importance. These networks enable off-budget resources to be raised and distributed to critical clients whose support or incorporation is essential for the survival of the regime. While the neo-patrimonial school is undoubtedly right in pointing out the importance of patron-client networks in developing countries, their analysis of why this is so is misleading. They focus on the use of traditional legitimacy by leaders who are not democratically accountable. In fact, the focus on culture and democracy is misleading because we find patron-client networks in both democratic and undemocratic countries, nor do contemporary political leaders in developing countries attempt to exploit anything like traditional legitimacy. We argue that the motivation behind modern patron-client networks is primarily economic and that they constitute a rational response to economic and political constraints. The problem facing political entrepreneurs is how to accommodate critical groups in a context where resources are insufficient for accommodating broad categories of the population collectively. The resources allocated through patron-client networks may in part be legal budgetary resources, but are often off-budget resources raised through different types of corruption and crime. Often instead of raising resources to redistribute, patrons may simply allow opportunities to critical clients to enable them to engage in corruption directly.

The argument that states need to redistribute resources to maintain stability is consistent with quite different configurations of power between state and society. We do not need to assume that the state is *autonomous* and seeks to maintain political stability for its own purposes. It may just as well be that the state is captured by classes or groups that need to stabilize society to further their own interests. The relative power of state officials and groups and classes in society can thus differ widely, and we do not make any presumption about which groups happen to be in the driving seat at a particular time. We simply argue that whatever the distribution of power, significant transfers through patron-client networks are essential for maintaining political stability in developing countries. This is because generalized and public resource allocation cannot be used to stabilize the polity simply because not enough fiscal resources are available.

The status of such an explanation needs to be elaborated. We are not saying that politicians in developing countries individually work out the national fiscal constraints and then engage in corruption. Rather, the political instability due to the absence of public resources for redistribution in a context of economic and social change and contestation means that political survival and consolidation requires access to off-budget funds. Successful politicians are soon recognized as those who have these resources, and adverse selection quickly begins. Paradoxically, the calculations of individual politicians can of course slow down fiscal growth as the outcome of a prisoner's dilemma. If each individual politician is interested in collecting bribes rather than encouraging the payment of taxes or other legal forms of buying influence, tax revenues will as a result grow much more slowly. It is widely observed that politicians in developing countries are averse to individuals or companies trying to buy influence in exchange for their ability to pay tax. This behaviour is individually rational because any tax paid disappears down a black hole called the budget deficit in a context where the budget typically cannot even be relied on to pay bureaucrats, let alone allocate resources for political stabilization. Thus tax revenues are generally not available for political stabilization by individual politicians or even by the ruling party or regime. It follows that personal calculations aside, encouraging tax collection is not sufficient as a political strategy for most politicians in poor economies.

In contrast, in advanced countries where the budget is already paying for a significant amount of political redistribution, the ability of a company or class of individual to pay high taxes guarantees that politicians will take their needs into account very carefully, particularly if relocation to another tax jurisdiction is a possibility. The preference of developing country politicians for illegal rather than legal "rent-seeking" by the private sector may thus have a systematic political economy behind it, on top of the obvious benefits of illegal rent-seeking for individual politicians and bureaucrats. Collectively, of course, individual corruption by politicians and bureaucrats means that the emergence of sufficient fiscal depth that would allow a regime to stabilize itself through budgetary means is further delayed. Nevertheless, we would argue that in most cases the ultimate problem is not the obvious prisoner's dilemma problem but a fundamental resource scarcity. In other words, in most developing countries, even if all corruption could be stopped and all influence buying through corruption could be converted into tax, there might still not be enough fiscal space for political stabilization through the budget and reform would be likely to rapidly unwind.

There are in general two types of reasons why the conversion of corrupt resources used in patron-client politics into legal fiscal resources to be used in public stabilization strategies may not be viable in poor economies. First, the amounts that politicians collectively raise for political activity through corruption are in general likely to be greater than the amounts they could raise through public taxation. This is because when emerging capitalists offer bribes, they expect public officials to assist them well beyond the legal assistance that a transparent state could offer. In a context of primitive accumulation (see next section), capitalists may expect state assistance in asset grabbing or in other zero-sum games. Since these activities cannot be carried out in the public gaze as part of the public activities of a modern state, the state would not be able to collect the rent-seeking expenditures associated with these activities. Apart from what capitalists are willing to offer, corrupt politicians also engage in a variety of criminal activities that can generate large revenues, activities such as smuggling for instance, and these too would be lost in a zero-corruption tax regime. It is not an accident, for instance, that parliamentarians in developing countries include, in general, a much higher percentage of "criminals" than the general population. It is estimated, for instance, that one-third of the members of the Indian Lok Sabha have criminal cases against them.

A second problem is that even if there is no reduction in the resources that can be legally collected, public strategies of stabilization will, in general, also cost more in terms of resource requirements than patron-client strategies. This is because in a public tax and spend strategy, all individuals of a particular category would receive resources, rather than only those individuals critical for maintaining political stability. In contrast, patron-client politics achieves political stabilization by targeting resources to narrowly defined groups, and not by generalized redistribution. This is, after all, why developing countries are criticized for their patron-client politics. It follows that even if all the illegal resources used in patron-client politics could be centralized in the budget and used for publicly organized political redistribution, there would be insufficient resources for generalized redistribution that would still give enough to critical individuals and groups to keep them happy. If so, political stability would not be achieved. Anti-corruption reforms that seek to wipe out the corruption of politicians are therefore only likely to work in countries where the potential fiscal capacity for political stabilization through the budget already exists, and these would be relatively prosperous countries. For instance, Italy is a country where patron-client politics and corruption is widespread but where it is possible to imagine its replacement with public budgetary stabilization.

If off-budget activities through patron-client networks are an important component of political stabilization and therefore of regime survival, we can understand how corruption can become systemic in the sense that it becomes essential for the survival of the system. Our analysis can also explain numerous puzzles one observes in developing countries. For instance, one occasionally finds examples of leaders in developing countries with the political will to fight corruption who nevertheless fail after a time because they had to allow their parties to be corrupt in order to stay in power. It also explains why many genuine anti-corruption campaigners in developing countries (as opposed to established politicians who cynically use anti-corruption slogans) generally lose disastrously in electoral contests. The electorate are rational and are aware of the type of politician who can deliver in a context of budgetary constraints. Delivery here includes in particular the delivery of local security which often depends on the ability of mafia bosses to pay off troublemakers and to maintain their own musclemen (Gambetta 1993). It is also not surprising that systemic political corruption is as common in democratic developing countries such as India as it is in less democratic ones such as Pakistan, because the imperative of political stabilization is quite similar even in the absence of formal democracy. Recognizing this imperative also helps us to understand why it has been so difficult to reduce corruption through institutional reforms such as liberalization or through public awareness campaigns through the media. Given the real choices on voting day, neither politicians nor their constituencies can afford to abandon corruption even if they are opposed to corruption in principle. And clearly if the apex of the governance structure is structurally dependent on corruption for its political survival, anti-corruption strategies and the commitment to anti-corruption are likely to be less deep-seated than public pronouncements may lead us to believe.

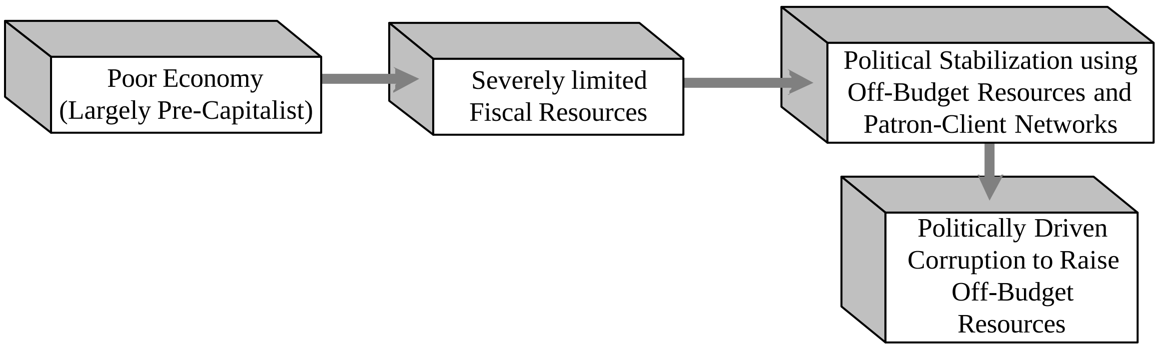

Figure 3 Political Stabilization and Systemic Corruption in Developing Countries

Figure 3 summarizes this systemic driver of corruption. While our analysis identifies the pervasiveness of patron-client politics in developing countries, it is a significantly different analysis from that provided by the neo-patrimonial model shown in Figure 1. In our analysis patron-client politics and corruption are not driven by the absence of accountability and the personalization of politics, but rather by the difficulty of managing political stabilization in a context of fiscal scarcity. Democratization and the insistence on accountability are therefore likely to have little effect on either corruption or the prevalence of patron-client politics. The evidence of corruption and patron-client politics in developing countries after democratization, and in long-standing democratic countries such as India, tends to support this analysis. However, while the stabilization constraint driving patron-client politics and corruption is a common feature of all developing countries, the effects of this patron-client politics have been remarkably *different* across countries (Khan 2002 b, c). In some developing countries these processes of stabilization have been consistent with resource allocation patterns driving rapid economic development. In other countries, patron-client politics have destroyed the economy and condemned these countries to lasting stagnation. To understand why this is the case, we need to look more closely at the second process driving corruption in developing countries, the process of primitive accumulation.

Primitive Accumulation

Primitive accumulation is a term that has been used both to vilify developing country states engaged in plunder but sometimes also to excuse and even to justify what is going on. The definition and analysis of primitive accumulation goes back to Marx who defined primitive accumulation as accumulation which is not based on capitalist production but which is essential for the transition to capitalism. For Marx, it described the transfers from non-capitalist to capitalist sectors that characterized the early stages of capitalist development. The necessity of primitive accumulation was self-evident to Marx because before there is a large enough capitalist sector, the resources for the emergence or growth of the capitalist sector cannot be provided by the capitalist sector alone. In these contexts, primitive accumulation provided the initial resources for the creation of capitalist property and for the setting up of capitalist enterprises. In the context of the transition to capitalism in England that Marx analysed, primitive accumulation involved theft, and in particular legalized theft in the form of the enclosure of common lands, colonial plunder, unequal exchange, the protection of markets and the use of the fiscal mechanism (Marx 1979: 873-940). The role of the state is critical during this period because all these processes "employ the power of the state, the concentrated and organized force of society, to hasten, as in a hothouse, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition" (Marx 1979: 915-16). In other words, primitive accumulation is a version of the politically driven accumulation that neo-patrimonial and rent-seeking theorists worry about.

However, Marx's definition of primitive accumulation as a transfer from non-capitalist to capitalist sectors cannot be used without qualification because subsequent history has shown that these transfers do not *always* succeed in creating a capitalist sector, and in today's context, the initial transfers may not even necessarily come from non-capitalist sectors. Firstly, when transfers are actually taking place, it is difficult to say *ex ante* that the recipients are necessarily future capitalists. Did enclosing English sheep farmers know they were constructing capitalism when they fenced off common lands? Could any observer have been sure *ex ante* that this process was necessarily going to result in a capitalist outcome? The experience of contemporary development shows that such transfers often fail to create viable capitalists. And historically, as Irfan Habib points out, primitive accumulation has often been a protracted process that did not necessarily lead to a successful capitalist transition. The primitive accumulation organized by the British in India created a proletarian class by destroying handicrafts but did not create a significant Indian capitalism because the resources appropriated were largely invested in Britain (Habib 1995: 271-295). Even when resources are appropriated by domestic proto-capitalists, the latter may fail to be sufficiently efficient or profitable, either because they consumed too much of their initial acquisitions, or for other reasons. Thus if we define primitive accumulation as transfers to an emerging capitalist sector we have a problem if the capitalist sector eventually does not emerge. Do we then decide *ex post* that these transfers were *not* primitive accumulation? Secondly, Marx's definition posits that the transfers have to come from non-capitalist sectors. This too is less relevant in today's context where the transfers may come in part from the international banking system or remittances of migrant workers, for instance, which are in turn connected with a global capitalist system. Despite the problems with definitions, politically driven accumulation plays a qualitatively different role in economies where capitalism is not yet dominant, and to analyse these processes, an appropriately defined notion of primitive accumulation can be a critical focus of analysis. We will define primitive accumulation as *politically driven accumulation in a context of social transformation*.

Political intervention in markets is, of course, pervasive in *all* countries, both advanced and developing. However, the reasons why Marx identified a difference in the degree and extent of political intervention in accumulation processes in pre-capitalist countries remains just as valid today. If there already is a dominant and profitable capitalist sector, capitalist profits and the rate of accumulation depend on key market variables such as wages and prices, and on technologies of production. Even if many key prices are manipulated by state intervention, (and we make no presumption that the market in advanced capitalist countries is entirely "self-regulating"), political interventions to maintain overall profitability and high rates of accumulation play a secondary role except at moments of crisis. In comparison, the capitalist sector in most developing countries is a small part of the overall economy, its productivity and profitability is by definition much below that in advanced country competitors, and if the growth of the capitalist sector depended on the internal profits of this sector alone, growth would be very slow at best. This does not mean that primitive accumulation is driven by any functional recognition by the state that capitalist development depends on supporting these processes. Rather the activities of powerful groups in a context where the pre-capitalist economy has ceased to produce a sufficient surplus, and their search for new sources of accumulation leads them inexorably to engage in primitive accumulation. These sources of accumulation are initially political, and the growth of capitalism depends first on the concentration of assets in the hands of new classes and secondly on the presence of incentives and disciplining structures that ensure that the new accumulators become or remain productive. Moreover, the initial survival of much of the capitalist sector, particularly of firms involved in higher technology sectors, can depend on a relatively long period of *learning* to use new technologies productively under different types of direct or indirect protection. The success of primitive accumulation thus depends not just on the initial transfers but on a fairly complex set of checks and balances that ensure that further transfers to emerging capitalists continue but with conditions (Khan 2002a). Thus in a developing country, political processes do not just regulate the overall operation of the economy and maintain profitability at a high level, they are essential to ensure that the capitalist sector emerges and grows at all, and often to ensure that large parts of the capitalist sector remain viable during relatively long periods of catching-up.

It follows that while many mechanisms of state intervention in markets are common to both advanced and developing countries, the scale and significance of the interventions are much greater in the latter. Emerging capitalists in developing countries have been critically dependent on state-organized transfers of resources that provided the initial capital for many investments, as well as for ongoing protection and subsidies during their catching-up phase. Transfers from consumers and non-capitalist sectors have been organized through taxes, exchange rates and tariffs. In addition, vast amounts of public resources have been channelled to emerging "capitalists" as loans from state-owned banks. The immediate source of some of these resources was international capitalism, since in developing countries, local banks often borrowed from bilateral and multilateral financial institutions. But to the extent that the loans will eventually be called, and capitalists whether successful or not often have no intention of repaying, these are transfers from taxpayers and consumers in non-capitalist sectors to their national capitalists. Other mechanisms which have been important in the past have included overvalued exchange rates which transferred resources from agricultural exporters to industrial sector importers of machinery and raw materials. But viable capitalists did not always emerge, indeed success in developing capitalism has been the exception rather than the rule. Thus while primitive accumulation has always been essential for the emergence and viability of the capitalist sector, processes involving primitive accumulation have frequently gone wrong, with massive losses of social resources. Even in countries where primitive accumulation did lead to the emergence of capitalism, a part, and possibly a large part of this accumulation was "lost" to powerful groups whose status in the development of capitalism was questionable. An important task of analysis must therefore be to identify the conditions under which primitive accumulation is most likely to lead to the emergence of a viable capitalism.

Whether we want to call these processes primitive accumulation or give them a new name is not important. Nevertheless, there are analytical similarities between these modern accumulation processes and the enclosures, colonial plunder and unequal exchanges driving earlier transitions. The modern processes are often somewhat less violent (though not always), and more sophisticated fiscal and financial mechanisms are often involved compared to earlier transitions. At the same time, failed transitions to capitalism are now widely documented, and some of the resources transferred to emerging capitalist sectors now come from other parts of a global capitalism. But the fundamental similarity with earlier primitive accumulation is that in a context of collapsing pre-capitalist methods of production, the more or less rapid emergence of capitalism is linked to politically driven accumulation that in the first instance simply *redistributes* assets and resources.

From the perspective of an analysis of corruption, the important point is that primitive accumulation is difficult to organize legally. The transfer of resources to privileged groups who do not (and cannot yet) have any track record of being efficient capitalists, cannot be regulated using formal verifiable criteria. Inevitably, the number of candidates who could claim resources on the grounds that they *could* become productive capitalists far exceeds the resources available. As a result, it has not been possible in any country to organize the transfer of assets to emerging capitalists in a transparent and formally regulated way. In every case, even when there were some formal laws governing, for instance, loans to emerging capitalists, in fact the problem of rationing and excess demand meant that informal or illegal criteria were used to allocate these resources. Primitive accumulation is therefore universally associated with either outright corruption or at least the use of "influence" within patron-client networks. It is also important to remember that historically, the ability of a state to enforce legal norms protecting property rights and to take serious measures to reduce crimes against property is only widely observed once capitalism has become well-established (Foucault 1991: 82-9). Foucault points out that in the transition period leading up to the dominance of capitalism, a large degree of illegality is socially accepted by different classes for different reasons.

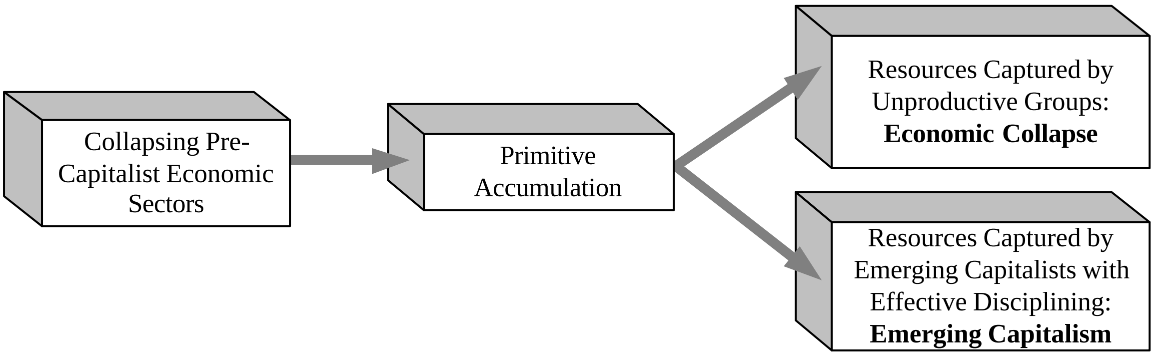

Figure 4 Primitive Accumulation and the Emergence of Capitalism

Figure 4 summarizes these observations. If capitalism always emerges through processes of primitive accumulation, then irrespective of the fact that most primitive accumulation processes go wrong, the successful implementation of anti-corruption strategies is neither necessary nor sufficient for ensuring the emergence of a viable capitalism. Indeed the successful implementation of an anti-corruption strategy may not even be possible in a context of capitalist transformation if this involves, as it is likely to, a significant amount of primitive accumulation. The task of policy and analysis should be to identify the conditions which are necessary for capitalist transitions to be successful in this context. One determinant of the outcome of primitive accumulation is clearly the balance of power between the different groups and classes contesting over resources during this process. The Brenner debates pointed out the importance of pre-existing class structures in driving primitive accumulation in Europe in particular directions (Aston & Philpin 1987). Differences in the relative power of peasants, emerging capitalist landlords and the state resulted in significant differences in the pace of the capitalist transformation *within* Western Europe. In contemporary developing countries, the critical classes engaged in politically driven accumulation are somewhat different. The "intermediate" classes in contemporary developing countries are an important group since the most intense conflicts over resource capture happen within sections of these classes (Khan 2000b). The organization and composition of these classes play an important role in explaining differences in patterns of primitive accumulation and therefore differences between successful and unsuccessful transitions to capitalism.

The Relationship Between Primitive Accumulation and Political Stabilization

The two processes we have described, political stabilization and primitive accumulation, are in fact different lenses through which we can observe and analyse largely overlapping sets of transfers in developing countries. Figure 5 shows how the final pattern of resource allocation and resource capture depends *both* on the political logic of maintaining political stability and the economic logic of collapsing pre-capitalist systems and the organization of factions and groups who seek to re-allocate or capture resources through primitive accumulation. The newly emerging groups *may* or *may not* become viable capitalists over time, so the outcome of primitive accumulation is by no means pre-determined. The outcome depends (amongst other things) on the distribution of power between groups and classes. This can determine which groups gain most from primitive accumulation and political stabilization and whether their subsequent behaviour can be disciplined by the state or not.

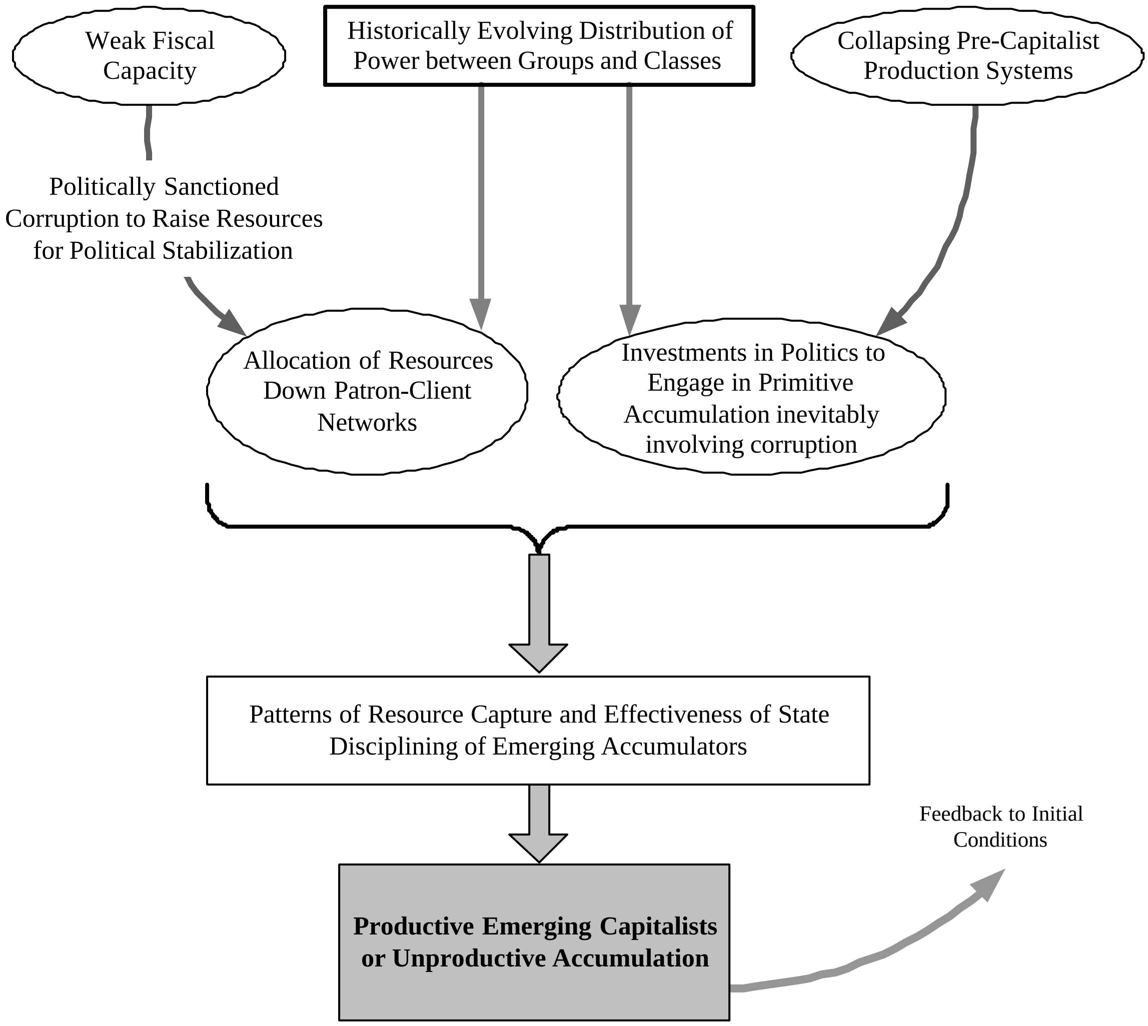

Figure 5 Political Stabilization, Primitive Accumulation and Developing Country Corruption

As pre-capitalist systems collapse, politically powerful groups and classes organize to re-allocate or capture resources. The history of class and group power is therefore an important independent variable at this stage of the analysis. At the same time, the state's fiscal weakness results in further interventions to maintain political stability whose pattern also depends on the distribution of power and the calculations of state executives or of the groups that have captured the state. The pattern of resource and asset allocation that actually emerges is the product of both sets of drivers, and both involve significant degrees of corruption. Nevertheless, the outcomes are not pre-determined, and depending on the pre-existing distribution of power, the institutional structure, and the strategies of different groups and of the state, a viable capitalism may or may not emerge. In any case, these outcomes feed back into and change the initial conditions: the distribution of power, the state's fiscal capacity and the viability of the emerging capitalist sector.

These processes have important implications for the analysis of corruption. First, they provide an explanation of why corruption is systemic in the sense of being widespread in developing countries. They also suggest that corruption cannot be significantly reduced without at least two changes in the overall political economy of the developing country. First, fiscal resources have to become sufficient for viable political management through the fiscal system. Secondly, primitive accumulation has to become a marginal activity and this is only possible once a broadly-based capitalist class emerges and it is in its collective interest to enforce the property rights on which its prosperity is based. When this happens, primitive accumulation becomes less and less important and capitalist accumulation begins to drive the economy. We have argued that these changes are themselves the product of successful capitalist development. If instead primitive accumulation and political stabilization allow unproductive groups to be strengthened, economic development does not take place, and corruption is likely to remain systemic regardless of efforts to reduce it through conventional anti-corruption strategies such as democratization, decentralization, higher bureaucratic salaries or the activities of civil society watchdogs (Khan 2002c). It follows that the presence of substantial corruption does not tell us whether the developing country will develop a viable capitalism or not. *All* developing countries are corrupt and no developing country is likely to actually reduce corruption in a sustainable way before it has developed a viable capitalism. The obvious implication is that we need to understand these processes rather better to identify viable policy responses to corruption. The analysis of different types of corruption in a developing country may then be very important in identifying problems in the patterns of primitive accumulation and political stabilization that are holding back a capitalist transformation. The appropriate responses may indeed be to improve the governance capacities of states to enable them to regulate primitive accumulation better and to manage political stabilization without the most damaging types of patron-client politics becoming dominant. Some types of corruption that particularly impact on the poor may also be important to identify and target for welfarist reasons. But prior attempts to reduce corruption *in general* in poor countries are very unlikely to work, nor is there any evidence that societies that succeeded in constructing viable capitalisms did so because they first succeeded in reducing corruption.

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