Looters, Rent-Scrapers, and Dividend-Collectors: Corruption and Growth in Zaire, South Korea, and the Philippines

ANDREW WEDEMAN

Does corruption systematically reduce economic growth? Is so, are countries with high levels of corruption likely to be among those with relatively low rates of growth while countries with low levels of corruption are likely to among those with high rates of growth? According to a recent study by Paolo Mauro, the answer ought to be yes. Using a data set that ranked 68 countries on a scale of 1 to 10 in terms of corruption, bureaucratic red tape, and judicial honesty, Mauro demonstrated that, when controlling for a variety of economic and sociopolitical factors, the relationship between corruption and growth is negative, which implies that as a group highly corrupt countries should have significantly lower growth rates than more honest countries. Mauro's rigorous application of quantitative methods yields results that are in many ways convincing.

Yet, his finding that the corruption-growth relationship is unilinear and negative is theoretically controversial. His finding is problematic in part because it relies on a definition of corruption that is at odds with a significant portion of the literature. The problem is less in Mauro's formal definition of what constitutes corruption. Instead, the problem lies in his implicit assumption that all forms of corruption are approximately equal in their impact on growth. Whereas Mauro treats corruption as an undifferentiated phenomena, students of corruption have long argued that the impact of corruption depends not simply on its amount, but also on its form. Thus, going back to the early 1960s, scholars such as Nathaniel H. Leff argued that in certain contexts corruption might help overcome obstacles to
growth, including most critically politically induced obstacles that might stifle or distort economic activity.\textsuperscript{2} J. S. Nye, on the other hand, suggested that even though corruption might generally harm an economy, where corrupt monies end up might actually matter more than the extent of corruption \textit{per se} and corruption was likely to be less destructive if corrupt monies stayed at home and were plowed back into the local economy rather than exported to Swiss banks.\textsuperscript{3} Similarly, Omotunde E. G. Johnson suggests that where corrupt officials invest a significant part of their illegal income in productive activities with forward and backward linkages, corruption might help increase growth rates.\textsuperscript{4} Finally, in his seminal piece on political corruption, Michael Johnston proposes a typology of corruption that distinguishes between integrative and disintegrative forms of corruption.\textsuperscript{5}

Within the literature, therefore, there is a long tradition, which extends into the lengthy and complex definitional debate over what constitutes corruption, that posits that the corruption-growth relationship is heteroscedastic rather than homoscedastic. This, in turn, suggests that it is possible for high levels of corruption to co-occur with either high or low rates of growth, depending on the structure of corruption.

An examination of rankings similar to those on which Mauro bases his findings provides evidence that would support this view. In 1996, for example, Transparency International (TI), a German-based anticorruption group, ranked China the fifth most corrupt country out of a sample of 54. Nevertheless, of these countries, China had the highest average growth rate, 11.42 percent per year between 1990 and 1995. Ranked almost identically in terms of corruption, meanwhile, the Cameroon saw its economy contract an average 5.42 percent annually during this same period, while Venezuela grew at an annual average of just 2.22 percent.\textsuperscript{6} At the same time, Singapore averaged 8.04 percent annual growth, roughly the same as Vietnam (8.14 percent) and Thailand (8.16 percent), even though Singapore was considered virtually corruption free and Vietnam and Thailand were considered fairly corrupt.\textsuperscript{7}

A cross tabulation of growth (averaged over five years) and corruption reveals that close to half of the "honest" third of the cases included in various rankings were in the bottom third when it came to growth, while an equal number of the "corrupt" third were in the top third when it came to growth. Similarly, honesty was not the best policy in terms of growth as over 80 percent of those countries with rapid rates of growth were either moderately or seriously corrupt. Partial chi-square statistics obtained from cross tabulation, meanwhile, show that the skew is actually in a direction opposite to that suggested by Mauro, with significantly more slow-growth honest and rapid-growth corrupt cases and fewer rapid-growth honest cases than would be expected if there were a negative relationship between increasing corruption and growth (see table 1).

Although it might be tempting to dismiss a simple cross-tabulation that fails to control for a variety of factors other than corruption as a determinant of growth rates as incomplete and hence unreliable,\textsuperscript{8} it remains difficult to simply explain away the high-corruption, high-growth cases. Clearly in cases such as China and South Korea serious corruption has not stifled growth, at least not in the short run. At the same time, the old functionalist argument that viewed corruption as a rational response to politically induced economic irrationalities, and hence a
TABLE 1
CROSS TABULATION OF CORRUPTION AND GROWTH RATES USING PARTIAL
CHI-SQUARE STATISTIC

(\(n = 223\))

<table>
<thead>
<tr>
<th></th>
<th>Slow Growth</th>
<th>Medium Growth</th>
<th>Rapid Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honest</td>
<td>+2.02</td>
<td>+1.33</td>
<td>-6.68</td>
</tr>
<tr>
<td>Medium</td>
<td>-0.27</td>
<td>-0.34</td>
<td>+1.19</td>
</tr>
<tr>
<td>Corrupt</td>
<td>-0.86</td>
<td>-0.34</td>
<td>+2.23</td>
</tr>
</tbody>
</table>

Chi-square = 15.27, Degrees of Freedom = 4, Significance = 0.00417


NOTE: The partial chi-square statistic \(\frac{(Observed-Expected)^2}{Expected}\) represents the skew of each cell. I have included the sign from the first part of the equation as an indicator of the direction of the skew. The chi-square statistic itself is the sum of the partials.

latent growth mechanism, cannot be sustained as an explanation for these cases because within that same high-corruption group we also have cases of obvious corruption-induced economic disaster (e.g., Zaire). High levels of corruption, in short, are associated with high-, medium-, and low-growth rates. In an effort to resolve the “paradox” of high corruption and growth, in this article I follow in the tradition of those like Nye who view the impact of corruption as contingent on the structure of corruption itself.

Looting, Scraping, and Collecting

I specifically contend that the unexplained variance in growth rates among relatively corrupt cases can be explained by qualitative variations in the structure of corruption. Given a significant level of corruption, I assert that an economy’s growth rate will be determined by (a) how corrupt officials extract “black monies,” (b) what they do with corrupt monies once they have them, and (c) how corruption affects public policy. Based on these parameters, I propose three alternative types of corruption: looting, rent-scraping, and dividend-collecting.

Looting, which corresponds to Stanislav Andreski’s notion of “kleptocracy” or what Robin Theobald terms “uninhibited plundering,” involves the systematic theft of public funds and property, as well as the extraction of bribes by public officials. Rent-scraping involves the conscious manipulation of macroeconomic parameters in a way that produces rents and the scraping off of these rents by public officials. Thus, for example, rent-scraping might involve the erection of a state-owned monopoly and diversion of its profits into the pockets of corrupt officials. Dividend-collecting, while it may involve a certain amount of rent-scraping, is characterized by transfers of a percentage of the profits earned by privately owned enterprises to government officials in return for policies and services that allow these enterprises to earn profits.
A second distinction between these three forms of corruption lies in the disposition of corrupt monies and their macroeconomic consequences. As Nye points out, given roughly equal amounts of corruption, it becomes critically important whether corrupt monies are retained at home or sent abroad and whether they are consumed or invested. If corrupt officials consume these monies (i.e., use them to import expensive cars, XO cognac, or other luxury goods) or export them to foreign banks for safekeeping, then the economy from which they are extracted will suffer a net loss of capital resources. This loss will, according to Mauro, reduce its investment capacity and, ceteris paribus, its growth potential. If, on the other hand, a significant portion of corrupt monies is invested at home (either directly or indirectly after being exported to foreign banks and then re-imported in the form of "foreign investment"), the resulting capital loss will not be absolute. True, there will probably be some leakage, either because officials consume a portion of their corrupt monies or as a result of decreased efficiency of investment. But in contrast to cases where monies are consumed or exported abroad never to return, the negative impact on capital resources will not be total. A priori, where corrupt monies are plowed back into the economy, growth will be more likely than where they are permanently siphoned out of the economy.

The probability of plowing back in should depend on (a) the form of corruption, (b) the relative profitability of domestic investment, and (c) corrupt officials' assumptions about the future. Because the predatory behavior associated with looting renders all monies, including corrupt monies, insecure, it creates incentives for corrupt officials either to consume their illegal incomes immediately or to send them abroad for safekeeping. Fear that the current regime may collapse as a consequence of uncontrolled corruption or that they might find themselves victims of sudden anticorruption drives creates additional incentives for corrupt officials to protect their monies by transferring them abroad. Predation and insecurity also create incentives for private capital flight, with the net result that looting is likely to trigger capital outflows and decrease investment.

Neither rent-scraping nor dividend-collecting necessarily results in the sort of insecure property rights that stimulates the outflow of capital from countries subject to looting. In the case of rent-scraping, the effects on capital flows are indeterminate and will depend largely on the extent to which officials use rents to siphon private capital into their hands and the impact of rent-scraping policies on growth rates. If rent-scraping pushes growth rates down and threatens the security of private capital, then capital flight may occur. If rent-scraping does not stifle growth or creates new investment incentives, capital may remain in the country. Economic policies designed primarily to create rents rather than stimulate economic growth and expansion, however, will probably lower the rate of return on capital investments, thereby both encouraging domestic investors to shift their funds overseas and discouraging capital inflows in the form of foreign investment. Investment is also likely to be concentrated on rent-producing activities, including the purchase of the right to collect rents, causing investment capital to flow into sectors characterized by rents and out of sectors where rents are absent. Even if
it does not trigger capital flight, therefore, rent-scraping is likely to result in a distorted allocation of capital.

In contrast to both looting and rent-scraping, dividend-collecting has the potential not only to discourage capital outflows, but actually to encourage corrupt officials to plow their money back into domestic capital markets. Still more critically, dividend-collecting gives corrupt officials incentives to implement economic policies that encourage economic expansion. Officials’ ability to extract funds from private enterprises depends on the profitability of these enterprises. If a private businessman cannot expect to obtain a profit from a loan or other favor brokered by a corrupt official, then he will have no incentive to offer the official a bribe. The greater the expected profit from the loan or favor, conversely, the bigger the bribe that a businessman should be willing to pay. This, in turn, creates incentives for corrupt officials to facilitate private profit-making, because the amount of monies they can rake off as “commissions” or kickbacks will increase as gross profits increase. Corrupt officials will also tend to maximize the total amount of corrupt dividends they collect by taking a long-term view. Economic growth not only creates long-term income streams and enlarges the economic pie, it also increases corrupt dividends. The dividend-collecting official, therefore, operates in an environment similar to that of a corporate officer. Just as the CEO whose compensation is linked to corporate profits has incentives to maximize profits, an official whose illegal compensation is linked to economic performance has incentives to promote growth.

Growth and profitability, in turn, create incentives for corrupt officials to keep their corrupt monies at home, because growth will create profitable investment opportunities, thus allowing them to obtain additional income from their corrupt monies. Assuming that corrupt monies are invested based on expected returns, they should flow into efficient and profitable sectors. Optimally, good policies will create an environment where foreign capital seeks domestic investment opportunities as well, thereby increasing total capital stock—and the pool of firms from which corrupt officials can solicit “contributions.” This combination, in turn, creates incentives for corrupt officials to shore up regime stability and to eschew predatory behavior that would scare off private and foreign investors.

A key difference between these types of corruption lies, therefore, in their impact on economic policy, which Osker Kurer argues is one of the most important determinants of growth. Specifically, looting and rent-scraping ought to lead to suboptimal economic policies, either as a result of the insecurity associated with looting or as a result of the conscious manipulation of economic policy to generate rents. Dividend-collecting, on the other hand, creates incentives for progrowth policies, because corrupt officials receive a share of the profits from growth.

The tripartite division of corruption into looting, rent-scraping, and dividend-collecting suggests that high-corruption, high-growth cases (the lower right-hand cell in table 1) should be characterized by dividend-collecting. High-corruption, low-growth cases (the lower left-hand cell in table 1) should be characterized by looting. Intermediate cases should be characterized by either rent-scraping or a combination of rent-scraping and other types of corruption.
Zaire, South Korea, and the Philippines illustrate how differences in the structure of corruption can be linked to differences in growth rates, with Zaire providing an example of the consequences of looting, South Korea the consequences of dividend-collecting, and the Philippines the consequences of rent-scraping. Because the key question is why some countries with high levels of corruption achieve high rates of growth while others do not, I have concentrated on relatively corrupt countries, selecting cases in which paramount political leaders were directly involved in corrupt activity on the grounds that "presidential graft" will have a more concentrated, and hence, consequential impact on economic performance than diffuse low-level corruption. In selecting cases I have held several things equal. First, I selected cases in which the countries were recipients of substantial foreign aid, thereby reducing the possibility that differences in growth were primarily owing to either an abundance or a dearth of outside capital. Second, I selected cases characterized by relatively authoritarian regimes, which are allegedly most likely to exhibit the negative effects of corruption. Third, I selected cases in which the regimes were aligned with the United States during the Cold War, thus avoiding comparisons across ideological boundaries. I begin by examining Zaire, then contrast Zaire with South Korea, and finally contrast both these cases with the Philippines, concentrating on the Marcos era. In each case study I focus on how corrupt monies are extracted from the economy, where they end up, and how corruption affects economic policy.

Zaire

As defined previously, looting involves the systematic theft of public resources by corrupt officials. In the case of Zaire, officials at all levels, from the office of the president on down, engaged in various forms of looting. President Mobutu, who assumed power in 1965, took the lead. Shortly after coming to power, he "privatized" a third of the national budget by transferring it out of the hands of the Ministry of Finance and placing under his direct control. At the same time, he began forcing the state-owned copper conglomerate Gecamines to hand over part of its revenues from mineral exports, often siphoning off a quarter of its gross receipts. Other monies came straight from the central bank, with Mobutu reportedly diverting between US $50 million and $70 million a year from the Bank of Zaire to private accounts in Switzerland and elsewhere in Europe. The president also transferred funds out of the Banque du Kinshasa, of which he was a principal owner.

Smuggling enabled officials, including Mobutu, to siphon additional monies out of public coffers. Rather than sell exports through official marketing boards and pay export taxes, plantation owners, including senior government officials, shipped products out of the country directly, often paying off customs inspectors to look the other way. Mobutu, who made himself a major landowner during the nationalization program, engaged in this and other forms of smuggling. For instance, he allegedly used Zairian Air Force planes to fly stocks of coffee, cobalt, and other commodities directly to markets in Europe and forced Gecamines to sell copper smuggled on his account and to deposit the proceeds in European banks.
Mobutu and his cronies took advantage of “nationalization” programs to force both domestic and foreign owners to give them a cut of local profits or to seize valuable properties.\(^{20}\)

Government payrolls were systematically looted. Senior officials and military officers padded the rolls and then pocketed the pay and allowances of phantom bureaucrats and soldiers, as well as stealing the pay of real bureaucrats and soldiers.\(^{21}\) By the mid-1970s, phantom civil servants alone reputedly cost the state US $23 million a year. Budgets, meanwhile, could be looted legally after Mobutu issued a decree authorizing officials to convert “surplus” funds into bonuses.\(^{22}\) Development funds and foreign loans provided yet another source of illegal income. Officials involved in major development projects, for example, built in a “corruption coefficient” that ensured that a percentage of all funds ended up in their pockets, with a share then handed over to their superiors.\(^{23}\) Bank officials received a cut from new loans. Often unpaid and always badly paid, low-level officials followed the lead of their superiors as best they could, using their control over the public authority, in the case of civil servants, or their access to weapons, in the case of soldiers, to extort bribes from the population. Officials at the Kinshasa airport, for example, were known to “relieve” travelers of any “excess” Zairian currency—and occasionally foreign currency—as they prepared to board their flights. Police officers arbitrarily detained civilians and held them hostage until their relatives paid bribes to secure their release, while soldiers and members of the gendarmes routinely set up roadblocks to shake down travelers.\(^{24}\)

Lack of reliable data makes it difficult to do more than guess at how much money Mobutu and other officials stole during the 1970s and 1980s. Crawford Young and Thomas Turner estimate that by the mid-1980s corrupt officials had diverted around US $5 billion worth of public funds into their own pockets, with President Mobutu grabbing the lion’s share.\(^{25}\) Estimates of his personal fortune put it at around $4 billion in 1983 and $6 billion in 1989. Several members of Mobutu’s family reportedly amassed fortunes in excess of $200 million.\(^{26}\)

Although it is also difficult to figure out what happened to these corruption monies, circumstantial evidence suggests that Mobutu stashed a considerable portion of what he stole in offshore banks and real estate.\(^{27}\) Additional funds were used to support a jet-set life-style. Later on, after economic collapse triggered popular unrest, Mobutu repatriated some of his funds, using them to buy support for his government. On balance, even though we cannot be sure exactly how Mobutu used the approximately US $100–200 million he siphoned off each year, it does seem clear that little if any was plowed back into the Zairian economy in the form of productive investment. Similarly, it does not appear that lower-level officials invested their corrupt monies domestically. Most apparently consumed their illegal incomes or invested them in a rapidly growing informal economy based on smuggling and speculation.

The economic impact of these multiple forms of corruption manifested itself in a deepening economic crisis that finally erupted in the late 1980s. At first, easy access to credit from international banks flush with petrodollars not only enabled the economy to absorb the negative effects of looting but actually created new opportunities for senior officials to steal public monies. But only up to a point. By
the mid-1970s problems had begun to surface. Mobutu's theft of a quarter of Gecamines's gross receipts, which accounted for 45 to 50 percent of total state revenues and 60 to 70 percent of Zaire's foreign exchange earnings in the 1970s, cut directly into the export income needed to finance Zaire's mounting debts. Combined with Mobutu's systematic looting of hard currency reserves, this situation forced the Bank of Zaire to default on the nation's foreign debts in 1974 and 1975. Bankruptcy was averted, however, by an influx of new "soft" credit from the World Bank, the International Monetary Fund, and the U.S. Agency for International Development. Thereafter the continued diversion of funds from the central bank necessitated repeated rescheduling of Zaire's debt.

The diversion of hard currency out of Gecamines and the Bank of Zaire not only undermined Zaire's creditworthiness, it also crippled Zaire's major export sector. Export earnings from copper were needed to maintain the capital equipment of the mines. By the early 1990s, many mines had either closed down or were operating at well below capacity owing to a lack of spare parts. As copper exports fell, export earnings decreased, thus exacerbating Zaire's current account and debt problems. Smuggling added to these problems by depriving the state of customs revenues and profits from state-export monopolies, leaving the state treasury chronically short of funds. Declining international copper prices in the early 1990s wreaked further damage on the export sector, cutting revenues still further.

At the same time that it robbed the economy of foreign exchange and soaked up state revenues, official corruption and predation undermined the formal economy. Faced with the constant threat of expropriation, demands for bribes, and a corrupt judicial system incapable of protecting property rights, private entrepreneurs had strong incentives to hide their wealth and capital by shifting it out of the formal economy and into the informal economy and thereby transforming vulnerable fixed investments into more easily concealed liquid assets. Corrupt officials faced similar incentives. Like the property of private citizens, their corrupt monies could only be secured either by sending them abroad for safekeeping or by hiding them in the informal economy. The net result was the gradual collapse of the formal sector and its replacement with a less efficient, but more robust, informal sector and a shift of capital away from vulnerable fixed investments. Official predation also crippled the agricultural sector as farmers found themselves confronted with low monopsony prices, illegal roadblocks that imposed ad hoc taxes on produce shipped to urban markets, and predatory local taxation that robbed them of whatever cash income they obtained from farming. In toto, such conditions created strong incentives for farmers to abandon commercial agriculture in favor of subsistence farming or to move into the cities in search of alternative employment, causing the production of exportable cash crops and even staple crops to fall dramatically.

Economic policy, not surprisingly, suffered. To the extent that the Mobutu regime sought to develop the economy, it looked to grandiose infrastructural projects such as the Inga Dam and the Inga-Shaba power line. Hypothetically, such projects would have laid the foundations for indigenous heavy industry based on Zaire's abundant mineral resources. In reality, these projects were not
only technologically inappropriate, but were designed largely to create new opportunities for looting. In the end, few of these projects proved successful, and most left the economy worse off as a result of the debts incurred from their financing. In the late 1980s, the government made an effort to encourage foreign investment, particular in the increasingly hard pressed mineral sector, but the effort came too late as the economy had already entered a period of sustained crisis and few foreign investors were willing to gamble on Zaire.

As the formal economy contracted and export earnings decreased, cutbacks in U.S. economic assistance and soft loans from international agencies finally triggered a major economic crisis in the early 1990s. No longer able to finance the ramshackle Zairian state with foreign aid, Mobutu turned to the printing press, with the almost immediate result that inflation skyrocketed and the local currency lost its value. Thereafter, the formal economy entered into a period of free fall, contracting 12 percent in 1991, 10 percent in 1992, 10 percent again in 1993, 15 percent in 1994, and then 10 percent in 1995. By 1995, gross national product (GNP) had fallen by almost 50 percent, shrinking from US $9.1 billion in 1991 to $4.6 billion in 1995.

To summarize, Zaire experienced sustained looting under Mobutu as corrupt officials, including the president, stole whatever funds they could get their hands on and then consumed or exported their corruption monies. Looting, in turn, robbed the economy of needed foreign exchange; crippled the mineral export sector; destroyed formal property rights, thereby crippling the formal economy and giving rise to a less efficient informal economy; and led farmers to abandon commercial agriculture in favor of subsistence farming. It is hardly surprising, therefore, that corruption eventually led to economic collapse. If anything, it is surprising that the economy did not succumb sooner.

South Korea

Although given a middling rank for corruption (a low of 4.24 in 1982 and a high of 6.50 in 1992), South Korea has in reality experienced widespread, high-level corruption ever since it became independent in 1945. Nevertheless, South Korea represents the antithesis of Zaire in terms of growth. While real per capital income in Zaire decreased 13.29 percent between 1960 and 1989, per capita income in South Korea increased nearly 600 percent. In the process, Korea’s gross domestic product (GDP) grew from roughly twice the size of Zaire’s in 1960, to over 33 times its size in 1992. Thus, if Zaire represents a confirming case for the argument that corruption lowers growth, South Korea represents a confounding case.

A comparison of corruption in Zaire and South Korea reveals a number of critical differences. As described earlier, Mobutu used his power to allocate a share of state budgetary funds for his discretionary use, to force the Bank of Zaire to transfer funds to his personal accounts, to grab a share of Gecamines’s profits, to seize plantations producing profitable export crops, and to pressure multinational corporations to give him a share of their local profits. He then exported or consumed most of these funds, thereby depriving the Zairian economy of hard
currency and investable capital. At the same time, he allowed corrupt officials to loot the state and economy to the best of their ability, so long, of course, as their looting did not interfere with Mobutu’s looting and they remained loyal to him.

Although his administration is often characterized as notoriously corrupt, South Korea’s first president Syngman Rhee does not seem to have abused his power for personal gain but rather relied on a system of “rent-farming” to maintain his grip on power. After the Korean War, he implemented an import-substitution industrialization (ISI) strategy, nationalized the banks, and seized property owned by the Japanese. Such policies created rent-scraping opportunities, which Rhee sold off to private and political interests in return for political and financial support. Rhee required rent-seekers and profiteers to finance the ruling Liberal Party. Rhee also stole from the treasury. But unlike Mobutu, he did it indirectly and primarily for political purposes. During the 1956 presidential election, for example, Rhee had the state-controlled banks issue 17 million won in loans to his business allies, who immediately kicked back the entire amount as “contributions” to the Liberal Party.34

After seizing power in a 1961 coup, Park Chung-hee cracked down on rent-scraping and profiteering, expropriating the wealth of some of Rhee’s cronies, jailing corrupt officials and politicians, and purging corrupt military officers. Park did not, however, stop extorting funds from the business sector. Quite the contrary, he actually increased the squeeze. He abandoned Rhee’s system of using import-substitution industrialization to support rent-farming and shifted over to a strategy based on export-oriented industrialization (EOI) and heavy industrial development. To finance concurrent export-oriented industrialization and heavy industrialization, Park renationalized the banks, pushed interest rates down below market levels, increased total capital stocks by borrowing heavily on international credit markets, and centralized control over the allocation of capital.35 Having gained control over the price and allocation of capital, Park then channeled cheap capital to selected sectors and firms based on their potential to contribute to development—and their willingness to contribute to Park’s Democratic Republican Party (DRP).

In place of Rhee’s system of rent-farming, Park instituted a system of forced donations. The system was straightforward. When Park needed “donations” he would call in the heads of the major trade associations, tell them how much he wanted, and then let them divvy up the total among their members. Companies receiving loans from either state-controlled banks or foreign banks had to donate a “commission” of between 10 and 15 percent to the DRP. Companies awarded government contracts had to kickback a similar percentage to the DRP. In the 1970s, Park added to the burden by forcing firms to contribute to a “national defense fund” designed to foster the development of South Korea’s military-industrial complex. Foreign companies were also expected to contribute. In the early 1960s, for example, Japanese firms reportedly donated US $66 million to help set up the DRP (and the Korean Central Intelligence Agency) and finance Park’s election as president. American firms handed over money as well.36

After Park’s assassination, Chun Doo-hwan and Roh Tae-woo continued the practice of forcing firms, including the major conglomerates known as the
chaebol, to fund the ruling party (renamed the Democratic Justice Party [DJP] after Chun took over) through a combination of commissions, kickbacks, and forced donations. Although uncertainty about how much money Park extorted makes exact comparisons difficult, it appears that Chun compelled the chaebol to contribute more than they had under Park. According to charges brought against him in 1995, Chun amassed a political slush fund totaling US $890 million and accepted bribes totaling $273.35 million during his seven years in power. Chun also forced companies and individuals to donate to various "charitable" organizations, including the Ilhae Foundation, controlled by members of his extended family. Chun's successor Roh Tae-woo followed the same path, accepting $654 million in "donations" during his five years in office, $396 million of which prosecutors charged was in the form of outright bribes, the rest being either "goodwill" money or under-the-table political contributions.

The Chun administration also witnessed the proliferation of corruption. Whereas Park kept a tight grip on "big graft" and vigorously prosecuted corruption among low-ranking officials, Chun and Roh allowed their lieutenants to rake off a percentage of the bribes and kickbacks they squeezed out of the chaebol. Even if South Korea never degenerated into a "racketeering state" as Martin Hart-Landsberg claims it did, it remains true that many senior officials in the Chun and Roh administrations—including a dozen ministers, a dozen senior military officers, half a dozen presidential advisers, the chief justice of the Supreme Court, the speaker of the National Assembly, the chief of the National Police Administration, the mayor of Seoul, and a host of other officials—were subsequently charged with bribery, corruption, and illegal land speculation. Petty graft was not uncommon either. Newspaper reporters, for example, expected payment for attending corporate press conferences or accompanying state officials on overseas trips, while bureaucrats routinely asked businessmen to pay for banquets and picnics.

Given that the South Korean economy grew rapidly even as corruption increased, it might be argued that corruption had less of an impact than it had on the Zairian economy because the amount skimmed off was smaller in relative terms. Differences in the percentage of GNP stolen, however, provide only a partial and incomplete explanation of the differences in growth, as becomes clear when one examines the impact of corruption on the flow of capital within each economy and the disposition of corrupt monies. The mechanisms of extraction were markedly different in the Zairian and Korean cases. Whereas Mobutu stole funds directly from the treasury, the central bank, and the state-owned copper monopoly, Park, Chun, and Roh did not loot. Even though the system of donations and kickbacks was undoubtedly coercive and firms that did not play along soon found themselves cut off at the financial knees, Park and his successors were in a sense selling economic opportunity. They were specifically selling access to cheap capital, including hard currency, without which the heavily leveraged chaebol could not survive. They were also selling access to profitable government contracts. Those seeking access to cheap capital and contracts had to pay twice, first by paying a commission when the capital was lent or a contract let and then by kicking back a share of their profits. In other words, whereas Mobutu's looting
diverted capital out of the economy, Park and his successors channeled capital into the private sector, albeit after skimming off a percentage.

Corrupt monies also ended up in radically different places in the South Korean and Zairian cases. Here we find two key differences between Zaire and South Korea. First, whereas Mobutu either consumed or exported a large share of his corrupt monies, dishonest officials in Korea kept them at home and, after consuming a portion of them, plowed them back into the economy. In part, the retention of funds reflected the fact that corruption was being used for political purposes. Park, for example, used forced donations primarily, if not exclusively, to fund the DRP, maintain its political hegemony, and thus ensure the implementation of his development strategy.

After Park, corruption no longer served purely political purposes and the amount of money that ended up in the pockets of individual leaders increased dramatically. Chun and Roh pocketed upward of a third of what they collected. Even then, the money stayed in South Korea. Both Chun and Park stashed their funds in various Korean banks and investment firms, using "false name" and "borrowed name" accounts, a common practice at the time. In Chun's case, for instance, investigators found US $132 million, half of what he allegedly stole, deposited in accounts at the Korea Investment Trust Company and most of the remainder invested in real estate ventures. After they arrested Roh, prosecutors managed to freeze $151 million held in secret bank accounts and $168 million in investments and seize $49 million in real estate holdings. Efforts to uncover "Swiss bank accounts" turned up little. If Chun and Roh salted some funds abroad, it appears that the amounts were relatively minor.

Second, whereas Mobutu's predatory corruption forced economic activity underground, thus crippling the formal economy and giving rise to an informal economy, corruption in Korea shifted funds out of formal capital markets and into informal capital markets but in a manner that allowed the informal economy to grow alongside the formal economy rather than at its expense. Corrupt monies flowed into the South Korean curb market, where combined with funds from small investors, they were lent out to small and medium firms, many of which were engaged in export production. Corrupt monies, therefore, contributed to the overall liquidity of the informal economy and ensured that firms denied access to cheap capital were nevertheless able to obtain credit.

In some ways, the role of corruption in shifting capital from the formal to the informal sector approximates the pattern described in the early functionalist literature. Corruption compensated for a credit system that depressed interest rates and limited access to capital. Those granted access to cheap capital, the chaebol, had to pay those who controlled it, corrupt officials, commissions and bribes. These commissions, in turn, raised the effective price of capital, thus reducing the gap between market-clearing interest rates and the artificially low official rate. Corrupt officials then shifted these funds over to the curb market, where administratively induced capital shortages resulted in much higher interest rates. Corruption in South Korea, therefore, involved a form of arbitrage in which corrupt officials took advantage of gaps between the artificially low price of capital in one economy and the artificially high price of capital in the other economy.
Whether the result was more efficient is difficult to tell. In theory, the system of depressing formal capital prices cut costs for capital-intensive infant industries, thus giving them an edge in international markets, while the concurrent inflation of curb market capital prices forced other firms to operate more efficiently. For our purposes though, it suffices to conclude that corruption and the accompanying system of split capital markets did not result in capital flight or capital export, as was the case in Zaire, and that corrupt monies were often channeled into productive investments.\(^{50}\)

Not all corrupt monies went into the curb market. A considerable portion helped fuel the rampant real estate speculation that threatened to create a "bubble economy" in the early 1990s. The bubble economy, however, helped raise growth rates, at least visibly and temporarily, thus creating an overtly positive relationship between corruption and growth. Although it may be true that in the long term excessive speculation has negative consequences, for our purposes it is enough to show that corrupt monies were plowed into the domestic economy rather than exported.

The implications of the way in which funds were extracted and allocated go beyond the question of capital exports versus domestic investment and extend into the realm of policy. Because the total profit from corruption in South Korea was the sum of monies extracted from the chaebol plus profits earned from curb market investments and land speculation, those involved in corruption had incentives to promote the growth of both the formal and the informal economies. Promoting growth in the formal sector, on the one hand, increased their opportunities to extract commissions and kickbacks and claim a share of the chaebols' profits in the form of "donations," "goodwill money," and so on. Promoting growth in the informal sector, on the other hand, increased the profitability of corrupt investments. Across-the-board growth, therefore, directly benefited corrupt officials, with the result that policymakers had direct, personal incentives to maintain a progrowth environment.

The contrast between Zaire and South Korea thus lies in both the form of corruption and its impact on capital stocks and public policy. Mobutu robbed the Zairian economy of the capital necessary to sustain itself. Park, Chun, and Roh skimmed off a percentage, but allowed capital to flow into the private sector. At the same time, whereas Mobutu put his money in Swiss banks, Chun and Roh invested it domestically, taking advantage of the curb market and real estate opportunities to earn handsome profits. Other Korean officials did the same with monies they extorted from the chaebol and other firms. Corrupt monies, therefore, stayed home and were available for investment. Meanwhile, because they profited from growth in both the formal and the informal sectors, corrupt officials had incentives to encourage growth in both sectors.

**The Philippines**

The effects of corruption in the Philippines during the Marcos era fall somewhere between the clearly harmful consequences of Mobutu's looting and the potentially beneficial dividend-collecting of South Korea. Like Mobutu,
Marcos occasional pilfered the treasury, skimming money from foreign aid and foreign loans, as well as setting up treasury-funded political slush funds. First Lady Imelda Marcos also embezzled funds from the Ministry of Human Settlement, which she headed. Until the last days of the regime, however, presidential looting remained relatively minor and partially invisible, at least when compared to other forms of corruption.

The lion’s share of Marcos’s ill-gotten gains came from a diverse and complex system of illegal extractions and businesses. Like his counterparts in South Korea, Marcos extracted funds from private businesses by demanding bribes and kickbacks from firms seeking government loans and contracts. Unlike his South Korean counterparts, however, who became indirectly involved in business only as portfolio investors, Marcos grabbed a direct proprietary stake in the economy by taking over profitable private firms through a complex series of dummy corporations, setting up monopolies controlled by his political allies, and steering government loans and contracts to enterprises controlled by his cronies, thus giving rise to what has been called “crony capitalism.”

Whereas the consequences of Mobutu’s corruption were reasonably straightforward (capital starvation and the displacement of the formal economy by the informal economy), the negative consequences of Marcos’s corruption, despite its extent, remained hidden for much of the time he held power. In point of fact, Business International gave the Philippines a middling (5.50) rank for corruption in 1982, and many foreign companies doing business there during the 1980s viewed corruption as a routine and not particularly onerous aspect of doing business in the Philippines. The Philippine economy, meanwhile, performed reasonably well, growing an average of 5 percent between 1970 and 1983, and it was not until the early 1980s that signs of economic distress began to appear.

The consequences remained partially invisible because like his counterparts in South Korea, Marcos adopted macroeconomic policies that appeared favorable to growth by continuing the shift away from ISI begun in the early 1960s. On the surface, he followed the advice of government technocrats and World Bank economists to emulate the “South Korean model.” But whereas the technocrats saw export-based development as the key to South Korea’s success, Marcos purportedly believed that the key lay in South Korea’s merger of political and economic interests. He thought that the Filipino economy should be restructured in a way that gave the president, his extended family, and key political allies a direct proprietary stake in the economy. By the mid-1970s, Marcos had in fact built up a sprawling business empire with interests in banking, sugar, coconuts, bananas, tobacco, automobiles, construction, steel, shipping, telecommunications, television, radio, newspapers, public utilities, tourism, and oil exploration, as well as extensive real estate holdings and shares in the subsidiaries of multinational corporations.

In theory, a direct stake in the economy gave the president incentives to promote economic development similar to those ascribed to South Korea’s leaders. Growth, after all, increased the profits and value of “Marcos, Inc.” Marcos was not, however, content to let market forces alone increase the value of
his portfolio. Instead, he used the extensive power wielded by the presidency after
the declaration of martial law in 1972 to create rents for those firms and sectors
in which he and his allies had a financial stake.

For example in the case of the coconut sector, which generated approximately
a quarter of Filipino export earnings in the 1970s, he imposed a levy on all sales
of coconuts and copra. The levy was collected by the Philippine Coconut
Authority, run by Marcos’s ally Eduardo Conjuangco. Using the levy as capital,
Conjuangco bought the First Union Bank, renamed it the United Coconut Planters
Bank (UCPB), and then began buying up coconut oil pressing mills. Seeking to
gain control over the most profitable mills, Marcos declared that price subsidies
that had formerly been paid directly to the mills would now be handed over to the
new Coconut Industry Investment Fund, which in turn mandated that only mills
owned by UCPB’s subsidiary, United Coconut Oil Mills (UNICOM), could
receive subsidy payments. Using its privileged access to subsidies as leverage,
UNICOM quickly establish a near monopoly over the export of coconuts and
copra. Thereafter, it created rents by depressing domestic purchase prices and
raking off the resulting gap between domestic and international prices.56

In the sugar industry the process was similar. In 1974, Marcos issued a decree
giving the Philippine Exchange Company (Philex), which was controlled by his
college friend Roberto Benidicto, a monopoly on sugar exports. The monopoly
was immediately profitable as Philex was able to keep domestic prices down
while international prices hit record highs during 1974 and remained high in
1975. After prices plummeted the following year, Philex, working with its parent
company, the Philippine National Bank, and the state-controlled Development
Bank of the Philippines, took advantage of the situation to take over heavily
leveraged mills, thereby extending its control over the purchase, processing, and
marketing of sugar. Two years later, Marcos granted Philex, reconstituted as the
Philippine Sugar Commission (Philsucom) and its trading arm the National Sugar
Trading Corporation (Nasutra), formal authority to regulate domestic prices.57

In the case of the cigarette industry, Marcos imposed a 100 percent import duty
on cigarette filters in 1975, but then granted the Philippine Tobacco Filters
Corporation (PTFC), which was owned by his ally Herminio Disini, a special
waiver that allowed it to pay only a 10 percent duty. PTFC quickly put its major
competitor, Filtrona Philippines, out of business, leaving PTFC with a monopoly
on the importation and sale of filters. PTFC then allied itself with Fortune
Tobacco, a major cigarette manufacturer owned by a Marcos ally, Lucio Tan. By
selling filters to Fortune Tobacco at prices well below those it charged other
cigarette manufactures, the Disini-Tan alliance quickly established a monopoly
over the manufacture of cigarettes.58

From these monopolies and his other business interests, Marcos allegedly
amassed rents, kickbacks, bribes, and “profits” worth between US $3 billion and
$6 billion.59 His wife’s family and other friends built up considerable fortunes as
well, with several reportedly becoming billionaires. Conjuangco, the “king of
coconuts,” for example, boasted that at its peak his billion-dollar business empire
accounted for a quarter of Philippine GNP.60
Unlike Mobutu, Marcos and his cronies plowed part of these corrupt monies back into the domestic economy. Even though the Aquino government never succeeded in uncovering all of his assets or came close to recovering the US $5-10 billion they initially claimed Marcos stole, by the mid-1990s they had sequestered corporate holdings worth $1.8 billion on the grounds that they belonging to either Marcos or members of his inner circle, plus real estate allegedly worth $300 million and deposits in various Filipino banks totaling around $100 million. Not all the shares sequestered belonged to Marcos, and skeptics have charged that the government inflated their value. Nevertheless, if we assumed that Marcos stole somewhere between $3 billion and $6 billion, then it would appear that about a third of his funds remained invested in the Filipino economy.

Marcos also exported a considerable amount of cash, laundering a minimum of a billion dollars through dummy corporations and banks in Hong Kong, Panama, Liechtenstein, the Cook Islands, the Cayman Islands, and elsewhere. Several hundred million dollars were then used to buy foreign real estate, primarily in New York. Around US $550 million was deposited in Swiss Bank accounts and $250 million in various Hong Kong banks. Several hundred million dollars may have also been salted away in gold or in other off-shore banks. Although, some of these funds may have returned to the Philippines as “foreign” investment, the bulk remained abroad. What happened to a considerable sum remains unclear. Some funds were used for political purposes. During the 1984 elections, for example, Marcos and his allies reportedly repatriated close to a billion dollars in an effort to buy the election. A considerable sum was squandered.

Even though we cannot be sure exactly where Marcos’s money went, we have enough data for comparative purposes. The evidence shows that unlike Mobutu, Marcos actively invested in the Filipino economy, seeking profits from stock ownership and real estate investments. Unlike his counterparts in South Korea, however, he hedged his bets, exporting a considerable amount of what he scraped off in the form of rents, kickbacks, and bribes. As a result, the Philippines economy was deprived of capital, but not starved, as was the case with the Zairian economy.

Marcos’s export of cash, however, was part of a larger pattern of debt-driven development and capital flight that progressively stripped the Philippines of capital. Throughout the 1970s, both official and private sources borrowed heavily, building up a total of over US $25 billion in debts by 1982, including $14 billion in short-term commercial debts, of which debts owed to commercial banks by major public sector enterprises accounted for over $9 billion. At the same time it was importing debt, the economy was also exporting capital, with capital flight averaging over a billion dollars annually between 1975 and 1982, the peak years being 1981, when an estimated $2.78 billion left the country; and 1982, when an additional $2.13 billion fled abroad. In conjunction with private capital flight, therefore, the export of corrupt monies ultimately left the economy incapable of servicing its external debt and thereby rendered a continuation of Marcos’s debt-driven development strategy impossible.
Marcos's rent-scraping also distorted the Filipino economy to a greater extent than dividend-collecting did the South Korea economy. The structure of corruption in South Korea was such that senior officials did not have a direct proprietary interest in any particular firm. Abstractly it made little difference to Chun or Roh which firms profited, so long as the economy as a whole performed well. If Daewoo, for instance, did not perform well and could not hand over its "donation," the shortfall could be made up by increasing Hyundai's "contribution." Similarly, in the case of investments on the curb market, it made little difference who borrowed funds because profits depended on prevailing interest rates. Marcos, on the other hand, had a proprietary interest in specific corporations, and his gains derived in part from his ability to create rents for "his companies." Thus, whereas South Korean leaders had incentives to promote across-the-board growth, Marcos's monetary interests gave him incentives to promote firm and sector-specific profit making.

Rent-scraping had additional structural consequences. Investment tended to flow in the direction of rent-producing monopolies and away from other sectors. Thus, serious capital shortages existed in individual sectors, including the export-oriented industrial sector, which remained dominated by labor-intensive export processing and failed to develop the backward linkages that were one of the keys to South Korea's ability to achieve sustained rapid industrial development. The stunting of the export-industrial sector, in turn, left the Filipino economy heavily dependent on exports of primary products such as coconuts, copra, palm oil, sugar, pineapples, and bananas, products for which the terms of trade had begun to decline by the 1970s. The systematic suppression of domestic prices for these products by the export monopolies also led to cutbacks in production; underinvestment in production; and, ultimately, declining productivity and rising costs. Thus, rent-scraping not only progressively weakened the primary-product export sector, but also hampered structural change. Finally, access to rents and easy credit led many of the firms controlled by Marcos and his cronies to make poor investments, leading to a piling up of bad corporate debt as the economy began to slow down during the early 1980s.

Ultimately, the economy stumbled from 1983 to 1985, when decreased export earnings and capital flight led to current account deficits and then a debt crisis. Concurrently, inflationary pressures mounted rapidly as Marcos turned to the printing press to cover government deficits and to fund his faltering political machine. Soon thereafter, having skirted the negative consequences of corruption, rent-scraping, and capital flight for several years, the economy finally slipped into a deep recession.

Conclusion

The three cases considered herein bear out the general thrust of the argument that the method by which corrupt monies are extracted and their disposition, rather than purely quantitative levels of corruption, will affect growth. In the case of Zaire, Mobutu systematically looted the economy, making it impossible for existing productive activities to sustain themselves. When the capital-starved
export sector began to collapse and rampant corruption rendered property rights insecure, the formal economy gave way to an informal economy, creating visible drops in economic activity recorded in statistics such as those compiled by the World Bank. Rather than starve the economy of capital, corruption in South Korea reallocated a percentage from formal capital markets to the curb market. As a result, the chaebol continued to enjoy access to artificially cheap capital, while other firms were also afforded access to capital, thus allowing for broad-based growth. In the case of the Philippines, Marcos's desire to build up an economy with "Marcos, Inc." as its major shareholder stimulated growth in the short term but in the long run led to the structural problems that culminated in economic crisis.

Although the South Korean case suggests that high levels of corruption may coexist with high rates of growth, this does not mean that high levels of corruption promote growth. Corruption is obviously only one of a number of factors that affect growth. To the extent that dividend-collecting encourages public officials to adopt pro-growth policies, this form of corruption may help provide incentives to "do the right thing" in cases where policymakers might otherwise pursue strategies that could directly or indirectly hurt the economy. Thus, for dividend-collecting to yield "positive" benefits, the basic obstacles to development must lie in the area of regime policy and the regime's a priori preferences.

The efficacy of dividend-collecting will also depend on whether other forms of corruption can be kept under control. In most cases, rent-scraping and looting occur alongside dividend-collecting, with dividend-collecting tending to be the preserve of high-level officials and looting being more common among low-level officials. If low-level looting is not effectively controlled and senior leaders fail to establish a de facto monopoly over corruption, then uncontrolled looting may render property rights insecure and hence undermine the economic environment necessary for investment and growth, with the result that "bad corruption" will hamper growth and squeeze out "good corruption." Similarly, because the dividing line between dividend-collecting and rent-seeking is often a fine one, there is always a high probability that dividend-collecting will degenerate into rent-seeking. Thus, although it is possible to have both high corruption and high growth, the odds would seem to suggest that high levels of corruption will only coexist with high rates of growth in exceptional circumstances.

Because dividend-collecting is vulnerable to both crowding out by looting and degeneration into rent-seeking, it becomes critically important to explain why a regime would evolve toward this particular type of corruption and not toward others. Although it is difficult to make reliable inferences based on a single case, the South Korean case at least suggests that elite choice is critical. But even in that case the decision to eschew Rhee's system of rent-farming in favor of a system of dividend-collecting was taken in conjunction with the construction of a "developmentalist state," that is, a state consciously structured for the promotion of high-speed growth. Without the developmentalist state, it is highly unlikely that the South Korean economy would have grown at the rate it did, even if Park and his successors did not succumb to the temptation to engage in rent-scraping or looting.
In fact, in the South Korean case dividend-collecting corruption operated as part of a larger prodevelopment strategy and did so in a symbiotic manner, wherein dividend-collecting allowed the leadership to siphon off a share of the growth generated by the developmental state and thereby obtain the political resources necessary to finance one-party dominance and after the assassination of Park, line their own pockets. The adoption of what might be thought of as an ideology of development, moreover, also imposed a certain amount of discipline on the leadership because it created barriers to a shift from developmentalism plus dividend-collecting to rent-scraping or simply looting. Finally, it was the developmentalist state and its ability to control the allocation of scarce resources and opportunities that gave economic actors incentives to acquiesce to dividend-collecting. Because we also find elements of dividend-collecting in other developmentalist states such as Japan, where major economic actors subsidized the Liberal Democratic Party and thereby allowed political leadership to cash in on the gains from high-speed growth; and Taiwan, where the Kuomintang’s ownership of major financial institutions allows it to legally profit from high growth, it seems reasonable at this juncture to posit that dividend-collecting may well be an integral part of a developmentalist strategy or a logical political consequence of developmentalism.

Although research into the relationship between developmentalism and dividend-collecting is clearly necessary, even now it seems possible to conclude that the assumption that corruption systematically lowers growth is not entirely justified. In cases where government elites are engaged in looting, corruption is likely to undermine growth and development. In cases where governmental power is used to distort the economy in order to create rents that elites can then siphon off, it is also likely to result in structural inefficiencies and irrationalities that will in the long term undermine development. Yet, where corruption is linked to a strategy that consciously seeks to stimulate growth, the contradiction between high-speed growth and the use of public office for particularistic gain need not be antagonistic. Thus, the impact of corruption on growth is likely to be a joint function of incidence and structure, not incidence alone as argued by Mauro. This suggests in turn that future comparative studies of the economic consequences of corruption ought to stop trying to create catch-all, universalistic definitions of corruption and its consequences and focus instead on identifying different structures of corruption and explaining the impact of particular forms of corruption.

NOTES


6. Ranked on a scale of zero to ten, with zero equal to no corruption and ten equal to endemic corruption, China ranked 7.57, Cameroon 7.54, and Venezuela 7.50. Here I have inverted Mauro and Transparency International’s corruption scores. In these analyses, a high score represented a high level of honesty and a low score a high level of corruption. Because I am interested in talking about the relationship between growth and corruption in countries ranked as highly corrupt, it is rather more intuitive if a high score represents a high level of corruption and a low score a low level of corruption.

7. Singapore received a rating of 1.20 while Vietnam received a rating of 7.78 and Thailand a rating of 6.67.

8. The “excessive” number of slow-growth honest cases, for example, can be explained in large part by the fact that this group contains the advanced industrial states of Western Europe and North America, which tend to have much lower rates of growth than economies in the developing world.


10. Defined herein as administratively induced profits greater than those obtainable in a competitive market.


19. MacCaffey, Entrepreneurs and Parasites, pp. 112–14; U.S. Congress, Zaire, pp. 6, 12, and 33; and Young and Turner, Rise and Decline of the Zairian State, p. 181.


Corruption and Growth in Zaire, South Korea, and the Philippines

27. Young and Turner, Rise and Decline of the Zairian State, p. 179
32. Robert Summers and Alan Heston, “Penn World Table, Mark 4,” provided on disk in Review of Income and Wealth 34 (March 1988).
35. Park also earned money by providing South Korean forces for the “allied” war effort in South Vietnam and exporting construction workers to the Persian Gulf.
38. Ilhae was closed down in 1988 after the arrest and conviction of Chun’s elder brother on charges of embezzlement, the conviction of his younger brother on charges he stole US $10 million from the state-sponsored Saemaul Movement, and the forced resignation of Chun’s wife from her position as head of the Association to Sponsor the New Generation (Saesedae). At that time, Chun admitted to pocketing $3 million while in office and keeping $20 million in Democratic Justice Party (DJP) funds after he left office. Chun initially escaped prosecution by entering a Buddhist monastery but was subsequently brought to trial after Roh left office in 1992. See Los Angeles Times, 6 September 1995, 13 November 1988, 6 September 1988; Reuters, 8 August 1988, and 14 October 1988.
39. Reuters, 6 November 1995. South Korean legal and political practice makes a distinction between monies handed over without an expectation of an immediate favor, but rather as a means of establishing rapport between two parties; and bribes or kickbacks, where there is an expectation that the receiver will provide some tangible favor to the giver. Goodwill money, known as chonji or “rice cakes,” is not considered improper, but rather simply a traditional way of doing business and thus a form of “honest graft.” Bribes and kickbacks, on the other hand, are considered “dishonest graft.”
41. Based on data gathered from the Lexis/Nexis database.
42. Chicago Tribune, 15 April 1990; and Clifford, Troubled Tiger, p. 84.
43. Averaged out over the length of their administrations, Chun skimmed off around US $180 million a year, while Roh skimmed off about $130 million.
44. According to one of Clifford’s informants, “Park had [the chaebol] trembling with fear” and was quite willing to crush those that refused to cooperate “like insects.” See Clifford, Troubled Tiger, p. 107.
45. Chun claimed that out of the US $890 million he took in, he spent $20 million a year subsidizing the DJP (since, according to Chun, legal fund raising covered only a third of the party’s costs, even in nonelection years), used $88 million to buy support for the party, turned $200 million over to Roh Tae-woo when Chun left office in 1988, and then kept $127 million. Prosecutors, however, believe that he took over $250 million. Roh admitted that he kept $242 million of the $654 million he collected. See Reuters, 14 April 1996 and 15 April 1996.
46. A government crackdown on borrowed and false name accounts in 1993 revealed a total of 2.75 trillion won (US $3.40 billion), in false name accounts and an additional 24–30 trillion won ($29.63–37.04 million) in borrowed name accounts. Not all of the money, of course, belongs to corrupt officials. Ordinary Koreans frequently used false name accounts to evade taxes. See Reuters, 13 October 1993.
47. Either Roh was an extremely shrewd investor who managed to increase his original US $242 million over 50 percent in a matter of a few short years, or he took more money than he admitted.
Estimates of the size of the informal sector vary, with some putting it as high as over 40 percent of nominal gross domestic product (GDP), to a middling range of 20 percent, and a low of around 10 percent (Reuters, 26 March 1990, 12 August 1995, 8 January 1991, and 2 August 1989). Although estimates vary, a comparison of the growth rates of the informal and formal economies shows a pattern of parallel rather than divergent growth.

Bayley, for example, suggested that one of the beneficial functions of corruption was that it would tend to shift capital out of sectors where access to easy credit on soft, state-subsidized terms would artificially lower the price of capital and into sectors where administratively created capital shortages had raised the price of capital. See David H. Bayley, "The Effects of Corruption in a Developing Nation," in Heidenheimer, Political Corruption, p. 529.

Ironically, President Kim Young-sam's 1993 decision to ban false and borrowed name accounts and to crack down on the curb market almost triggered a financial panic. See Far Eastern Economic Review, 12 September 93.

Belinda A. Aquino, Politics of Plunder: The Philippines under Marcos (Quezon City: Great Books Trading and the University of the Philippines College of Public Administration, 1987), pp. 5 and 66.


Aquino, Politics of Plunder, appendices; and Seagrave, Marcos Dynasty, p. 289.


Hawes, Philippine State, chap. 3.

Aquino, Politics of Plunder, p. 45.

Although the most commonly cited figures range between US $5 billion and $10 billion, after a decade of searching, the Presidential Commission on Good Government (PCGG) concluded that Marcos probably stole about $3 billion. See Asiaweek, 13 October 1995 and 10 February 1995.

As of 1991, the government had recovered only US $461 million (South China Morning Post, 25 May 1991). An additional $550 million was later recovered from Swiss bank accounts, although litigation kept it tied up in escrow for years.

Los Angeles Times, 1 January 1991.


Aquino, Politics of Plunder, pp. 32–34.

Deutsche Presse Agentur, 7 September 1995; South China Morning Post, 25 May 1991; and Los Angeles Times, 24 November 1990.

Aquino, Politics of Plunder, p. 73.


