

Governance and Corruption: Can Islamic Societies and the West Learn from Each Other?

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Abstract

This paper compares the Islamic and the western social scientific perspectives on corruption. It is argued that the emerging shift in social scientific thought in viewing corruption from “grease that oils the economic wheel” to a “menace that undermines economic growth” has brought rational understanding of the phenomenon much closer to Islamic doctrine. Where they differ is with respect to remedial action. The western approach focuses on governance and designing appropriate systems and institutions that gear information and incentives toward minimizing opportunities and enticement for corruption. In short, it emphasizes constraints external to the individual.

By comparison, Islam seeks to go beyond such constraints, and also instill in believers a clear “second-order” preference for non-corrupt behavior. It recommends developing a firm belief in transcendent accountability, stresses character building through practicing moral virtues and shunning vices. In essence, much of the restraint comes from within through a moral renovation. It is our contention that both emphases are important in eliminating corruption and that the followers of Islam and the West can learn from one another.

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Introduction

Corruption is a deep-rooted age-old phenomenon that exists in innumerable forms, knows no cultural boundaries, operates in the private as well as the public sector, applies to rich countries and poor, and defies a comprehensive definition. Given this universality, it is perhaps surprising that the issue has been approached almost exclusively from a western social science perspective. In view of the adverse impact of corruption on social fabric, governance, financial architecture, and economic development, the attention that it has received in the literature on Islamic economics is meagre. This is particularly puzzling since religio-ethical norms constitute the defining point for the discourse on Islamic economics. It is the purpose of this paper to present an Islamic perspective on corruption insofar as its definition, causes, and remedies are concerned, and to compare and contrast this perspective with the understanding reached within the western social scientific paradigm. But first we begin with a brief survey of the definition of corruption, changing views on the significance of corruption and its causes.

What Is Corruption?

In common usage, the word *corruption* is associated with a range of acts such as bribery, extortion, buying influence, nepotism, favoritism, fraud and embezzlement. Nevertheless, it is at root evidence of a moral failure. The word *corruption* comes from the Latin verb *rumpere*, to break.¹ By implication, then, something is broken – presumably a prevailing ethical, moral, social, or administrative code of conduct. In this respect, corruption can be thought of as the betrayal and abuse of trust for private benefit.²

A number of corollaries follow. First, there can be no clear distinction between perpetrator and victim. If ethics are good for you, then corruption must be corrosive to the perpetrator, along with society as a whole. Second, there is necessarily a cultural dimension. Such actions as officials demanding bribes are considered corrupt in virtually all societies, whereas attitudes to gift-giving and cronyism, for example, vary from country to country.³ Third, the definition makes clear that corruption takes place not only by public officials but also by those in a position of trust in private enterprises or non-profit organizations. Indeed, most government corruption involves a private sector entity.

Arnold J. Heidenheimer classifies the analysis of corruption into three basic models: public-office-centered, public-interest-centered, and market-

centered.⁴ The key focus of public-office-centered concepts of corruption is on the “behaviour of public officials which deviates from accepted norms in order to serve private ends.”⁵ J. S. Nye defines corruption as:

... behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence. This includes such behaviour as bribery (use of a reward to pervert the judgement of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private-regarding uses).⁶

Tanzi prefers to define corruption in the negative: “the intentional noncompliance with arm’s length relationship aimed at deriving some advantage from this behaviour for oneself or for related individuals.”⁷ We return to this definition later.

The essence of public-interest-centered definitions is on the damage done to public interest by corruption. As Rogow and Laswell point out, “violations of the common interest for special advantage are corrupt.”⁸ Friedrich argues that:

... corruption can be said to exist whenever a power-holder who is charged with doing certain things i.e., who is a responsible functionary or office-holder, is by monetary or other rewards not legally provided for, induced to take actions which favour whoever provides the rewards and thereby does damage to the public and its interests.⁹

The market-centered definitions are an attempt to bypass the ethical violation in corrupt behavior and instead use social choice or public choice methods to analyze corruption. For example, Leff argues that:

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 greater extent than would otherwise be the case.¹⁰

The result, according to Tilman, is that corruption involves a shift from the bureaucratically determined, centrally allocated, mandatory pricing model to a model that is akin to a free market in which clients risk sanctions to pay bureaucrats higher than mandatory prices to assure desired benefits.¹¹

This type of approach led to attempts to classify the character or seriousness of the act. Alatas¹² distinguishes between *transactive corruption*, that is mutually arranged, agreed, and advantageous, and *extortive corrup-*

tion that involves some kind of compulsion. *Investive corruption* is not linked directly to an immediate transaction but is instead an investment for obtaining favors in the future. *Nepotistic corruption* involves unjustified favored treatment for friends and relatives, while *autogenic corruption* refers to benefits obtained from pre-knowledge of policy outcomes and *supportive corruption* protects and strengthens existing corruption.

Another distinction also has been made between *administrative* or *bureaucratic corruption* and *political corruption*, the latter occurring when politicians betray the electorate by selling their votes to pressure groups while undertaking regulatory or budgetary legislation. Tanzi associates the words *petty* with bureaucratic corruption and *grand* with political corruption, although he accepts that a certain ambiguity exists between corruption and rent seeking, at least in some eyes.¹³ As Heidenheimer asks: "Which norms are the ones that will be utilised to distinguish corrupt from noncorrupt acts?"¹⁴

Philip takes up Heidenheimer's question and canvasses three main candidates for attributing meaning to the normative content of *corruption*: "public opinion, legal norms, and standards derived from modern western democratic systems."¹⁵ All have problems. Public opinion may be colored by partisan considerations and be both culturally dependent and time-specific, allowing no consistency across countries and through time. Legal standards share these faults, along with the perennial one of the difference between the letter and spirit of the law where an action may not be prohibited but is nonetheless offensive to public expectations. This factor is accentuated by country-to-country differences in constitutional and judicial precedents.

We now move on to evaluate the standards incorporated in western democratic systems as a potential basis for attributing a widely accepted normative content to the terms *public office* and *public interest*. Western researchers tend to view the democratic system as the culmination of an evolution whereby a variety of pre-modern monarchical, patrimonial, and feudal political arrangements that confused the boundaries between the private and the public interest succumbed in favor of a system that draws a sharper boundary between the two. Whereas in earlier centuries, public offices had been objects of sale, trade and exchange, during the nineteenth century, such practices gave way to bureaucratic structures across Europe, wherein employees were obliged to commit to a set of norms and rules that inhibited potential conflicts of interest. Public or political office came to be viewed as a relationship distinguishable from all other kinds of arrange-

ments and exchange such as absolute monarchy, patrimonial domination, and market exchange.¹⁶

Philip views this development as a conflict resolution apparatus to avoid potential disorder originating from factional strife or from the powers of the Leviathan itself:

... political corruption involves substituting rule in the interests of an individual or group for those publicly endorsed practices which effect an ordered resolution to conflicting individual or group interests.¹⁷

Substituting these rules for individual or group gains erodes the legitimacy and the capacity of the public domain to resolve conflict. One may add, in such a case, the state itself becomes a source of conflict rather than a mechanism for conflict resolution. Nevertheless, this conception of the state as a conflict resolution mechanism offers the most fruitful ground for attributing normative content to the concept of corruption.

Is Corruption a Serious Matter?

Many analysts have echoed Leys: “What is the problem with corruption?”¹⁸ It has long been argued, for example, that corruption can have a beneficial effect, especially in oiling a malfunctioning or developing economic system.¹⁹ Leys envisaged that, in bad conditions, bribery may be socially and not just privately beneficial. Huntington considered that “in terms of economic growth the only thing worse than a society with a rigid, overcentralised, dishonest bureaucracy is one with a rigid, overcentralised, honest bureaucracy.”²⁰

Nowadays, there is a greater recognition that these short-term advantages of accepting the existence of corruption are acquired at a longer-term cost, since corruption distorts the economic system and erodes faith in democracy and the rule of law. Rather than being the “grease” that lubricates the “squeaky wheels” of a rigid bureaucracy, corruption in fact fuels the growth of excessive and arbitrary regulations which can then be exploited for corrupt purposes.²¹

For the purpose of analysis, we call the first conception the benign view of corruption (corruption as oil) and the second corruption as malignant (corruption as sand in the machine). Over time, an emerging body of theoretical and empirical research on the phenomenon has shifted the balance in favor of the latter view. Table 1 (see p. 25) provides a summary of these studies and also compares the two views on the impact of corruption upon a number of aspects of political and economic development.

The starting point for the benign view is Leff.²² He argued that the view that corruption is harmful is based on an idealized conception of government – the “government is good” notion. In reality, many governments can be indifferent, outright hostile, or lukewarm to the process of economic development owing to other priorities (military, ideological, political), fears of a challenge emerging to established centers of political and economic power in case of progress, in-expertise, and inefficiency. In these circumstances, corruption can act as an extra-legal institution to facilitate business, encourage government officials to business-friendly action, and mitigate governmental policy errors.

Huntington²³ saw it playing three roles. First, it could foster and strengthen political parties and political participation, thereby reducing the threat of some groups being thoroughly alienated from the society. He argued that: “The nineteenth century experience of England and the United States is one long lesson in the use of public funds and public office to build party organization.” This is required because: “In a modernizing polity the weaker and less accepted the political parties, the greater the likelihood of corruption.” Second, it may dilute resistance against policy reform coming from organized pressure groups. Third, it could potentially overcome “traditional laws and bureaucratic regulations which hamper economic expansion.” Historically, in Europe and the United States, “a great deal of corruption in dispensing licences, loans or minion and land concessions” assisted in the emergence of an entrepreneurial class, restrained sectarian warfare, and facilitated economic growth.²⁴

On the alternative view, corruption sustains a vicious cycle of rule substitution by politicians, over-regulation and systemic procrastination by bureaucrats, and wasteful use of talents in rent seeking. Thus Mancur Olson,²⁵ in his monumental study *The Rise and Decline of Nations* advanced the thesis that differences in macroeconomic performance within and across nations could be explained by the degree of prevalence and influence exerted by collusive, cartelistic, and restrictive business, trade, and professional associations in creating or preserving favourable redistributive monopoly positions for their members. The higher the influence of interest groups, the more focussed the political process is on redistributing existing income at the cost of efficiency losses and the less successful it is in promoting efficiency enhancing, pro-growth policies that benefit a wider spectrum of the citizenry.

Dennis Mueller²⁶ collates a number of cross-country studies substantiating Olson’s thesis. In terms of specific impacts of direct corruption as distinct from rent-seeking, Nye argued that it reduced administrative capacity, exac-

erbated ethnic dissent, undermined government legitimacy, and induced political and social instability.²⁷

Also, it provided incentives for distortion in public spending – obviously officials receiving payments to help an enterprise win a bid for a public investment project have a vested interest in inflating the scale of the project so that they get larger commissions. Gunnar Myrdal, using examples from South Asia, argued that “speed money” caused intentional systemic slow-down to attract more bribes, while “official misconduct among politicians and administrators, and the concomitant spread of unlawful practices among businessmen and the general public” had been the cause of frequent political instability.²⁸ Myrdal cites Mende:

Probably no other symptom of Pakistani public life has contributed more to the demoralization of the “common man” than corruption. Illicit practices had reached such proportions that “their effect is likely to wipe out whatever benefits new economic projects might have secured for him.”²⁹

More recently, researchers such as Becker and Stigler,³⁰ Banfield,³¹ Rose-Ackerman,^{32,33} and Klitgaard^{34,35} have employed principal-agent models to examine ways in which honesty can be induced through incentives or persuasion. Rose-Ackerman develops a series of models to demonstrate widespread opportunities for legislative and administrative corruption when politicians, bureaucrats, and economic markets players come into contact.³⁶ Shleifer and Vishny translate insights derived from microeconomic theory on commodity taxation and market structure to demonstrate the harmful consequences of corruption on economic development under different network arrangements (structure of government institutions and political process).³⁷

The Islamic Perspective on Corruption

There is fairly general acceptance that societal values and concepts of social justice shape moral conduct.^{38,39} For many people, religion is an important influence, but for Muslims it is an overriding consideration. Muslims account for about one-fifth of the world’s population, and form a majority of the population in over 50 countries. All Muslims are bound by a common faith – Islam. What is the Islamic position on corruption?

One who professes the faith of Islam is a Muslim. Muslims cannot, in good faith, compartmentalize their behavior into religious and secular dimensions, and their actions are always bound by Islamic law or the Shari`a. Islamic law thus embodies an encompassing set of duties and

practices including morals and behavior in all facets of life, public and private. The primary sources of the Shari`a are the Qur`an (the revealed word of God) and the Sunna (source of information concerning the practices of Prophet Muhammad and his Companions based on thousands of statements about what was said or done, and found in the literature of the *hadith*).

In the Qur`an and Sunna, corruption refers to a broad range of behavioral digressions that threaten the social, economic and ecological balance (see 11:85; 28:4, 77, 83; 29:28-30; 30:41; 89:12). Such acts are explained at various places in the Qur`an in plain language, in terms of being just or unjust, with reference to their detrimental impact on social organization and/or in relation to the universally respected standards of moral virtue. A distinct advantage of such articulation is that it strikes a harmony among all the various approaches to ethics and caters for people coming from a diverse knowledge base and inclinations.

In the limited sense of understanding corruption in terms of the abuse of public office for private gain, there is a family of closely related concepts to which Shari`a draws attention. Corruption is depicted to stem from the abuse of judicial power, administrative power of any kind, political authority, and financial prowess. For example, Qur`an 2:188 prohibits rulers, judges, decision-makers, and parties to a conflict from facilitating the unjustified appropriation of the property of others or public property by obtaining a favorable ruling in exchange for bribery. It calls such behavior as *batil* (false or deceptive) on the one hand and *ithm* (criminal, sinful, inappropriate) on the other hand.

Condemned are those in authority who spread corruption and mischief (*fasad*) on land by conspiring racial divisions among people, bestowing benefits on some and oppressing others (28:4; 89:10-12). Also the rich are advised to seek with their wealth lawful bounties and not engage in actions that spread corruption (*fasad*) on land (28:77). The Arabic word *fasad*, we should note, translates into rotteness, spoiledness, corruption, decay, decomposition, putrefaction, depravity, wickedness, viciousness, iniquity, and pervertedness.⁴⁰ In the English translations of the Qur`an, Pickthal¹ frequently uses the word *corruption* in lieu of *fasad* and its derivatives while Abdullah Yusuf Ali² frequently uses *mischief*.

Muslims put considerable store on events that took place in the early years of Islam, during the life of the Prophet and the early caliphs (rulers, successors, vicegerents). These years provide illustrations of what is considered to be appropriate behavior:

- The Sunna confirms the above prohibition through a general sanction that censures both the givers and the receivers of *rashwa*, the Arabic word for bribery, corruption, dishonesty. To illustrate, *Sunan Abi Dawud*: Book 24, Number 3573: Narrated Abdullah ibn Amr ibn al-As: “The Apostle of Allah (peace be upon him) cursed the one who offers bribe as well as one who accepts bribe.” [Yusuf Qardawi brings the same hadith through *Musnad Ahmad*, *Tirimidhi*, and *Ibn Hibban* adding the word *fi al-hukm* that means in matters of governance, decision-making, rules. He brings another *hadith* through *Musnad al-Hakim* that adds condemnation of the mediator between the briber and the bribed].⁴³ Other *ahadith* (plural of *hadith*) capture the concept of corruption through reproaching the abuse of trust placed in officials by the state through acts such as accepting gifts, outright theft of public funds, and undermining rules in exchange for bribes, on recommendation or due to family/tribal considerations. Finally, people in general are prohibited from making recommendations in exchange for gifts as such behavior falls under *rashwa*.
- The Prophet declined many who sought a public appointment on the grounds that such positions are a trust and given only to those possessing appropriate attributes (merit). Disapproving a similar request, he said: “Authority is a trust, and on the Day of Judgment it is a cause of humiliation and repentance except for one who fulfils its obligations and (properly) discharges the duties attendant thereon” (*Sahih Muslim*).
- The second caliph Umar ibn al-Khattab used to record the possessions of his officials at the time of their appointment and confiscated partly or wholly whatsoever they added while in office on suspicion of benefiting from public appointment.⁴⁴
- Umar ibn al-Khattab instructed one of his commanders to adjust the value of gifts offered to him – that he had dispatched to the central treasury – against the tax liability of the people, because taking anything more than the stipulated *jizya* (poll tax) was unjust.⁴⁵
- Caliph Umar ibn Abd al-Aziz ruled: “I am of the view that the ruler should not trade. It is (also) not lawful for the officer to trade in the area of his office ... because when he involves himself in trade he inadvertently misuses his office in his interest and to the detriment of others, even if he does not like to do so.”⁴⁶
- Any doubts that remain for the believer after such contextual elaboration are to be resolved at the personal level through conscientious reflection (*ijtihad*).

These examples suggest that corruption is understood in Islam in terms of the abuse of trust through the misuse of judicial powers, administrative powers, riches, and political authority. As compared to western thought, there is probably less controversy in Islam as to the meanings of the concept. This is due to at least four reasons listed below.

- First, the value basis in Islam is drawn not with reference to the existing realities on the ground – that may reflect compromises on many accounts – but from eternal principles given in the Shari`a.
- Second, many forms of corruption are explained with concrete examples in Shari`a leaving little room for ambiguity.
- Third, Islam perceives a harmony among different conceptions of ethics. By way of illustration, the Law-Giver in Islam, can be conceived of as akin to Adam Smith's⁴⁷ "Impartial Spectator" having perfect foresight for whom the utilitarian, virtue-based, legal, and justice-based interpretations of ethics are not in conflict but in fundamental sympathy and coherence with each other. All corrupt acts undermine communal harmony (in effect, the maximum good for the highest number) in one way or other and are, therefore, undesirable from a utilitarian perspective, lacking in virtue from a moral perspective, unjust in relation to the principles that safeguard rendering to every one his/her due, and culpable from a legal standpoint. Insofar as matters requiring *ijtihad* are concerned, such coherence is expected to emerge with time as human knowledge grows.
- Fourth, much of the clarity stems from classical Islam's firm commitment to private property, rule-based governance, transparency, and somewhat limited role for the state.

Against this backdrop, arguments and conclusions advanced by Philip insofar as their external form, are in perfect harmony with the spirit of the Islamic position on the issue.⁴⁸ There is, however, one caveat. From an Islamic perspective, the body of rules itself has to be sourced from the Shari`a or rationally derived from it (*ijtihad*); denying this premise is itself tantamount to a grave form of corruption. To understand why it is so, we need to touch upon the Islamic conception of human nature and historical interaction.

As far as human nature is concerned, Islam does not admit the doctrine of Original Sin. According to it, all human beings are created in the best mold (Qur'an 30:30; 75:2; 95:4) i.e., inclined to truth, modesty, and compassion, and fearful of ultimate accountability on the Day of Judgment (22:35; 42:18; 70:27). Over time, however, a person is led away from this

cast owing to conditioning by parents and society, i.e., from social interaction. This results in divisions in faith, racism, egoism, jealousy, miserliness, and deceit. In brief, a state of mind fixated with realizing self – or group – interest interpreted within the limited context of the here and now, and at the neglect of or without being cognizant of the full repercussions of one’s actions that unfold over a much broader horizon of time and space. This is the sense in which man, who is by nature inclined to truth when brought up and immersed in a situational or social context, becomes weak (4:28) in rising above these constraints and discerning absolute truth and justice.

Under these circumstances, he supports and promotes social values and conceptions of justice based on conjecture alone (4:27; 6:115-16). Such notions are aimed at securing gains for a limited number of people and gratifying tastes, desires, and greed in a way that is injurious in general to mankind. Such notions cannot become the basis for a social order that can deliver sustained peace. The role of a chain of Prophets, beginning with the first man and culminating in Muhammad, has been to convey, live, implement, and leave behind a blueprint of social order that is free from such defects and within ready access to those willing among mankind.

From the Qur’anic perspective, given that human beings possess intellect (2:31; 75:2; 91:7-9; 31:20), free will (6:107; 10:99; 18:29, 81:27-29), and a minimum blueprint for a peaceful social order, they are responsible for the conditions that they create on Earth (8:53, 13:11). And it gives a number of examples from history whereby collective behavior digressing from the revealed path resulted in social, economic, and ecological imbalances and disasters (6:6, 65). From this standpoint, the recent shift in the western social sciences literature to viewing corruption, even in its limited manifestation, as a menace rather than a blessing and as a problem rather than a solution, matches well with the Islamic position.

The Islamic Attack on Corruption

How is such corrupt behavior to be remedied? The vast Islamic intellectual heritage suggests that education, law, and administrative reform are the three key pillars in the Islamic fight against corruption. We consider each in turn.

Education: We stated above that moral conduct is a manifestation of societal values and concepts of social justice. By inference, the starting point for curing corruption lies in reforming social values, grounding them in appropriate concepts of social justice, and linking them with a broader worldview. This is the very basis of the Islamic moral education program.

The Islamic worldview aspires to a firm belief in the all-powerful, all-knowledgeable God. Human beings are created by Him with a purpose – to serve as vicegerents on Earth – and for an appointed term, at the end of which they face full accountability in terms of the beliefs, values, and actions that they undertake.

The benchmarking is to be done with reference to standards revealed in the Qur'an and personified in Prophet Muhammad (the Sunna). For sure, compliance pleases God but He, the Almighty, is beyond any intrinsic need for seeking such pleasures. Rather, it is human beings themselves who are in need of such standards (5:66). Revelation elaborates a path for human beings – a catalogue of *huquq al-'ibad* (people's rights on each other) and a blueprint of socioeconomic laws – so that individuals, communities, and nations can coexist in peace.

What does this path involve? Here we introduce a distinction – valuable for later reference – owing to Harry Frankfurt⁹ between first-order preferences (i.e., “basic” desires) and second-order preferences (i.e., desires directed at their desires), since people are distinguished by the criterion that they have higher-order attitudes, namely attitudes toward attitudes and, especially, attitudes toward their own attitudes. Moreover, desires can be evaluated not only from the viewpoint of their practical realizability, but according to standards that represent something other than simply desiring.

In this sense, then, learning of such path means comprehending higher-order beliefs, values, virtues, and conceptions of justice that support true equality of and peace among human beings. It means practicing freedom from the servitude of “lower-order” (first-order) tastes, desires, passions, and enticements in most cases not by abject denial but by admittance to the extent and through the channels permitted by higher-order norms elaborated in the Shari`a; developing consciousness of ends and means, rights and obligations, and externalities of individual or community action all defined as right or wrong with reference to the objectives of mankind's creation and being; seeking and strengthening faith not only in worship and reflection but also in every action undertaken in life; seeking God not in escape but by participating “righteously” in every action that defines and constitutes our being; viewing all action through the lenses of an origin–destiny framework in which human beings are unable to escape accountability; and internalizing:

Behold, two (guardian angels) appointed to learn (man's doings) learn (and note them), one sitting on the right and one on the left. Not a word does one utter but there is a sentinel by him, ready (to note it). (50:17-18)

Summing up, education in Islam is aimed at instilling in believers a broad agreement on and a clear second-order preference for a catalogue of virtues/justice so as to arbitrate among raw instincts and competing first-order desires, and self-actualize obedience to the Shari`a. However, while shortcomings and failures at the personal level are recognized and a hope for the infinite mercy of God is always within reach, actions that have a negative bearing on communal relationship are to be externally regulated through the law of the Shari`a.

Law and Incentives: The core law in Islam is God-given. As Khurshid Ahmad⁵⁰ states, it focuses on making vicegerency of man a practical proposal by protecting the building blocks of social life, viz., faith, intellect, life, family, and property. There is a revealed obligatory punishment (*hadd*) for crimes undermining each of these foundation stones. Such punishment is in consonant with the model of human nature depicted in the Qur`an. For punishment of all crimes other than *hudud* (plural of *hadd*), including corruption, the Sunna provides guidance and there is scope for enacting discretionary punishment (*ta`zir*) by rulers, legislative assemblies, and judges.

However, it is advised that at maximum, punishment should be commensurate with the misdeed not exceed it (El-Awa⁵¹). In this respect birth, rank, and ethnicity offer no protection. Islam teaches the equality of people, irrespective of race and tribes. The only criterion of merit is goodness and piety – color, birth or rank do not matter. As Lewis points: “The principle that the ruler is not above the law, but subject to the law no less than the humblest of his underlings, is central to the classical Islamic teaching on the state.”⁵² More succinctly, in Islam:

... the relationship between the Caliph and his subjects is contractual. The word *bay`ah* denoting ... a contract by which the subjects undertook to obey and the Caliph in return undertook to perform certain duties specified by the jurists. If a Caliph failed in those duties – and Islamic history shows that this was by no means a purely abstract point – he could, subject to certain conditions, be removed from office.⁵³

Pointing to a distinct feature of the Islamic law, Gellner contends: “A socially and politically transcendent standard of rectitude was ever accessible, beyond the reach of manipulation by political authority ... if it sinned against it.”⁵⁴

In a way, external restraint (law in Islam) could be considered as a mechanism to actualise at least partially the second-order norms discussed above. Thus, in a society where law is based on the Shari`a, insofar as cer-

tain goods and services are prohibited by law, these will not be openly available in the market. Within this framework, many day-to-day dealing in goods and services will reflect first-order preferences as modified by budget constraints.

However, it will be depiction of only a partial truth if external deterrence is taken as the only incentive mechanism in Islam. To the contrary, there is a complementary and powerful “spiritual” incentive structure that focuses on risks and rewards both here and in the hereafter. In the here, the corrupt will feel dissatisfaction and chaos amidst aplenty and the virtuous will experience a peace (*salam*) that transcends material acquisitions. In the hereafter, there is the rendering of accountability and justice, and the Shari`a exerts that the most excellent trade is that a believer gives himself to the commandments of God in the here, in return for blessings in the hereafter.

Administration: Gellner observes: “... a certain kind of separation of powers was built into Muslim society from the very start, or very nearly from the start.”⁵⁵ While Gellner is talking about a separation of executive and legislature, another distinction between executive and judicial also evolved quite early in the history of the Islamic nation. By rooting legislation in a handful of transcendent rules that can be expanded only through analogy (*qiyas*), the very structure of Islamic law has throughout the history aspired a class of jurists that were not necessarily under the control of the state. In fact, the relationship throughout the years has been a very difficult one to manage. Gellner notes that the political history of Islam displays a periodic emergence of an alliance between jurists and commoners against the authority, if the latter “sinned” against the law.⁵⁶ Babear illustrates the other side of the coin by elucidating the role that traditional jurists have played in learning and spreading moral education, and by acting as a force of moderation through mediating between rulers and masses.⁵⁷

In summary, the following inferences can be drawn about corruption and bribery on the basis of Islamic doctrine:

- From an Islamic perspective, “lying” and “corruption” are as clearly understood as “truth” and “honesty.” They are part of a universally understood parcel of vice and virtue ingrained in human conscience, linguistic differences notwithstanding.
- The terms used for corruption, *fasad*, *batil*, *rashwa*, are powerfully negative ones, indicating severe approbation.
- There is a helpful distinction between corruption (*fasad*) as a broad concept encompassing unfaithfulness, dishonesty, betrayal of trust, misuse, iniquity, and deceit in private and public dealings and bribery

(*rashwa*) as private gain from public office or seeking recompense for rendering duties ordinarily considered as non-compensatory. These duties reflect on our being and existence as a citizen and as a part of a community such as providing character recommendations on demand. Gifts for public officials are termed as *rashwa* and are also prohibited.

- At the moral plane, there is “zero tolerance” for bribery in Islam; and Islam rejects any idea that bribery serves as “the grease that oils the economic wheels.”
- There is no scope for legalising corruption in the name of commissions, gifts, donations, advances, soft loans, loan write-offs, and whatsoever. The touchstone of differentiation is if these flows would accrue had the suspect stayed at home i.e., had no public position or profile.
- Corruption is to be tackled by moral education designed to inculcate in believers a clear “second-order” preference for virtuous behavior, reinforced by legal structures and administrative systems reflecting and supporting this stance.

The Islamic Situation Today

In early Islamic society, egalitarianism and a high degree of transparency in the early caliphate saw public funds handled with great caution and care, with military expeditions in particular scrutinized for potential corruption. The following report is indicative. Citing Al-Tabari, *Tarikh al-Rusul wa al-Mulk*, Lewis records, Umar the second Caliph asked Salman: “Am I a king or a caliph?” and Salman answered: “If you have levied from the lands of the Muslims one dirham, or more, or less, and applied it unlawfully, you are a king, not a caliph. And Umar wept.”⁵⁸

What is the position today? A wide variety of cross-country indicators are used by the World Bank to shed light on the various dimensions of governance. Several hundred such indicators are used in a study covering 1997-98. (See Kaufman, Kraay, and Zoido-Lobaton,^{59,60} for details.) Primarily measured in qualitative units, these indicators are produced by a range of organizations (commercial-risk-rating agencies, multilateral organizations, think tanks, and other nongovernmental organizations). They include the perspectives of diverse observers (experts, businesses, and private citizens) and cover a wide range of topics (political stability and the business climate, the efficacy of public service provision, experiences with corruption, and so on).

Table 2 summarizes these World Bank data base statistics for Muslim countries (OIC member countries) vis-à-vis the total sample in terms of the number of countries falling into different quartiles, for a number of governance measures. The measures chosen relate to control of corruption, voice and accountability, rule of law, government effectiveness, and the regulatory framework. While some OIC countries such as Kuwait, Malaysia, Qatar fall into the highest quartile on the corruption index (indicative of a strong control of corruption), a large number fall into the first and second quartiles. Much the same is the case with the other measures. Does this suggest a failure of the Islamic approach to corruption?

Table 2: Performance Indicators of Governance for OIC Member Countries,¹ 1997-1998

Quartile	Control of Corruption	Accountability and Voice	Rule of Law	Government Effectiveness	Regulatory Framework
First	23 ² (39) ³	26 ² (44) ³	23 ² (42) ³	19 ² (39) ³	22 ² (42) ³
Second	11 (39)	21 (43)	12 (41)	12 (39)	17 (41)
Third	14 (38)	8 (43)	11 (42)	16 (39)	13 (41)
Fourth	3 (39)	1 (43)	7 (41)	4 (39)	1 (42)
Total	51 (155)	56 (173)	53 (166)	51 (156)	53 (166)

Notes:

1. Member countries of the Organization of Islamic Countries. There are 56 OIC Member States.⁶¹ Not all performance measures exist for all countries.
2. Number of OIC members in each quartile.
3. Number of countries in total sample, and falling into each quartile, shown in brackets.

Source: Extracted from World Bank Composite Indicator Data Set

The first thing to be said is that while countries are called OIC members, we would prefer to call them “Muslim” rather than “Islamic,” in the sense that they differ in the extent to which the government is committed to Islamic values. Lip service to religion is by no means confined to the West. Also, in some cases the commercial code and business practices were inherited from colonial days or largely imported. It would not be appropriate to lay corruption in Muslim countries at the door of Islam any more than one would attribute to Christianity the murder and violence in the United States, car thefts in Britain, or housebreaking in Australia.

Second, the data used for measuring governance are largely qualitative and for some indices, for example those related to corruption, only qualitative data are generally available. It can be argued that perceptions of the quality of governance – as reflected in these qualitative ratings – matter at

least as much as objective data (from official statistics) and sometimes more accurately reflect actual outcomes. For instance, property rights are legally guaranteed in virtually all countries. Yet effective enforcement of those rights by the courts varies widely. When enterprises perceive that courts do not enforce these rights, they will look for other, less efficient and perhaps extra-legal, ways of enforcing contracts. Nevertheless, acceptance of what constitutes corrupt behavior is culture-specific and does vary from country to country. Let us consider again Tanzi's definition of corruption:

Here we shall simply define it as the intentional noncompliance with the principle of "arm's-length relationship," which states that personal or family relationships ought not to play a role in economic decisions by private economic agents or government officials. This principle is essential for the efficient functioning of markets. ... Another element is that the official who breaks the rule derives some recognizable benefit for himself, his family, his friends, his tribe or party, or some other relevant group.⁶²

To many, the notion that one should treat kith and kin in the same way as strangers would seem not just bizarre but a denial of self. Some scrupulous westerners might "bend over backwards" to avoid any suspicion of nepotism. To do so in some other societies would bring shame and dishonor. In them, it is a duty to assist a relative. Not so in Islam, however, a believer may point out. In particular, Qur'an 4:135 and 5:8 caution against the twin extremes of refraining from just decisions because of blood relations or hatred. In response, a westerner may pick some leaves from history and ask how long after Muhammad did it take for Islamic societies to relapse, on matters of governance, to the conditions depicted by the Arab adage: "Me against my brother, my brother and I against our cousin, the family against the world."

Did pre-Islamic Arab cultural values overtake Islam's universal values or did the failure result from the Muslims' inability to actualize their preferred set of values via rationally designed institutions, lately even for such simple tasks as education in Islamic ethics. No one would expect a religion to cast in stone governmental institutions for all time, if only because material conditions of human existence are always in a state of flux, notwithstanding that the temptations for wealth, power, fame, and the opposite sex remain unchanged and that provides a need for steady principles. But that does not betray the conclusion that in societies where existing moral and social codes impel one to keep family and fraternal members, the idea that the arm's length principle will be applied against strong kinship ties is wanting.

These differences in values carry over into remedial policies. In some domains, corruption can be reduced by increasing penalties on those who

engage in it; by increasing the openness of the rules, regulations, and laws, and by strengthening controls on civil servants. However, in other contexts, such as more traditional family-oriented cultures, these options are not likely, by themselves, to lead to enduring results. The values of the western nuclear family are not universal ones, nor should they necessarily be so.⁶³ In other areas of social policy (suicide, personal crime, etc.) the absence of “family values” in modern states is often seen as a matter of regret. The reality is that all individuals live personal lives in families, kin groups, or territorial communities that, to varying degrees, define their boundaries through ethnicity, religion or spiritual commitments, and these condition ethical standards and moral norms.⁶⁴

This leads us to the third, and most important, point. Islam and the West differ markedly in their recommended approaches to remedying corruption. Most western researchers consider that corruption, at its core, is a problem of bad governance. Therefore, suggestions for remedial action focus on ways and means to improve governance. This requires action on multiple fronts: the broadest classification may entail an agenda for international reform and a program for domestic reforms espoused for example, in World Bank,⁶⁵ Rose-Ackerman,⁶⁶ Turner and Hulme,⁶⁷ and OECD.⁶⁸

Recommendations for domestic reforms can be categorized under four heads: limit concentration of powers, constrain discretionary powers, strengthen institutions, and enhance and enforce monitoring and accountability. The first requires a workable and balanced separation of powers on the one hand, among the legislature, the executive, and the judicial arms of the government, and on the other hand, among central, state, and local authorities. Each level of government is in turn enjoined to have appropriate checks and balances. Discretionary power of both politicians and bureaucrats provide opportunities for corruption. In a way, a properly functioning system incorporating a separation of powers also protects against abuse of discretionary powers.

The components of administrative reform program aim at bringing civil service as close as is possible to the Weberian model. This means targeting a bureaucratic structure that is politically neutral, professionally competent, dedicated, team-spirited, and functionally sound. Limiting concentration of powers and strengthening institutions contributes significantly to actualizing accountability. Nevertheless, it also requires complementary help from the deterrence side. In terms of economic analysis, given that human beings are rational agents, their criminal behavior takes at least two factors into account: probability of detection and punishment and the penalty in case of

prosecution,⁶⁹ and both detection and enforcement priorities feature in the agenda. Table 3 summarizes the tools available to facilitate accountability.

Table 3: Choosing the Tools for Accountability.

Ends To facilitate / enhance	Means Tools
Legitimacy of decision-makers	Constitutions; electoral systems for government and decision-making bodies; bureaucratic systems of representative; royal prerogative; legislation; letters of appointment; formal delegation of authority; standing orders.
Moral Conduct	Societal values; concepts of social justice and public interest; professional values; training/induction programs.
Responsiveness	Public participation and consultation; debates; advisory bodies; public meetings; freedom of speech.
Openness	Parliamentary question times; public information services; freedom of information laws; public hearings; green and white papers; annual reports.
Optimal resource utilization	Budgets; financial procedures; rules of virement; parliamentary public accounts committees; auditing; public enquiries and participation; formal planning systems.
Improving efficiency and effectiveness	Information systems; value for money audits; setting objectives and standards; program guidelines; appraisal; feedback from public.

Source: M R Hayllar⁷⁰ modified by Hulme and Turner.⁷¹

By contrast, in Islam corruption is seen in its core as a moral problem, and as such one which involves second-order preferences that are at risk of being modified over time. As Nerlich⁷² argues: “It is a necessary, though not a sufficient condition of any moral self-appraisal that one have second-order desires, and of one’s moral effectiveness that one can carry through some course of second-order action.” Translated into the Islamic agenda, if there can be a moral regeneration and a commitment to social justice and the public interest, all else should follow. If it does not, the outcome may reflect one or more of two things: (1) weakness of internal restraint – internalization of Islamic values and cognisance of strict accountability – due to a falling apart of traditional education system; (2) weakness of external restraints due to sticking neither with the Shari`a nor with developments in secular law and institutions. What is then needed is to rediscover the faith, values, egalitarianism and transparency of the early Islamic state and the early caliphate.

Islam and the West: Assessing the Differences

There would thus appear to be some basic philosophical differences between these two approaches in terms of the moral dimension. We now seek to explore some of the differences and offer some perspective on them.

To western eyes, a moral regeneration which features so prominently (if not exclusively) in the Islamic agenda is a necessary first step, but certainly not a sufficient condition for an attack on corruption. The moral dimension, they would say, has been tried and found wanting. By and large, it corresponds most closely to what is now called the first of three stages of anticorruption measures.⁷³ Fighting corruption, it is argued, is like fighting a contagious disease. These three stages are: raising public awareness, preventing its spread by promoting preventive measures, and attacking the disease by inoculation or surgery. Applied to corruption, in the first stage, consciousness is raised about the existence and harms of corruption. Corruption is attributed to bad attitudes to authority and probity, and a pernicious political culture, and a cure sought in terms of a moral renovation and a cultural change. Such was the remedy sought by Leys 40 years ago when he argued the need for a nucleus of “puritans” applying pressure for a code of ethics.⁷⁴

That did not work then and the implication in western literature is that it will not work now. As Klitgaard observes: “the problem with this device is practical. We know little about how to engineer a moral renovation, so we must also work at other levels.”⁷⁵ Following the medical analogy, the second stage looks to prevention and adds systems analysis to consciousness raising. Civil service reforms emphasize information, incentives, and competition, and where in government and markets lie the vulnerabilities to corruption. The third stage attacks the disease itself, using undercover agents, infiltrators and key witnesses to root out and prosecute the offenders – in effect, cutting out the cancerous cells.

From a western social sciences perspective, an Islamic-type approach that relies solely on seeking a moral rebirth from within the individual is seriously deficient. While consciousness raising is needed, reliance upon self-restraint is seen to be not enough. A call for abstinence will not cure an AIDS epidemic. In terms of corruption, it would be considered more useful to move on to the external environment altering incentives to reduce temptation and impose constraints upon behavior. Without such supporting stratagems to reform governance, the agenda may remain unfulfilled.

From an Islamic standpoint, the western approach lacks a moral core. While agreeing with the need for incentives and institutional constraints

(albeit in a different guise), nevertheless the western agenda is seen to downplay what it might be possible to achieve from a moral revival. “Consciousness raising,” after all, is not quite the same as “moral disapprobation,” reflecting perhaps to some degree a lack of agreement on a fully satisfactory definition of what is moral. According to writers such as Veatch,⁷⁶ the problem is that mainstream western philosophy does not distinguish between values (in which there is a “right” and “wrong” and therefore a second-order preference exists) and tastes (in which there is no “right” or “wrong”). In contrast to the Platonic concept of the good and the Kantian focus on the *ought* and its justification, modern analytic philosophy has sought to develop against the backdrop of a value-neutral world. In the words of Joas:

In analytic philosophy, substantive clarifications of ethical questions were temporarily replaced by the attempt to construct a neutral metaethics, that is to say, a discipline that sets itself the goal of clarifying ethical statements, but is itself at the same time governed by the norm of value-freedom.⁷⁷

Not all agree with this value-free emphasis. One of the most significant exceptions in recent decades to the neglect in western philosophy of the question of the genesis of values is Charles Taylor, for whom moral feelings necessarily reveal our value standards and would simply not be moral feelings if they were not related to our conception of the “good.”⁷⁸ He argues that an individual’s moral and religious experience can call for an interpretation rooted in the cultural repertoire of interpretative patterns in which God, in the sense of the traditional faith of a particular culture, is indispensable. Thus, for him, a return to something like a metaphysical theory of the good is conceivable, even though he accepts that it is not possible for a philosophy which seemingly now has little interest in the realm of values, and which endeavors to find a neutral meta-position when dealing with ethical matters.

This neglect of the realm of values and the implicit equation of values and tastes in mainstream philosophy carries through to neoclassical economics, although it would take us too far afield to do justice to the point. Briefly, the standard continuous mono-utility function is an aggregate with no qualitatively different parts. It cannot readily accommodate second-order preferences. Writers such as Lutz and Lux,⁷⁹ and Etzioni,⁸⁰ thus argue that the neoclassical paradigm downplays the role of values, or sees them as one source of tastes, and ignores the moral dimension in the theory of choice.

To those schooled in the Islamic tradition, the criticism goes deeper. If economics can be seen as an imperialistic science concerned in essence with building a social system⁸¹ and reflective of all the philosophical movements aimed at divorcing such an exercise from metaphysical concepts of the good,

its focus on the “external” rather than the “internal” constraints is understandable albeit not convincing. Without metaphysics, the very essence and narrative of being e.g., the purpose of life and successively unfolding accountability within and beyond it are sent to the realm of doubt and oblivion (45:22-24). Thus the context within which “right” and “wrong,” “good” and “evil,” “virtues” and “vices,” and “first-” and “second-order” preferences attain their meaning is diminished and ultimately degraded thereby opening the way for the promotion of social arrangements that are based on parochial worldviews and egotistic conceptions of justice. It is precisely to keep metaphysics at the forefront of human beings’ endeavors that Islam admits right of the “people of the book” to administer their “personal laws” within jurisdictions otherwise ruled by the Shari`a.

This mode of thinking has an immediate relevance for the topic at hand. A failure fully to explore the ethical and moral dimensions to curing corruption is limiting since there may be many circumstances where the external factors constraining corruption are weak, leaving self-restraint as the only effective discipline. It is impossible to provide enough law enforcement officers, accountants and inspectors to verify more than a fraction of all transactions taking place in an economy, so that societies require that most transactions be based on voluntary compliance. Thus ethical norms are paramount, and society’s attitudes and institutions can give further force to them or cause them to be weakened. For example, there is a perception in some quarters that corruption in Europe has increased in recent years.⁸² In some eyes, a contributing factor is the decline in the social democratic philosophy and a rise in the “greed is good” syndrome in which the individual is elevated above the group or organization, and in which the ends in terms of the “bottom line” are seen to be more important than the means. Such an ideological climate of selfishness, it is said, seems likely to be conducive to corruption.⁸³

Reinforcing this concern with ethical standards, there has been a revision among some philosophers (e.g., Goodin⁸⁴) about what a concern with ethics can be expected to achieve. It has long been recognized that ethical standards can make one “good,” irrespective of whether they are a matter of inner virtue (Aristotle) or external duty (Kant) (see Thomson⁸⁵ and Kant⁸⁶). But modern social science points to other ways in which ethics can be good and can do one good. Obviously, in a Hobbesian sense, ethics are pragmatically sound in allowing one to benefit from the constraints that ethics imposes on others. That much is known and is familiar territory. But it is not just the case that, net of the costs to oneself, one benefits from the fact that others are bound by ethical considerations.

The suggestion now is that ethics can empower as well as constrain. Ethical norms, and the institutions underwriting and giving force to them, can widen horizons and choices, enabling individuals to do more things than would have been possible in their absence. Trust and certainty in the integrity of market exchanges and interpersonal dealings is an important social lubricant, as Arrow observed many years ago.⁸⁷ In this respect, ethics might be thought of as a pure “public good.” The corollary of this new thinking about ethics is that corruption is corrosive not only because it enables some in society to secure an unfair advantage over others; those engaging in corruption are harming us all by eroding norms and institutions which benefit us all. Declining morality in public life can set in train a cycle of decline. Insisting upon the maintenance of high standards in all facets of life – private and public – rightfully becomes a cornerstone of good governance.

In this emphasis upon the empowering effects of ethics, modern social science and strands of classical Islam would seem to have drawn closer together. Although many scholars and jurists, such as al-Ghazali (1058-1111), clearly recognize the importance of incentives and “external” institutional constraints without diluting the role of ethics, there is also an important tradition in Islamic political philosophy which emphasizes the role of second-order preferences in fighting corruption.⁸⁸ Consider, as one leading example, the views of Ibn Khaldun (1332-1406), and the significance that he attaches to “internal” forces as opposed to “external” law enforcement.⁸⁹

When laws are (enforced) by means of punishment, they completely destroy fortitude, because the use of punishment against someone who cannot defend himself generates in that person a feeling of humiliation ...⁹⁰

It is no argument that the men around Muhammad observed the religious laws, and yet did not experience any diminution of their fortitude, but possessed the greatest possible fortitude. When the Muslims got their religion from Muhammad, the restraining influence came from themselves, as a result of the encouragement and discouragement he gave them in the Qur’an.

... Umar said: “Those who are not (disciplined) by the religious law are not educated by God.” Umar’s desire was that everyone should have his restraining influence in himself. His certainty was that Muhammad knew best what is good for mankind.⁹¹

Conclusion

Corruption has been largely overlooked in Islamic economics. This paper’s principal objective has been to analyze and elucidate the Islamic position

on corruption and compare it with the western social scientific tradition. That tradition, we showed, has undergone a marked transformation over recent decades. The view that corruption may act like much-needed “grease for the squeaking wheels of a rigid administration” or “oil for the economic mechanism” by removing or relaxing cumbersome regulations and obstructionist bureaucratic behavior that stifle efficient investment and economic growth has given way to the view that the economic and social costs of corruption are enormous and that it is one of the most severe impediments to development and growth. This change has brought western literature much closer to Islam, for the Shari`a, we discovered, condemns corruption as a severe threat to the social, economic, and ecological balance.

Nevertheless, despite their apparent agreement, the two differ in how to cure corruption. Islam, although not exclusively so, looks to a significant degree to a moral renovation within the individual designed to stiffen resolve and foster self-restraint. The focus is upon shaping higher-order preferences, elaborated in the Qur’an and Sunna, externally regulated through the law of the Shari`a and reinforced by a powerful spiritual incentive system. The western strategy has largely moved beyond an ethical approach and now aims to tackle corruption, at one level, by altering the individual’s cost-benefit balance through incentives and punishment and, at another level, by infiltrating and rooting out those engaged in corrupt activities. In the western approach, the restraining influence comes from outside. In Islam, the restraining influence comes significantly from within. To western eyes, such self-restraint will not work.

Our conclusion is that both approaches can learn from each other. Islamic societies can benefit from the practical stratagems and administrative and civil reforms now emphasized in the western approach – in short, from better governance. They can also benefit from an open press and public debate, factors which exert a pressure of their own for accountability and help to curb arbitrary use of power and privilege – options all too often absent in Islamic countries. Equally, however, the significant ethical and moral dimensions to reducing corruption cannot be downplayed either, if only because there are situations where the external constraints confronting officials are weak and self-restraint is needed. Recent social scientific thinking lends some support to this reasoning. Ethics can be empowering, as well as making good practical sense, since ultimately everyone benefits from the behavioral boundaries that ethics dictate. There is room for both lines of attack upon corruption.

Table 1: Views on the Impact of Corruption	
Benign View	Malignant View
<p><i>A. Political Impact</i></p> <ul style="list-style-type: none"> ◆ Corruption is conducive for political development. 	<ul style="list-style-type: none"> - Political corruption shakes the very foundations on which a state is established: state is an apparatus to resolve conflict.¹⁰² Bribery results in arbitrary action that inspires conflict rather than resolves it. - Corruption violates public trust, corrodes social capital, and undermines state legitimacy by eroding confidence in playing by the rules.¹⁰³ Thus, the state's capacity to perform basic functions such as protection of property rights and enforcement of contracts that are crucial for economic growth is impaired. Corruption weakens prudent supervision of banks and financial markets and debilitates implementation of useful regulation such as building industry codes and food inspections.¹⁰⁴ - It can be argued that given increased access to information, corruption's ability to "re-engineer" political and economic scene has become doubtful, even if it ever worked in the past. In particular, in a developing country where military and bureaucracy are strong players in power politics, "political corruption" cannot be contained. By default, it extends to these organs of the state. Since police and judiciary are the enforcement apparatus, they too have to collude to facilitate corruption. Also, because "banks are where the money is," nationalized banks and development finance institutions become targets of corruption as well. Sometimes, it is difficult to maintain secrecy and loyalty in a multi-polar network for an extended period. This may result in a narrow-based repressive regime, the kind of small oligarchy of political and business elite depicted in Shleifer and Vishny.¹⁰⁵ Alternatively, such attempts may end up in alienation and political instability. - The situation described above also carries the seeds for systemic abuse of power that may, in the words of Cartier-Bresson,¹⁰⁶ "enable a symbiosis between organised crime and politicians." - Unforeseen consequences of attempts to "re-engineer" can be even worse. - Corruption diverts resources from productivity enhancing public infrastructure to conspicuous private consumption by politicians.¹⁰⁷

Benign View	Malignant View
<p>♦ Organized corruption is superior to disorganized corruption.</p> <p><i>B. Macroeconomic Performance</i></p> <p>♦ Corruption “oils the economic mechanism.” Bribes lower the business costs of taxes, customs duties, and regulations.⁹²</p> <p>♦ Since governments generally allocate goods to individuals and firms on a basis other than the “willingness to pay” principle, bribes indirectly introduce this criteria clearing the market.⁹³ In particular, in a distortion-free economic environment, a Coasean bargain may result in the awarding of a contract to the firm that offers the highest bribe. Given only the low-cost firm will afford to offer the highest, bribes will not induce allocative inefficiency.^{94,95,96} “In the second-best world of pre-existing policy-induced</p>	<p>- Shleifer and Vishny examine different networking arrangements for corruption.¹⁰⁸ They conclude that compared to organized, disciplined, centralized, and predictable corruption wherein agents abide by established rules of the game (strong state: e.g., monarchical and pre-Communist USSR arrangements), disorganized, decentralized, and anarchic corruption (weak state: e.g., post-Communist Russia and many developing countries) is more devastating for growth and investment. The difference between different arrangements is that of the intensity rather than the direction of impact. Cartier-Bresson demonstrates a similar point by examining transaction security in different networking arrangements wherein relative powers of the demand (public officials) and the supply (private agents) sides differ.¹⁰⁹</p> <p>- Both theoretical and empirical studies point to a strong negative correlation between the perception of corruption in a country and economic indicators such as the ratio of investment to GDP, the rate of economic growth, and total revenue to GDP ratio.¹¹⁰ Some of the channels through which adverse economic impact is galvanised are mentioned below.</p> <p>- First, given that illegal contracts cannot be enforced, bribery increases uncertainty and <i>transaction risk</i>¹¹¹</p> <p>- Second, corruption increases the influence of criminal organizations as they guarantee enforcement of illegal transactions and assist in laundering money. This impairs a state’s capacity to implement law and order, a prerequisite for economic progress.^{112,113}</p> <p>- Third, it can be argued that in developing countries, lower revenue collection owing to corruption impairs a state’s capacity to adequately fund maintenance of law and order and enforcement of contracts, thereby jeopardizing preconditions for economic growth.</p> <p>- Fourth, corruption diverts resources from productivity enhancing investments in human capital to wasteful “grand” infrastructure or military projects easily amenable to corruption.¹¹⁴</p> <p>- Fifth, empirical evidence suggests corruption costs (time,</p>

Benign View	Malignant View
<p>disortions, additional distortions in the form of black marketeering, smuggling, and so on may actually improve welfare, even when some resources have to be spent in such activities.⁹⁷</p> <p>♦ Bribes facilitate maintaining a lower tax burden by alleviating the need to raise wages of government employees. Lower tax burden is pro growth.^{98,99}</p> <p><i>C. Incentive Structures</i></p> <p>♦ Corruption provides-incentives for business-friendly action.¹⁰⁰ Speed monies that are offered to jump slow-moving queues are efficient</p>	<p>money) to small and medium sized enterprises (SMEs) are higher vis-à-vis large firms stifling the inception, growth, and competitive capacity of SMEs. Since SMEs serve as the backbone of economy by being labor intensive and innovative, bribery adversely affects overall economic performance.¹¹⁵</p> <p>- Sixth, secrecy requirement for bribes breeds capital flight retarding capital formation. It also encourages undocumented economy.^{116,117}</p> <p>- Seventh, bribery impedes foreign direct investment by operating as a tax.¹¹⁸</p> <p>- Insofar as corruption’s capacity to mimic Coasean bargain, it is impaired in more than one way in real practice. In particular, favoritism or nepotism for a particular client or secrecy requirements introduce conditions other than size of the bribe in the decision-making process. Bribers may also substitute lower quality goods. Even in the second-best world, corruption’s ability to increase efficiency is doubtful since factors causing distortions are quite often the same responsible for corruption.¹¹⁹ Secrecy requirements may favor “trusted” rather than the highest bidder being allotted a contract.</p> <p>- Bribes are worse than taxes in terms of consequences for growth. Bribes are an <i>ex ante</i> tax on capital reducing all future returns while taxes are levied <i>ex post</i> on profit. Negative profits can even be offset against taxable income in many countries, encouraging innovation.¹²⁰</p> <p>- “... greatest victims of petty corruption are usually the poor.”¹²¹ “Corruption distorts the redistributive role of the state.”¹²² Money destined for “public spending” is either not allocated for health and education but instead on wasteful projects, or it lands in the pockets of private, often already resourceful individuals skewing wealth distribution in a society (see incentive structures below).</p> <p>- Rules and rigidities are not exogenous but instead the product of government machinery. “When rules can be used to extract bribes, more rules will be created.”¹²³ Evidence suggests that speed monies induce systemic slowdown to attract more bribes.¹²⁴</p>

Benign View	Malignant View
<p>because they save time for those who value it most.¹⁰¹</p>	<p>- Taking inspiration from Baumol¹²⁵ and Murphy et al,¹²⁶ Tanzi¹²⁷ asserts that given increasing returns to corruption and rent seeking, most able individuals in the society divert away from entrepreneurship and socially productive activities to corruption and rent seeking, adversely affecting social surplus and economic growth. Tanzi and Davoodi suggest that corrupt countries tend to have high ratio of lawyers to engineers.¹²⁸ We may add that increased visibility of medical doctors rendering services of an administrative nature (customs, police) in Pakistan Central Superior Services (CSS) alludes, among other factors, to existence of a similar distorted incentive structure for talent.</p> <p>- Secrecy requirement for bribes results in incentive for mis-allocation of resources. Budget expenditure is diverted away from activities conducive for development but less amenable to corruption – health and education – toward activities offering better opportunities for corruption: infrastructure projects, custom-built high-tech equipment, defense purchases. Operation and maintenance expenditure are also reduced for similar reasons.^{129,130,131}</p> <p>Bribery spreads. On the supply side, its implications for low business cost structure suck all industry participants willy nilly so as to maintain competition. On the demand side, corruption induces behavior akin to an auction for the governmental posts: “those who pay most for a job get it, ... who do not collect bribes ... cannot.” Thus, corruption spreads.¹³² Police and customs outposts in the Asian subcontinent are an example.</p>

Notes

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