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Is corruption in China “out of control”? A comparison with the US in historical perspective [☆]

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ABSTRACT

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This paper compares corruption in China over the past 15 years with corruption in the US between 1870 and 1930, periods that are roughly comparable in terms of real income per capita. Corruption indicators for both countries and both periods are constructed by tracking corruption news in prominent US newspapers. Several robustness checks confirm the reliability of the constructed corruption indices for both countries. The comparison indicates that corruption in the US in the early 1870s, when its real income per capita was about \$2800 (in 2005 dollars), was 7–9 times higher than China’s corruption level in 1996, the corresponding year in terms of income per capita. By the time the US reached \$7500 in 1928, approximately equivalent to China’s real income per capita in 2009, corruption was similar in both countries. The findings imply that, while corruption in China is an issue that merits attention, it is not at alarmingly high levels, compared to the US historical experience. In addition, the paper articulates a theoretical framework within which the relationship between corruption and economic development can be understood. The model is used to explain the “life-cycle” of corruption in the development process—rising at the early stages of development, and declining after modernization has taken place. Hence, as China continues its development process, corruption will likely decline. *Journal of Comparative Economics* xxx (xx) (2013) xxx–xxx. George Mason University, Fairfax, VA 22030, United States.

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1. Introduction

Corruption in China has been the subject of intense debate and discussion among Chinese scholars, researchers, pundits, and commentators since at least the early 1980s. Many have argued that the corruption situation in China has actually worsened considerably since the mid 1980s (Manion, 2004a,b; Wedeman, 2005; Wedeman, 2012). Despite the introduction of several anti-corruption campaigns, corruption has managed to flourish and seemingly become even more virulent over time.

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Undoubtedly, rampant and uncontrolled corruption is not an enviable feature for any country. High levels of corruption have been associated with undesirable social outcomes such as lower income levels (Rose-Ackerman, 1999), lower economic growth (Mauro, 1995; Li et al., 2000), less foreign investment (Wei, 2000; Javorcik and Wei, 2009), more social unrest (Mansion, 2004a), and so on. Hence, from a social welfare perspective, it is important to contain, and even reduce, the level of corruption.

But although it may be socially desirable to reduce corruption, it does not necessarily follow that the optimal level of corruption is zero. Fighting corruption is not costless. In fact, as Rose-Ackerman (1999) argues, the cost of reducing corruption to zero would be prohibitively high. Therefore, it is inevitable that there will be some amount of corruption in equilibrium. Naturally, this brings up the issue of how much corruption should China, as a society, be willing to tolerate. Is China's current level of corruption, for example, "too high"? If so, then, how low should it be? To answer these questions it is necessary to put in a proper context the current level of corruption in China. Unfortunately, the theoretical literature of corruption and development has not provided an answer regarding the "optimal" amount of corruption for a given level of development. Most of this literature focuses on indentifying conditions under which corruption may arise, or investigate how corruption affects economic growth.¹ Therefore, we must rely on an empirically-based method for developing this context.

There is a strand of the literature which suggests that corruption goes through a "life-cycle" in the development process of a nation—rising first in the early stages of development, and subsequently decline, as the country becomes more developed (Huntington, 1968; Bardhan, 1997; Laffont, 2008). If this is indeed the case, knowing where China lies in this inverted U-shaped spectrum could be useful for providing a sense of how "bad" the corruption situation in China is, relative to its current stage of development and to the development experience of other countries.

In this paper, I compare China's corruption experience with that of the US in historical perspective. There are several reasons why performing this comparison deserves research attention. First, the US development experience is often used as a model for other countries to emulate. Despite several setbacks, the US has, after all, experienced one of the most enviable development trajectories in history, with a sustained real per capita growth rate of approximately 1.7% since 1790, and about 1.85% since 1900.² In addition, as I elaborate further below, the US experienced a tremendous amount of corruption during the early stages of development, and, by reasonable measures, was subsequently able to contain it, as its development process continued. Important lessons could be drawn from this experience.

Second, although the empirical relationship between corruption and democracy seems to be non-linear, some suggest that, unless China adopts far-reaching democratic reforms, its corruption situation may spin out of control (Johnston and Hao, 1995). Of course, we cannot use the US experience to evaluate the potential effect that the introduction of democracy, per se, may have on corruption because the US always had a democratic system. Nonetheless, comparing the corruption trajectory for both countries can help evaluate whether democracy makes a difference.

The idea of comparing China's corruption experience with that of the US in historical perspective is not new.³ But research that discusses this comparison tends to be limited to either introspective evidence or intuitive argumentation. Thus far, the literature has not offered a measurable and quantifiable comparison. There are, of course, significant challenges that one must confront in such a study. Undoubtedly, the most important is reliable and consistent data on corruption. Validating the life-cycle theory of corruption or just comparing the corruption experience of China with the US requires, at the very least, long-run data on income and corruption. Although reliable data on income may not be an issue because these data are available, there are no reliable long-run measures of corruption. Of course, there are organizations that provide information regarding the level of corruption across countries and over time. But the time span that this data covers is far too short to gain a sense of the "life-cycle" hypothesis of corruption. Typically, data on corruption is available on a consistent basis for a large set of countries only since the mid 1980s. But if one wants to study the historical experience of the currently developed countries, it is necessary to obtain data on corruption that would span at least a century, if not more.

Nonetheless, these challenges have not discouraged researchers from attempting to gain insights into this issue. Based on impressionistic evidence and introspection, Huntington (1968) and Theobald (1990), for example, argue that corruption in the US peaked sometime in the 19th century, and that corruption in the UK peaked sometime in the 18th century, precisely at their take-off stages of economic development and growth. Using evidence from newspaper reports, Goldin and Glaeser (2006) are able to corroborate Huntington's (1968) and Theobald (1990)'s perceptions. In particular, the time series they developed based on newspaper counts on articles about corruption suggests that corruption in the US peaked sometime between 1840 and 1875.

In this paper, I use the US historical experience to develop a context against which we can evaluate China's current level of corruption. In particular, following the Goldin and Glaeser (2006) methodology, I first document the dynamics of corruption in the US using newspaper evidence from 1870 to 1930. Next, I develop a similar time series evidence for China for the 1990–2011 period, using prominent US newspapers as a source.⁴ Finally, I match both series at particular points in time when the level of real income per capita for these two countries was roughly similar. This matching process enables us to compare and contrast corruption curves for both countries at similar stages of development.

¹ See, for example, Ehrlich and Lui (1999), Barreto (2000), and Blackburn et al. (2010).

² Growth is estimated using real GDP per capita data from 1790 (or 1900) to 2010 (source: www.measuringworth.com).

³ See, for example, Wedeman (2012) and Zhang (2012).

⁴ See data section for more details.

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