

Economic Development Through Bureaucratic Corruption

by Nathaniel H. Leff

Among scholars the subject of corruption is nearly taboo. Placing it in a model of developing economy as a developing factor is even worse in some eyes. No doubt, Nathaniel H. Leff's analysis will be misunderstood. So be it. It still bids us to understand an important area of social behavior, and tells us why public policies will fail. The author is at Harvard University.

THE BUREAUCRATIC CORRUPTION of many underdeveloped countries has been widely condemned both by domestic and foreign observers. Apart from the criticism based on moral grounds, and the technocratic impatience with inefficiency, corruption is usually assumed to have important prejudicial effects on the economic growth of these societies.¹

Corruption is an extra-legal institution used by individuals or groups to gain influence over the actions of the bureaucracy. As such, the existence of corruption *per se* indicates only that these groups participate in the decision-making process to a greater extent than would otherwise be the case. This provides information about the effective—as opposed to the formal—political system, but in itself, tells us nothing about the content and development effects of the policies so determined. These depend on the specific orientation and interests of the groups which have gained political access. As we shall see, in the context of many underdeveloped countries, this point can be crucial. For example, 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 can help development.

Furthermore, our discussion is limited to corruption of a particular type: namely, the practice of buying favors from the bureaucrats responsible for formulating and administering the government's economic policies. Typical examples are bribery to obtain foreign exchange, import, export, investment or production licenses, or to avoid paying taxes. Such bribes are in the nature of a tax levied on economic activity. These payments have not been legitimized by the correct political process, they are appropriated by the bureaucrat rather than the state, and they involve the subversion of the government's economic policies—hence the stigma that attaches to them. The question for us to decide is whether the net effects caused by such payments and policy redirection are likely to favor or hinder economic development.

We should also distinguish between bureaucratic corruption and bureaucratic inefficiency. Corruption refers to extra-legal influence on policy formulation or implementation. Inefficiency, on the other hand, has to do with the success or failure, or the economy of means

used by the bureaucracy in attaining given goals, whether those of its political directors, or those of the grafters. Empirically, inefficiency and corruption may appear together, and may blend into each other. Both as a policy problem and for analytical purposes, however, it is important to distinguish between two essentially different things.

Who Condemns Corruption?

Before proceeding to our analysis of the economic effects of bureaucratic corruption, it may be useful to make a brief detour. Any discussion of corruption must contend with the fact that the institution is almost universally condemned. Insofar as this criticism is based on moralizing—explicit or latent—self-interest, or ideology, it can be a formidable obstacle to rational analysis. Consequently, in order to gain a degree of perspective on the subject, I would like to consider the sources of the widespread prejudice against corruption. Identifying the specific sources of bias, and breaking down generalized censure to its component parts should help us to evaluate each argument on its own merits. For this purpose, let us consider the origins of the critical attitude held by such groups as foreign observers, government officials, and entrepreneurs, and by intellectuals, politicians, and businessmen in the underdeveloped countries themselves.

Foreigners living in the underdeveloped countries have been persistent critics of corruption. First, they have resented the payments of graft to which they are often subjected in the normal course of their business. Secondly, they have condemned corruption on moral grounds, and criticized it as both a cause and a characteristic of the backwardness of these countries.

A more sophisticated, and recent version of this argument derives from the new interest in promoting economic development. As economists and observers of economic development have grown aware of the enormous obstacles to spontaneous growth, they have come to assign an increasingly important role to the governments of the underdeveloped countries.

First, there has been an emphasis on the need for entrepreneurs, coupled with the fear that the underdeveloped countries may lack indigenous sources of entrepreneurship. Secondly, recent economic theory

stressed the importance of indivisibilities, externalities, and other structural features that may prevent an underdeveloped economy from breaking out of a low-income equilibrium trap. In addition, there was the realization that the flow of private capital and technical skills was insufficient for promoting large-scale growth. With the ensuing flow of inter-governmental transfers, came the need for the governments of the underdeveloped countries to assume responsibility for the resources they were receiving.

Because of these reasons and political pressures, the governments of the underdeveloped countries have come to occupy a very prominent place in most visions of economic development. In a sense, economists have collected their problems, placed them in a box labelled "public policy", and turned them over to the governments of the underdeveloped countries.

In order for the governmental policies to be effective, however, the bureaucracies must actually implement them. Hence it becomes crucial that officials not be influenced, through graft, to deviate from their appointed tasks. The logic of this argument goes as follows: development—bureaucracy—efficiency—probity. This chain of reasoning is central to the whole critique of corruption, and we shall examine it carefully in the next section. Before going further, however, let us note a few important points about this argument.

First, it confuses bureaucratic inefficiency and bureaucratic redirection through dishonesty and graft. Secondly, transferring these problems to the governments and bureaucracies is hardly enough to solve them, for these institutions may not be at all likely to promote growth. Rather than leading the development process, the governments and bureaucracies may be lagging sectors. Finally, the argument implies that because the bureaucracy is so strategic an institution, an attack on bureaucratic corruption deserves high policy priority, offering relatively cheap and easy gains.

Foreign aid missions seem to have been particularly prone to draw such conclusions, for understandable reasons. The bureaucracy's performance will determine the success or failure of many other projects. Moreover, in contrast with some of the other problems facing foreign development specialists, reform of the civil service may seem a relatively straightforward matter. Furthermore, whereas in other development efforts foreign specialists may feel hampered by the lack of well tested doctrine and procedures, in restructuring the bureaucracy, they can rely on the expertise of public administration and management science. Therefore, it is not surprising that so much foreign development attention and activity have been directed toward the reform of the bureaucracies of underdeveloped countries.

In the underdeveloped countries themselves, much of the condemnation of graft has also come from interest in economic development, and from the apparent cogency of the development/bureaucracy/efficiency/probity logic.

Here, moreover, the special ideological perspectives and interests of powerful and articulate groups have reinforced the criticism. Let us consider the specific perspectives that intellectuals, politicians, and businessmen in the underdeveloped countries possess.

The attitudes of intellectuals and of politicians toward corruption overlap to a certain degree. As members of the same rising elite, they condemn corruption because of the idealistic streak which often pervades radicals and reformers. Contemporary intellectuals in underdeveloped countries often emulate the Jacobins in their seeking after virtue. Moreover, as Shils has pointed out,² they frequently attribute sacral value to the governmental sphere: hence their hostility to the venality that would corrupt it. More generally, they may see graft as an integral part of the political culture and system of the *ancien regime* which they want to destroy.

Furthermore, they also have a direct interest in discrediting and eliminating corruption because of its functional effects. In most underdeveloped countries, interest groups are weak, and political parties rarely permit the participation of elements outside the contending cliques. Consequently, graft may be the only institution allowing other interests to achieve articulation and representation in the political process. Therefore, if the ruling elite is to maintain its exclusive control of the bureaucracy, it must cut off or control this channel of influence.³ Such considerations apply especially when the politically disadvantaged group consists of an ethnic minority or of foreign entrepreneurs over whom the elite would like to maintain its dominance.

Entrepreneurs in underdeveloped countries have also condemned bureaucratic corruption. This is understandable, for they must pay the bribes. Moreover, because of certain economic characteristics of graft, the discontent that it arouses probably goes far beyond the cost of the bribe alone.

It is important to realize that most of the objects of corruption are available only in fixed and limited supply. For example, at any point in time, there is only a given amount of foreign exchange or a given number of investment licenses to be allocated. Consequently, when the number of favors is small relative to the number of aspirants, entrepreneurs must bid against each other in what amounts to a clandestine and imperfect auction. With competition forcing prices up, the favors will tend to be allocated to those who can pay the highest prices. In the long run, the favors 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.

Marginal firms, on the other hand, will face severe pressures. Either they accept sub-normal profits, or they must make the effort to increase efficiency, so as to muster the resources necessary to bid successfully. If they drop out of the contest, they are placed in a weakened position *vis-a-vis* the other firms, which are now

even more intra-marginal because of the advantages given by the bureaucratic favor.

This sort of situation, where the efficient are able to out-do the inefficient, is not generally appreciated by businessmen. It is likely to be the less popular in underdeveloped countries where—in deference to the prevalence of inefficiency, and to local ideas of equity—the more usual practice is to tax efficient producers in order to subsidize the inefficient. Moreover, as we have seen, corruption may introduce an element of competition into what is otherwise a comfortably monopolistic industry.

Furthermore, in their bidding for bureaucratic favors, businessmen may have to give up a substantial part of the profits from the favor. The economic value of the favor is equal to the return expected from the favored position it makes possible. This value constitutes the upper limit to the bids made by entrepreneurs. The actual amount paid is indeterminate, and depends on the relative bargaining skills of the bureaucrats and the businessmen. The competitive bidding between businessmen, however, may force the price to approach the upper limit. In such a case, the bureaucrat captures the lion's share of the profits expected from the favor. Competitive selling by different bureaucrats may strengthen the bargaining position of the businessmen, but in general they are probably forced to pay out a relatively large portion of their expected gains. Hence, it is not surprising that they dislike an institution which deprives them of the fruits of their enterprise.⁴

The foregoing discussion suggests that many of the negative attitudes toward corruption are based upon special viewpoints and interests. We should also realize that the background material available on the subject is both scanty and one-sided. Those who engage in corruption maintain secrecy about their operations, so that the little data available comes from declared opponents of the institution. Moreover, those who profit from corruption may themselves have no idea of the socially beneficial effects of their activities.

The widespread condemnation of corruption has come to constitute a serious obstacle to any reexamination of the subject. Indeed, the criticism has become something of a ritual and symbol-laden preamble accompanying policy discussion and statements in the underdeveloped countries. As such, it is cherished for the modicum of consensus it provides to otherwise antagonistic groups.

Positive Effects of Corruption

The critique of bureaucratic corruption often seems to have in mind a picture in which the government and civil service of underdeveloped countries are working intelligently and actively to promote economic development, only to be thwarted by the efforts of grafters. Once the validity of this interpretation is disputed, the effects of corruption must also be reevaluated. This is the case if 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. At the same time, the propensity for investment and economic innovation may be higher outside the government than within it.

Indifference and hostility of government

In the first instance, the government and bureaucracy may simply be indifferent to the desires of entrepreneurs wanting to initiate or carry on economic activities. Such a situation is quite likely in the absence of effective popular pressure for economic development, or in the absence of effective participation of business interests in the policy-making process. This is especially the case when entrepreneurs are marginal groups or aliens. More generally, when the government does not attribute much value to economic pursuits or innovation, it may well be reluctant to move actively in the support of economic activity.

Even more important, the bureaucracy may be hostile to entrepreneurs, for it dislikes the emergence of a competing center of power. This is especially the case in colonial economies, where a large domestic middle class has not emerged to challenge traditional power-holders.

Governments have other priorities

The foregoing relates to societies where although lip-service may be paid to the importance of economic development, the government and bureaucracy are oriented primarily to maintaining the *status quo*. It is also relevant in countries where a successful revolution against the *ancien regime* has occurred. There, the government may be proceeding dynamically, but not toward the promotion of economic development. Other goals, such as an increase in the military power available to the elite, or expansion of its control over society, may be justified in terms of economic development, however "ultimate". At the same time, the immediate effect of such policies is to impede growth.

Typically the bureaucracy plays an extensive interventionist role in the economy, and its consent or support is a *sine qua non* for the conduct of most economic enterprise. In such a situation, graft can have beneficial effects. First, it can induce the government to take a more favorable view of activities that would further economic growth. The policies or freedom sought by the entrepreneurs would help development, while those they subvert are keyed to other goals. Secondly, graft can provide the direct incentive necessary to mobilize the bureaucracy for more energetic action on behalf of the entrepreneurs. This is all the more important because of the necessity for bureaucratic help in so many areas—e.g., licenses, credit, and foreign exchange allocation—in order to get anything done.

Corruption reduces uncertainty and increases investment

Corruption can also help economic development by making possible a higher rate of investment than would otherwise be the case.

The investment decision always takes place in the midst of risk and uncertainty. As Aubrey has pointed out,⁵ however, these difficulties are very much compounded in the economic and political environment of underdeveloped countries. The basic estimates of future demand and supply conditions are harder because of the lack of data and of the sharp shifts that can occur during a period of economic change. The dangers of misjudging the market are all the more serious because of the lower elasticities of substitution at low income levels.

Aside from the problems of making such economic estimates, the potential investor also faces a major political unknown—the behavior of the government. The possible dangers arising from the government's extensive role in the economy are increased because of the failure of representative government to put an effective check on arbitrary action. The personalist and irrational style of decision-making, and the frequent changes in government personnel and policies add to the risks. Consequently, if entrepreneurs are to make investments, they must have some assurance that the future will not bring harmful intervention in their affairs. We can see an illustration of these difficulties in the fact that in periods of political uncertainty and crisis, investment shrinks, and economic stagnation occurs. By enabling entrepreneurs to control and render predictable this important influence on their environment, corruption can increase the rate of investment.

Corruption and innovation

The would-be innovator in an underdeveloped society must contend with serious opposition from existing economic interests. Unable to compete economically with the new processes or products, they will usually turn to the government for protection of their investments and future returns. If the bureaucracy supports innovation and refuses to intervene, the innovation can establish itself in the economy. In the more usual case, however, existing economic interests can depend on their long-standing associations with bureaucratic and political compadres for protection.

In this situation, graft may enable an economic innovator to introduce his innovations before he has had time to establish himself politically.⁶ Economic innovators in underdeveloped countries have often supported oppositional political cliques or parties. Corruption is another, less radical way of adjusting to the same pressures and goals.

Corruption, competition, and efficiency

As we have seen in the previous section, bureaucratic corruption also brings an element of competition, with its attendant pressure for efficiency, to an underdeveloped economy. Since the licenses and favors available to the bureaucrats are in limited supply, they are allocated by competitive bidding among entrepreneurs. Because payment of the highest bribes is one of the principal criteria for allocation, the ability to muster revenue,

either from reserves or from current operations, is put at a premium. In the long run, both of these sources are heavily dependent on efficiency in production. Hence, a tendency toward competition and efficiency is introduced into the system.

Such a pressure is all the more important in underdeveloped countries, where competition is usually absent from many sectors of the economy. In the product market, a high degree of monopoly often prevails. International competition is usually kept out by quotas, tariffs, and overvalued exchange rates. In the factor market, frictions and imperfections are common. Consequently, we can appreciate the value of introducing an element of competition, if only through the back-door.

Corruption as a hedge against bad policy

Corruption also performs the valuable function of a "hedge" and a safeguard against the full losses of bad economic policy. Even when the government of an underdeveloped country is proceeding actively and intelligently to promote growth, there is no assurance that its policies are well-conceived to attain its goals. In effect, it may be taking a vigorous step in the wrong direction. Corruption can reduce the losses from such mistakes, for while the government is implementing one policy, the entrepreneurs, with their sabotage, are implementing another. Like all insurance, this involves a cost—if the government's policy is correct. On the other hand, like all insurance, it is sometimes very welcome.

An underdeveloped country often stands in special need of such a safeguard. First, even when policy goals are clearly specified, competent counsel may well be divided as to the best means of achieving them. For example, the experts may differ among themselves on such basic issues as export promotion vs. import substitution, or other inter-sectoral priorities. Consequently, if the government has erred in its decision, the course made possible by corruption may well be the better one, supported by a dissenting segment of expert opinion. Moreover, the pervasive effects of government policy in an etatistic economy compound the effects of poor decisions, and increase the advantages of having some kind of safeguard against the potential consequences of a serious policy mistake. Corruption provides the insurance that if the government decides to steam full-speed in the wrong direction, all will not be lost.

Some illustrations may help clarify this point. For example, the agricultural producers whose graft sabotaged Peron's economic policies were later thanked for having maintained Argentina's capacity to import. Another example shows in more detail how this process can operate. An important element in the recent Latin American inflations has been the stagnation of food production, and the rise in food prices. In both Chile and Brazil, the governments reacted by freezing food prices, and ordering the bureaucracy to enforce these controls.

In Chile, the bureaucracy acted loyally to maintain price controls, and food supplies were relatively stagnant. Inflation rose faster, supported in part by the failure of food production to increase. In Brazil, however, the bureaucracy's ineffectiveness sabotaged the enforcement of price controls, and prices received by producers were allowed to rise. Responding to this price rise, food production also increased somewhat, partially limiting the course of the inflation.⁷

In this case, we see the success of entrepreneurs and corrupted officials in producing a more effective policy than the government. Moreover, subsequent economic analysis justified this "decision", by emphasizing the price elasticity of agricultural supply, and the consequent need to allow the terms of trade to turn in favor of rural producers.

These points are perhaps strengthened when viewed with some historical perspective. As John Nef has remarked, the honesty and efficiency of the French bureaucracy were in great measure responsible for the stifling of economic innovation and progress during the 18th century.⁸ By way of contrast, the laxity of the British administration permitted the subversion of Colbertism, and allowed new economic processes and activities to flourish.

Alleged Negative Effects of Corruption

Most of the arguments concerning the negative effects of corruption are based on the assumption that development can best proceed through the policies of an uncorrupted government and bureaucracy. As noted in the previous section, this assumes that the government really wants economic development, and that its policies would favor growth more than the activities of an unregulated private sector. Actually, the economic policies of the governments of many underdeveloped countries may be predicated on priorities other than global economic development. Even in countries where there has been a successful revolution against the colonial *ancien regime*, policy may aim primarily at advancing the economic interests of the ruling clique or of the political group on which it bases its dominance. Although the economic policies of some countries may be foolish or catastrophic from the viewpoint of development, they may be well conceived for implementing these other goals.⁹

Impeding taxation

One version of this argument focuses on taxation. Specifically, it asserts that bureaucratic corruption may hamper development by preventing the government from obtaining the tax revenues necessary for developmental policies.

This argument probably attributes to the government an unrealistically high propensity to spend for development purposes. Economic development usually has a less compelling priority among the elites of these societies than among the westerners who observe them. Even if the dominant groups are aware and sensitive to the

situation of the lower classes, they may be reluctant to bear the costs of development. Hence, the actual level of taxes collected, and their allocation in the budget may represent the decision of the ruling group as to how hard they want to press forward with economic development. In these circumstances, it is misleading to criticize the bureaucracy for the effects of its ineffective tax collection on economic growth. Of the revenues they might have collected, only a part would have gone for development rather than for the many forms of non-developmental expenditure. Moreover, when the entrepreneurs' propensity to invest is higher than the government's, the money saved from the tax collector may be a gain rather than a loss for development.

Usefulness of government spending

Furthermore, there is no reason to assume that the government has a high *marginal* propensity to spend for development purposes, based on a high income elasticity of demand for development. Without changes in the factors determining the average allocational propensities, increases in governmental revenue may well go for more lavish satisfaction of the same appetites. For example, as budgetary receipts rise, the military may be supplied with jet aircraft rather than with less expensive weapons.

Cynicism

Another argument has emphasized the social effects of corruption as an impediment to development. For example, it has been claimed that immorality and self-seeking of bureaucratic corruption may cause widespread cynicism and social disunity, and thus reduce the willingness to make sacrifices for the society's economic development.

This argument can be criticized on several points.

First, insofar as the disillusion is engendered among the *lower* social orders, the effects on development may not be as important as assumed. Because of economic and social conditions, these people are probably being squeezed as much as is possible, so that with all good will, they could not sacrifice any more.

Secondly, if the cynicism caused by bureaucratic corruption leads to increased self-seeking in the rest of the society, this may not be a completely bad thing for economic development. Many of the wealth-creating activities which make up economic growth depend on such atomistic egoism for their stimulus. Consequently, if cynicism acts as a solvent on traditional inhibitions, and increased self-seeking leads to new ambitions, economic development may be furthered.

Moreover, this argument also exaggerates the extent to which economic growth depends on a popular rallying-around rather than on many individual selfish activities. The implicit picture seems to be that of an "all-together" social effort, perhaps under etatistic direction. Once stated explicitly, such a model appears more like a fantasy of intellectuals rather than an accurate guide to how economic development takes place.

More generally, we should recognize that there are very good reasons for the incivism and unwillingness to make sacrifices that are often characteristic of underdeveloped societies. Mutual distrust and hostility usually have much deeper roots in cultural gaps, inequitable income distribution, and long experience of mistreatment. Rapid change, dislocating existing institutions and values, also disrupts social solidarity. In such circumstances, reduced bureaucratic corruption would make only a marginal contribution to improved public morale.

Corruption as a Policy Problem

The foregoing analysis and perspective may also be helpful in dealing with bureaucratic corruption as a policy problem.

First, we should be clear as to the nature of "the problem" that policy is attempting to solve. As we have seen, much of the criticism of corruption derives from the political, economic, and ideological interests of particular groups. Presumably the elimination of corruption is a problem only insofar as we share their specific concerns.

Aside from these special interests, however, let us consider corruption from the point of view of its effects on economic development. As we have seen, under certain conditions, the consequences of corruption for development are not as serious as is usually assumed. At the same time, it may have important positive effects that are often overlooked. Consequently, to the extent that reality approaches the conditions of our model, corruption of the type discussed in this paper may not be a problem at all. This will depend on specific conditions, and will vary between countries and between sectors.

When the conditions of our model do not obtain, however, corruption will be an important barrier to development. To the extent that corruption exists as a policy problem, it is probably wise to accept it as a particularly intractable part of an underdeveloped country. On a superficial level, we should recognize that corruption creates its own political and economic interests that will resist efforts at its eradication. More important, corruption is deeply rooted in the psychological and social structure of the countries where it exists. On the psycho-cultural plane, corruption will persist until universalistic norms predominate over particularistic attitudes. Socially, the elimination of corruption probably requires the emergence of new centers of power outside the bureaucracy, and the development of competitive politics. Such changes will come, if at all, only as the result of a long period of economic and social development.

Bureaucracy the lagging sector

Two conclusions emerge from this discussion. First, we should realize how illusory is the expectation that bureaucratic policy can intervene as a *deus ex machina*

to overcome the other barriers to economic growth. In many underdeveloped countries, the bureaucracy may be a lagging rather than a leading sector. Secondly, it should be clear that direct policy efforts against such deeply rooted psychological and social conditions cannot hope for much short-term success. As Braibanti concludes,¹⁰ powerful investigatory commissions may have a limited success, but one should expect the problem to be improved "more by time than by effort".

Despite the pessimistic prospects for the usual direct-action policies against corruption, certain possibilities do exist for dealing with it indirectly. The problem is perhaps best conceptualized in terms of the need to economize in the use of a particularly scarce and important resource—honest and capable administrators. Indeed, for several reasons, this shortage may be more serious than others more often cited, e.g., the lack of capital. Because of political reasons, this input into the development process cannot be imported on a large scale. Furthermore as we have noted, available domestic supplies cannot be expected to increase for a long time in most underdeveloped countries. Finally, this input is all the more crucial because of its importance for the successful deployment of other resources. If we view corruption as a problem in the allocation of scarce administrative resources, two solutions are immediately suggested.

Two techniques

First, the available resources should be concentrated in areas where their productivity in promoting development would be greatest. Such budgeting of administrators would avoid dispersion of honest and able personnel, and make them available only for tasks of the highest priority.

A second way of economizing in the use of this scarce resource would be the use of alternative production techniques to achieve the same development results. In our context, this would mean employing measures to achieve the goals of policy without reliance on direct administration and bureaucratic regulation of the economy.

In many cases, the desired effects could be achieved either by market forces, or by indirect measures creating the necessary incentives or disincentives—i.e., with much less direct government intervention, and the consequent need to rely on the bureaucracy. For example, a government which wants to keep down the domestic price level can either institute a cumbersome system of price regulation, or it can permit a measure of competition from imports. Similarly, a straightforward currency devaluation can have many of the beneficial effects achieved by an administration-intensive regime of differential exchange rates. Admittedly, such policies may have some undesired consequences and side-effects that ideally would be avoided by more sophisticated government management of the economy. The point is, however,

that when policy alternatives are evaluated, it would be better to take explicit account of how bureaucratic corruption will affect the direct management policies contemplated. This would lead to a more realistic choice between the means which can accomplish similar goals. Perhaps the best procedure would be to select a mixture of direct and of indirect management policies, taking account of the bureaucratic resources available.

By way of contrast, the more usual practice is to choose the policies that would be best if the whole bureaucracy were dependable, and then to deplore its corruption, and condemn it for the failure of the policies chosen. Following the procedure suggested here, however, governments would accept corruption as an aspect of their societies, and try to optimize policy-making within this framework.

Finally, we should note that preoccupation with corruption can itself become an impediment to development. This occurs if the focus on corruption diverts attention from other political and economic deficiencies in the society, and from the measures that can be taken despite corruption. To avoid the losses from such misdirection, re-thinking of the sort suggested here may be helpful.

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⁴ These processes are nicely brought out in Alexandre Kafka, "The Brazilian Exchange Auction," *The Review of Economics and Statistics*, October, 1956.

⁵ H. C. Aubrey, "Investment Decisions in Underdeveloped Countries" in *Capital Formation and Economic Growth*, National Bureau of Economic Research, Princeton, 1955, pp. 404-415. Also cf. the finding of Y. Sayigh (*Entrepreneurs of Lebanon*, Cambridge, Mass. 1962, p. 117) that political conditions constituted the greatest unknown facing the entrepreneurs surveyed.

⁶ Cf. Lasswell, *op. cit.*, p. 671.

⁷ I am indebted to an eminent expert in Latin American economic development for this observation.

⁸ *Industry and Government in France and England: 1540-1640*. Cf. also, J. J. Spengler, "The State and Economic Growth—Summary and Interpretations," p. 368, in H. Aitken, editor, *The State and Economic Growth*, N. Y. 1959.

⁹ Cf. Frank Golay, "Commercial Policy and Economic Nationalism," *Quarterly Journal of Economics*, 1958, and B. Glassburner, "Economic Policy-Making in Indonesia, 1950-1957," *Economic Development and Cultural Change*, January 1962.

¹⁰ Ralph Braibanti, "Reflections on Bureaucratic Corruption," *Public Administration*, Winter, 1962, p. 370, and p. 372.

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