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Can We Understand Corruption Using Tools of Economics?

It has been observed that corruption has increased in China. This is my observation as well. Given that this is true, let me try to explain it using the basic tools of economics. Given an understanding of this phenomenon, perhaps we can suggest ways to reduce it.

Let me begin with a definition of corruption. It is the illegal use of public or government assets for private gains where assets include the power to grant material or other benefits. By this definition, corruption cannot occur without the control of government assets.

To understand the reason for an increase in corruption, we can appeal to the economic forces of demand and supply. Corruption has increased because the demand for it has increased and the supply of it has also increased in the last 20 years.

Demand has increased because during the period of economic prosperity after economic reform, there has been an increase in the need to obtain government approval to carry out many economic activities. To establish and operate a

business enterprise, to export and import, to introduce a new product, to obtain a bank loan and to obtain the right to use a piece of land all require approval of government officials. On the side of supply, the number of government officials appointed to perform such services and the spheres of their power have also increased to satisfy the needs of the market. As a result of the increases in both the demand for and the supply of such illegal activities, corruption has increased.

There is a kind of minor corruption which is socially acceptable. In such cases the government official does perform a service when approving an activity of a customer, such as checking whether his exports or imports satisfy the legal requirement or whether the new drug introduced passes certain standards, but collects a fee which is illegal because he works for the government. One example is the fee charged by an official of a bank in extending a loan to a borrower. If this is a private bank which pays the loan official according to the amount of loans extended, the payment for the service is perfectly legal. A second example is the fee a doctor in private practice charges his patient for services rendered, which is certainly proper and legal. On the other hand, if the banker works in a government bank which pays him a fixed monthly salary or if the doctor works in a public hospital paying him a fixed salary regardless of the amount of services performed, it would be illegal and considered corruption for him to receive compensation according to the service performed. In the Chinese society it is socially acceptable if a government official receives a moderate amount of compensation for services rendered.

It is socially unacceptable and harmful to the social and political stability if government officials receive large sums of money through corruption. The corruption may be the embezzlement of public assets and bribery from citizens. Bank officials have embezzled large amounts of funds to personal accounts. Officials with the power to approve new drugs have received very large amounts of money from drug producers. The Chinese government has taken such cases

of corruption seriously and has tried to punish the offenders, including sentencing them to death, but the practice has continued.

Given that the basic cause of corruption is the need for the services performed by government officials, one way to reduce corruption would be to reduce the areas requiring government approval in the conduct of economic activities mentioned above. Even in the case of the approval of new drugs being introduced into the market, it may be desirable to reduce the degree to which government approval is required. Consumers would take more risk in choosing the drugs they need with the advice of their physicians but they would have more drugs from which to choose. Traditional China did not have government officials to approve any of the herbal medicine freely brought and sold and the extent of abuse was under control. Readers might disagree on the extent that the government should regulate this particular activity but most would agree that transferring public enterprises to private ownerships would make enterprise officials collecting fees for service a legal activity. Furthermore, allowing public officials to approve the use of land under the system of public ownership of land in China has led to much corruption and serious discontent from farmers in China. Only basic political reform of the use of land would solve this problem