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Corruption and public finance: an IMF perspective

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A review of *Governance, Corruption, and Economic Performance*, George T. Abed and Sanjeev Gupta, editors, International Monetary Fund, Washington D.C., 2002, pp 564, ISBN 1-58906-116-0 Soft cover

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Abstract

Public finance should be a means whereby governments in low-income countries are able to increase economic growth and end poverty. Corruption, however, reduces tax revenue and makes public expenditure policies ineffective for achieving social objectives. The papers in this volume, which is sponsored by the Fiscal Affairs Department of the International Monetary Fund (IMF), describe how corruption makes public finance ineffective in promoting economic development.
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1. Introduction

The people who can best describe corruption are those themselves engaged in corruption. After the perpetrators themselves, the next best placed to describe corruption are those who interact with the governments within which corruption takes place. Prominent among the latter are staff members of the International Financial Institutions. This book, edited by two staff members of the Fiscal Affairs Department of the International Monetary Fund (IMF) and with contributions principally by IMF staff

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economists, demonstrates the extent to which issues associated with governance and corruption concern the International Monetary Fund. The studies in the book make clear why, when governments are corrupt, public finance is ineffective in increasing growth and reducing poverty.

2. Corruption within public finance

In an introductory overview, the editors, George Abed, and Sanjeev Gupta, note the only relatively recent interest of economic researchers and also the IMF and World Bank in corruption. The attention that has come to be given to corruption is attributed to globalization through requirements of greater transparency by governments in poorer countries that have been recipients of private capital inflows. Previously, capital flows had been primarily official through governments and had been motivated by political influence sought by donors. Corruption under these circumstances was ignored: “many countries were governed by regimes that, to say the least, did not adhere to the strictures of good government, and most bilateral (and to some extent multilateral) donors and creditors often refrained from asking too many questions. The economics profession, with notable exceptions, lacking the requisite information or the will to challenge the prevailing political order, went on to other pursuits” (p. 3). The end of communism focused interest on corruption which was evident in the postcommunist states. At the same time, standards of conduct changed for governments in developing countries, with donors becoming less forgiving and governance indicators becoming part of the policy conditionality associated with concessionary loans and other aid from the international financial institutions. Nongovernment organizations (NGOs) such as, in particular, Transparency International, placed governance and corruption at the forefront of attention. The U.S. had adopted an anticorruption policy through the Foreign Corrupt Practices Act of 1977, with the rest of the developed world following in 1997 with the adoption of the OECD convention on Combating Bribery of Foreign Officials in International Business Transactions. The IMF also contributed to reducing corruption through standards of transparency and accountability in the management of public funds and through requirements to safeguard the use of IMF-provided resources and to preempt misreporting of information. This volume is another means, through policy research, whereby the IMF focuses attention on issues of governance and corruption.

Vito Tanzi (*Corruption around the world: causes consequences, scope, and cures*) points out that corruption, defined as *the abuse of public power for private benefit* (p. 25), has been endemic in human civilization. Tanzi notes that bribes should be distinguished from exchange of gifts: cultural differences can explain different sizes of gifts but the question is “at what point does a gift become a bribe?” (p. 25). He observes the link between corruption and the size of government: corruption grew as the size of government grew. Government regulation, taxation, procurement, and public spending for private benefit all provide foundations for corruption. State enterprises have been, in particular, dens of corruption. Abolishing the state would abolish corruption because all transactions would take place in markets, and people could exchange gifts as well, if they so wished. Nathaniel Leff had proposed in 1964 that corruption could be beneficial in overriding

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