Inside corruption in poor countries

How can poverty remain pervasive in African, Asian and Latin American countries that have received billions in aid? Corruption, says Edward Miguel, author of "Economic Gangsters." He talks with Kai Ryssdal about it.

TEXT OF INTERVIEW

KAI RYSSDAL: The Davos World Economic Forum went to the desert this weekend. Prominent business and political types met in Dubai for the first Summit on the Global Agenda. The financial crisis was top of mind, as were cautions not to forget about poorer countries in the search for a solution. Berkeley professor Edward Miguel studies the link between poverty and corruption in developing countries, and he writes about it in new book, "Economic Gangsters." When we spoke, I asked him for an example.

EDWARD MIGUEL: We're thinking of folks like African rebel warlords who steal and smuggle diamonds to buy arms for their militia groups. We're thinking of Asian dictators who run networks of crony capitalism. Very often economic gangsters, despite being amoral and violent and using bribery and theft to get their way, very often their motivations can be understood using the rational framework of economic theory. And that's what we do in the book. And once you understand their behavior better, you can start thinking about solutions, ways of fighting economic gangsters.

RYSSDAL: You studied South Korea in the 1960s and Kenya in the 1960s right? And both of those had corruption, they had violence and they had poverty and dictators. Yet South Korea, as we know now, has a tremendous economy and Kenya doesn't.

MIGUEL: Yeah, that's right. So, in the 1960s you would be hard-pressed to know where to place your bets in terms of which of those two countries would do better. Kenya had richer agricultural land; Korea had better human resources, more educated population and the like. One of the differences between the countries is, some of the politically connected economic gangsters in South Korea used their influence to build infrastructure and create productive assets in the economy. In Kenya, government leaders have really done the opposite. They've stolen aid money and shipped it abroad. They've been involved in corrupt bank scandals, etc. Another big difference, I think, between some of the Asian examples and the African examples are people who aren't politically connected in countries like Korea or Indonesia have still been able to be successful entrepreneurs and run successful businesses. In many African countries, a lack of political connections is really the kiss of death for your business.

RYSSDAL: So, how do you fix it? Do you throw more international aid money at the problem? Do you get NGOs involved? I mean there has to be some output of this right?

MIGUEL: There's a raging debate right now about what should be done in the world of foreign aid. To the extent that foreign aid is largely stolen by corrupt leaders or destroyed by civil wars, it's not going to have much of an effect on economic development. So, in thinking about solutions going forward, one thing that we think is incredibly important is for policy makers to run networks of crony capitalism. Very often economic gangsters, despite being amoral and violent and using bribery and theft to get their way, very often their motivations can be understood using the rational framework of economic theory. And that's what we do in the book. And once you understand their behavior better, you can start thinking about solutions, ways of fighting economic gangsters.

RYSSDAL: Well, then, how are you going to arrange things so that it works?

MIGUEL: There are new approaches that development economists are using these days to try to get more rigorous evidence, really following in the tradition of medical trials. Something very similar could be done with development policy, foreign aid policy and anti-corruption policies. Certain towns or cities could serve as a pilot program say for a new anti-corruption reform and the rest of the country could serve as a control group. When we compare that treatment group to the control group, again we can figure out what types of policies are most effective. It's really a new movement but it's one that's starting to take off, and we think it's critically important that policy experimentation and rigorous evidence be brought to the table if we're really going to deal with economic gangsters.


MIGUEL: Thanks a lot, Kai.

As the above poster noted, corruption occurs when the loaner gets a vested interest--or has political intents. The IMF and World Bank were steered at times, into supporting anti-communist dictators. Its not hard, when you can make more money off of a project that will need another infusion of cash, upon which you earn interest. But then, sometimes its just the projects invested in. Sanitation costs less than clean water projects, and works better b/c clean water is clean until it hits dirty kitchens. But, no politician wants to take photos in front of clean toilets--a faucet with clean running water looks better. and, of course, there is more interest to be made on the bigger project...which ends up denying water to irrigation projects further down the river. Which will create a new need for a new loan for agriculture somewhere down the road...when that government is needed. Otherwise, we could just sell them food, paid for with loans or foreign aid, perhaps?
Unfortunately Kenya like most African countries is plagued by corruption with the aid of the complacency of western banks. I am not at all anti-western, but, when an African president amasses billions in multiple accounts, someone has to ask serious question! Unfortunately for Kenya, the solution is not as clear cut as Mr. Miguel made out to be, the solution has to come from people standing up against corruption and thatâ€™s not so easy to do when finding your next meal is the priority. This is compounded by the academic drain that most of African countries are going through. Those who have left like me become too comfortable making the thought of going back to the chaos is overwhelming. So what is the solution?