

## GLOBALIZATION AND GOVERNANCE: THE FLIP SIDE OF THE COIN

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This comment is divided into two parts. The first one is devoted to analyzing some of the very valuable contributions made by the author on the important relationship between globalization and governance. In the second part I will allow myself to briefly elaborate on the issues raised not only in the paper but in the topic of the session per se.

### I

#### *The globalization and governance nexus*

The paper deals with two related issues, i.e., the relationship between economic openness and corruption, and the role of governance institutional building in the process of domesticating the forces of globalization. In the first part (sections 2 and 3), the analysis is quantitative and focuses on finding out the relationship between corruption and quality of government as abridged indicators of governance and, on the other hand, trade and financial openness, as indicators of globalization.<sup>1</sup>

<sup>1</sup> The first part of the paper is based on Federico Bonaglia, Jorge Braga de Macedo and Maurizio Bussolo, 'How globalisation improves governance', OECD, Paris, March 2001.

## STYLIZED FACTS AND QUANTITATIVE ANALYSIS

*Stylized facts*

1. *Circular causation in economic development.* Arrows included in Figure 1 show us very clearly the complexity of the process of economic development. All of them but one are double-sided arrows, suggesting the widespread sources of circular causation (virtuous or vicious) in the process of economic development, as Gunnar Myrdal pointed out forty years ago. Even the only one-sided arrow, from endowments to economic performance, alerts us about the pervasive presence of circular causation. This is clearly illustrated by the author: 'well-endowed countries may evolve towards democratic forms of government more easily or, at least, they may afford investing more resources to build well-functioning institutions'. Besides, the whole figure suggests a 'follow me' approach and looks much more similar to Fukuyama's Hegelian hypothesis about 'the end of history' than the author recognizes. The 'follow me' approach could be stated like this: 'If you do what I did, your future will be as bright as my present is'.

2. *Government size, economic development and trade openness: some misleading links.* The first two histograms in Figure 2 suggest links between government size and the level of development (first histogram) and between government size and trade openness (second histogram). However, these suggested links could be misleading. As usual, government size is measured here by central government expenditures. This procedure could be right if all the relevant countries had unitary political systems, but this is not the case. Twenty eight out of the one hundred and ninety two countries of the world (15 %) have federal or federal-like political systems.

3. *Big, close (and federal): a particular type of countries.* Furthermore, federalism appears closely related to countries' size and openness.<sup>2</sup> We can identify 23 big countries in the world, defining as 'big' those countries who fulfill at least two of the three following criteria: a) *area*: 1 million square kilometers or more; b) *population*: 25 million people or more; c) *economic size*: GNP (gross national product) rank, 20 or less. Almost half of these countries<sup>3</sup> are federal (ten or 43 %). More than half are relatively closed

<sup>2</sup> The correlation between size and openness is analyzed in Braga de Macedo's paper as it is shown below.

<sup>3</sup> Big countries are: Algeria, Argentina, Australia, Brazil, Canada, China, Congo R.D, Egypt, France, Germany, India, Indonesia, Iran, Italy, Japan, Mexico, Peru, Russian Federation, South Africa, Spain, Sudan, United Kingdom and United States.

(exports plus imports / GDP ratio: 50 % or lower) and only five of them are open (ratio: 65 % or higher). If we consider only the eight biggest countries of the world, i.e., those that fulfill the three criteria, we find that all of them are federal, six are closed and only two are open.<sup>4</sup>

4. *The most open and the most closed countries: size (and political organization) as critical differences.* Doing now the exercise of considering the twelve more closed and the twelve more open economies we can also reach interesting conclusions.<sup>5</sup> Regarding the average size of government, as the author says, open economies appear as having bigger governments; its public expenditures to GDP ratio is 30 %, compared to 20 % of the closed economies. However, if we correct this measure including subnational governments expenditures, the difference drops to 33 % to 28 %; and if we also take into account GDP per capita levels, the gap almost vanishes. The most important differences between open and closed countries are, instead, size and political organization. Regarding size, eleven of the closed countries, compared to only four of the open ones, are highly populated; and ten of the closed countries, but only one of the open ones, have big areas. Finally, seven of the closed countries are federal, compared to four in the case of the open countries.

As a concluding remark, it could be said that because of historical, geographical, political and economic factors what we have is a constellation of countries that are, at the same time, big, federal and relatively closed to international trade. Big countries tend to be naturally federal, and this is only logical because of scale diseconomies of centralized government there. This historical institutional building process was prior to current globalization and conditioned its future developments, among other things, because of the fact that size is also naturally associated with *factual*, not legal, closeness to international trade. As a consequence, the association established in the paper – following Rodrik (1999) – between openness and the size of government could be spurious since the size of government is not properly measured.

<sup>4</sup> The biggest countries are Argentina, Australia, Brazil, Canada, China, India, Mexico, Russian Federation and the United States.

<sup>5</sup> The twelve most open countries are the following (exports plus imports to GDP ratio in brackets): Hong Kong (263), Singapur (254), Taiwan (200), Ireland (193), Malaysia (163), Belgium (143), The Netherlands (109), Phillippines (97), Austria (89), Thailand (87), Sweden (85) and Canada (84).

The twelve more closed countries are: Brazil (17), Japan (20), Pakistan (21), Argentina (24), India (25), USA (26), Iran (30), Peru (30), Colombia (31), Australia (39), China (40) and Algeria (43).

5. *Small, rich and open: another particular type of countries.* If we have a look at the twelve more open economies we can see that all of them are relatively rich and that some of them were open from their very constitution as independent states, which was the result of merchants' or industrialists' movements to get political autonomy from other powers. This was the case, at least, in Hong Kong, Singapur, Taiwan, Malaysia, Belgium, The Netherlands, Phillipines and Thailand.

6. *Economic development, openness and quality of government.* The link shown in Figure 2 (third histogram) between openness and GDP per capita looks clear. Regarding governance, the perceived quality of bureaucracy appears strongly linked to GDP per capita but much more independent from trade openness (Figure 3). Perceived corruption, on the other hand, appears only slightly linked to the imports to GDP ratio, since the level of corruption is roughly the same in groups with very different degrees of openness. A more clearer (inverse) association appears between corruption levels and openness to private capital flows. Completely disappointing, on the contrary, is the almost null relationship between the IMF trade liberalization index and perceived corruption. This is critical for the thesis of the paper, because this index is a better indicator of foreign economic policies than the factual openness as measured by imports and exports ratios to GDP.

7. *Conclusions.* At the end of the section the author recognizes the problems of causality, identification and omitted variables involved. More than that, the 'stylized facts' presented are so stylized that could be misleading.

*Quantitative analysis.* The following section of the paper looks more precise in the analysis even when their final conclusions are not clear-cut either.

*Corruption.* A common problem to both sections is the choice of *perceived* corruption as the central indicator of governance. Corruption is, of course, a very important issue. But its indicators in the paper are confined to corruption as it is perceived by businessmen. It is impossible not to agree with Klitgaard's definitions presented in the paper. Corruption is seen as a function of monopoly power combined with discretion and low accountability.<sup>6</sup> In a competitive framework, on the contrary, incentives to bribe tend to decrease because neither prices nor quantities can be changed by the authorities. Furthermore, the statement: 'in more open economic contexts

<sup>6</sup> A bit ashamed I must say that, incredibly, neither accountability nor law enforcement have exact translations into Spanish.

there is less corruption' could even be considered a tautology. Nobody bribes to get something when it is possible to obtain the same paying the free market price. Alternatively, when the legal ways are closed, illegal ones will very probably be used.

According to the author, economic development tends to reduce corruption not only because it carries adequate changes in culture but also because more resources can be allocated to fight against it. The shadow of a vicious circle, ethical and on governance this time, appears again.

*Instrumental variables.* The use of these variables, in order to find explanations of GDP and openness not related to corruption is timely, but not always clear. Remoteness and population look theoretically sound, but English as official language not. According to this specification, the degree of corruption-independent openness a country has increases with its proximity to the largest world traders, or if the country's official language is English. Conversely, the larger is the size of a country's domestic market, measured by its population, the lower its openness.

Regarding the other independent variable, GDP per capita, a very simple equation with the absolute value of latitude and a dummy for tropical countries tries to get a valid corruption-independent GDP estimate. Before analyzing the results of this exercise, it's convenient to emphasize that this proliferation of cultural and geographical variables results in a very deterministic vision of economic development. The results obtained, on the other hand, are far from being satisfactory. The instrumental variables explain only the 45 % of the variance of import openness and only the 30 % of the variance of financial openness. In the case of GDP per capita, the instrumental variables explain just 44 % of the variance.

Looking at the simple correlations<sup>7</sup> we have the same impression obtained in the previous section. Variables strongly associated with perceived corruption are GDP per capita, political rights and openness of the capital account. Correlations between imports' openness and perceived corruption are not so high. And they are still lower with the more important measure of trade liberalization. The negative association between perceived corruption and the size of government, as we mentioned, suffers from a measurement bias.

<sup>7</sup> Not shown in the paper but in Bonaglia, Braga de Macedo y Bussolo (2001). In spite of the limitations of this statistical measure the author says: 'Openness, measured as a ratio of imports or capital flows on GDP, has a positive effect on corruption...'. This is an example of the very frequent mistake of confusing statistical association with causality.

Even in the complete model, the relationships found are not convincing enough. Not more than 60 % of the variation of the corruption indices can be explained, even including GDP per capita, political rights, government size, resources exports and other variables. Regarding the extent of government intervention, approximated by government consumption as a share of GDP, the author draws different conclusions according to the corruption index used. Using the TI sample (with many developing countries lacking) the effect of openness on corruption remains significant and sizeable; conversely, with ICRG index, introducing government size among the regressors makes the effect of openness' on corruption much smaller and statistically insignificant. This could be the result of correlations between the independent variables. On the other hand, the theory behind the inverse relationship between government size and perceived corruption is far from being clear. Besides, it is perfectly possible to build a theory establishing exactly the opposite relationship, since behavioral constraints in the public sector tend to be looser than in the private one.

Even more disappointing for the paper's goals, again, is the fact that the impact of trade liberalization policies per se on perceived corruption is not significantly different from zero.

Countries that have never been colonies, where Protestantism is the largest confession, where democracy has been uninterrupted for the last 50 years and that belong to the OECD have lower levels of corruption. The author rightly points out that these variables, by lowering the explanatory power of the GDP and political rights coefficients, are in fact taking into account deep institutional and social cross-country differences.

Notwithstanding my previous critical comments I do agree with the author's conclusions of the quantitative analysis, presented at the end of the paper. i) It was not possible to find a direct effect from trade policy on corruption. ii) The addition of government size weakened the results, especially in the larger sample. iii) The analysis of financial openness is incomplete for measurement problems. iv) The positive G&G interaction was based on a cross-section study, with all its problems.<sup>8</sup> It is possible to consider many local characteristics, yet to compare China with the USA, or India with Argentina, will always be a bit stretched. The author states that

<sup>8</sup> As the author states, cross-country differences in the levels of the independent variables are the central explanation for the variations in the dependent variable, and, no matter how many controls are added, it will always be possible that some additional relevant variable is missed or wrongly measured and that results are thus distorted.

future research should be focused on in-depth country specific case studies. I would add that a historical approach could have been more appropriate to deal with the issues posed here.

On the contrary, the main goal pursued by the author, to measure the sign and magnitude of the marginal effect of openness on corruption, is perhaps impossible to get at all. It does not result from the paper what the author claims: 'we found robust empirical support for the fact that increases in openness do indeed cause (statistically?) reductions in corruption', and the word *cause* is particularly misleading here.

Finally, as the author clearly says at the end of the paper, a lot of caution should be taken when drawing economic policy implications. In fact, reducing trade barriers may not bring immediate positive corruption reductions. It is true that in the long run, more open economies, enjoying more foreign competition and investing abundantly in institution building, will register lower corruption levels; however, in the short run, domestic policies may be more valuable than pursuing globalization at all costs. This may be especially important for poorer countries that may face serious trade-offs between complying with international agreements and investing in basic development infrastructures such as education, health, and social security.

### *Corruption and governance*

The second thematic section of the paper, comprising numerals 4 and 5, deals with different aspects and examples of the institutional building process that should accompany economic openness. The author considers that the fundamental ambiguity of the G&G interaction could lead policymakers to retract from international exchange when structural reforms face resistance from citizens. He adds, and I fully agree with him, that the temptation cannot be overcome through defensive measures against globalization but through an improvement in governance. This governance building process, a societies' role, is rightly seen by Braga de Macedo as something very different from Fukuyama's 'end of history', but very close to the vision developed by John Paul II in *Centesimus Annus*.<sup>9</sup> According to the author, the governance building process has a national

<sup>9</sup> Although, as we mentioned before, the implicit approach of the paper is very deterministic, plain of circular causation and, on that count, close to Fukuyama's Hegelian approach.

side, fighting against corruption, and an international one, regional integration and multilateral institutions as a way of introducing peer pressure for better policies.<sup>10</sup>

I will briefly summarize the important points raised by the author in this section in most of which I do agree with him.

1. *Fighting against corruption* is a common task of governments, private (economic) sectors and NGOs but the key to success remains a durable engagement on the part of political leaders.

2. After the restoration of political and financial freedom, an anti-corruption momentum becomes possible; but the quest for transparency has nothing automatic.

3. *The case of Argentina*, that the author roughly describes, is very timely in this context.<sup>11</sup> It shows, first, that when citizens enjoy both political and financial freedom, they are more likely to mobilize against practices of mismanagement and corruption. At the same time, the Argentine case confirms that establishing democratic institutions and liberalizing the economy are not enough to eradicate corruption. However, part of the problem identified in the Argentine case is due to the narrow definition of corruption adopted in the paper, i.e., perceived *and* business-relevant corruption. Other forms of corruption, like drugs' and weapons' traffic or money laundering and, what is worse, their utilization as a way of financing the political system, are not well measured by indices like the ones used in the paper. However, these are the ones that became more relevant in Argentina after the economic liberalization.

4. *Opportunities arising from globalization*. If developing countries do not take advantage of the opportunities offered by globalization, they risk having all or a part of their population fall behind, increasing social exclusion within their country and widening global inequality across countries. Such adverse developments could threaten democratic institutions and slow necessary reforms, which amounts to a deterioration in governance.

5. *Public and private governance structures* are crucial for maintaining social cohesion after opening the economy. There is a sort of virtuous circle from transparency and accountability to participatory development, to

<sup>10</sup> Even when the author says that this approach has always had shared by economists, I think that this was not always the case. It is true, however, that for the last two decades a very healthy trend to introduce institutional analysis has been growing in economics.

<sup>11</sup> By the way, the Public Ethic Law was sent and passed by the Congress at the end of Menem's administration, not at the beginning of De la Rúa's one, as it is suggested in the paper.



empowering people and to poverty reduction. But, ironically, just as the citizens of developing countries are being encouraged to demand a voice in decisions that affect their lives, they are also being told that in the arena most central to their concerns they really have no choices.

6. *Regional economic associations (and the EU)*. It seems clear that regional economic associations, not closed to international trade, can be a good device for domesticating the forces of globalization better. I do agree with the author that the European experience has an unusual richness and could be very helpful for other regions looking for governance structures in the framework of regional economic associations. However, the perspective of the paper tends to be eurocentric, suggesting an almost mimetic process for other regions.

7. *Economic volatility, the international public good and international frameworks and institutions*. It is evident that since the Asian crisis in 1997 we have been having an increased volatility in the world economy whose amendment will require better multilateral agreements and institutions. These international frameworks should be designed with more participation of developing countries but, at the same time, taking into account what the author rightly points out about the risk of free riding. I would add that moral hazard is another typical risk of these institutional frameworks. Devices to enhance fiscal correspondence (JJLL), peer pressure and yardstick competition, as the author refers, could be critical to put both risks under a more reasonable control.

8. *The danger of procrastination*. In the case of Europe, national governments have used the Euro as an excuse for procrastinating on unpopular but essential structural reforms. Monetary and financial arrangements, however, cannot replace the reform in labor markets, social security, education and training, etcetera.

9. *The dangers of protectionism*. While it is essential to empower people to face the challenges of globalization, the changes in governance that are called for cannot become protectionist without threatening the basic benefits of open trade in goods, services and assets and of the free movement of people.

10. *Conclusions*. Conclusions from this second part of the paper are far from categorical. But this is not negative, since the process of institutional building is something open by definition, as it is suggested by the two extreme alternatives described in the paper, pure contractualism-flexibility vs. a unified state-integration.

## II

*The flip side of the coin*

Despite its very interesting analysis and conclusions, the narrowness of the indicators chosen to mean globalization and governance remains as one of the main problems of Braga de Macedo's paper. In the case of globalization, the study is basically restricted to trade and financial openness. In the case of governance, although the conceptual analysis is much more encompassing, the econometric tests are limited to the size of government and corruption as perceived by businessmen.

*The lack of globalization*

Braga de Macedo describes some of the broader conflicts that frequently arise against globalization, and the resulting backlash. These conflicts have different aspects in developed and developing countries, but in all of them they are associated with a more complex set of issues. I will devote the rest of my comment to briefly analyze some of them, particularly those which negatively affect the economic and social performance of developing countries. To begin with, those conflicts are very frequently a consequence of the insufficiency of globalization more than of an excess of it.

1. *Agricultural protectionism and subsidies.* Because of agricultural protectionism and subsidies, which amount to the incredible figure of 400 USD billion per year in the OECD countries, millions of farmers and food producers of the developing countries can not have access to developed countries' markets. This is completely against fairness in international trade. A lot of developing countries are not allowed to play the games in which they are the best. Even when we cannot say that this is corruption, it seems evident that the maintenance of this policy almost since the postwar period was possible because of an intense, opaque and permanent lobbying. The emergence of the mad cow syndrome and the growing awareness of the environmental and health problems carried by artificial agriculture are symptoms that this policy has begun to reach its limits. However, we don't have clear signals that it will come to an end in the foreseeable future.

In the meantime, we cannot ignore that this policy has an evident and very negative relation with drug production and dealing and narcotraffic. I will mention this issue later, but I want to emphasize here that when farmers of the poor countries have their markets for legal products closed, they will more probably use their land to crop drugs.

2. *Limitations to the free movement of people.* A second very clear example of lack of globalization is the restrictions imposed to international migrations. This is, at the same time, one of the main differences between the current wave of globalization and the one that took place a century and a half ago. On that occasion, together with the opening of the economies to world trade and finance, dozens of million people – from Europe, and from very populated countries like China, India or Japan – left their countries and went to America, Asia, Africa and Oceania to find a better way of life, and most of them found it. Perhaps nobody is thinking now of such an intense and widespread process, but the barriers set by most developed countries to immigration are nowadays too strict.

Among the negative outcomes of this process we can mention higher unemployment and poverty in developing countries and marginalization of illegal immigrants in developed countries. But also problems for the global economy arise. For the last three years we have been living in a very volatile world economy, and very sensitive to the reactions of Mr. Greenspan with the Federal Funds interest rates in the USA. These reactions, in turn, were dictated by the unemployment level, with the sad result, by the way, that good news (low unemployment) were seen as bad news (because of its inflationary potential). It seems clear that a more open immigration policy would have helped to fix this problem, and the same can be said of Europe. In other words, the whole world economy is paying a high price in terms of economic growth because of the necessity to establish higher interest rates than the ones that will be needed with more international migrations.

3. *Global warming.* Almost ninety percent of the carbon emissions that pollute our planet come from developed countries, particularly the United States. The emissions have a negative impact all around the world. But, why do people from developing countries should pay the costs of phenomena not caused by them? Why are the poor specially damaged by processes like soil erosion or floods? The Kyoto agreement was an important step in the control of global warming, but the probabilities of its fulfilment, particularly by developed countries, are really very low. Again, this is a case of unfair rules of globalization, of too little globalization, because we cannot speak of fair trade in the presence of such huge negative externalities.

4. *Barriers to knowledge access.* The fourth issue I want to raise is the limitations imposed to the free access to knowledge. We all agree that we are leaving in a 'knowledge society' and that the access to education, information, technology and science is the key not only to economic growth, but

also to the building of more integrated societies. Perhaps, most of us do also agree on the necessity of a prudential property right protection in the case of intellectual goods and services, in order to have the right incentives to induce their production. At the same time, the way these rights are enforced in the real world allows the emergence of different kinds of monopoly. This has very negative consequences not only on economic development but also, when health issues are involved, on life expectancy of million people, particularly in developing countries. It is true that the fast development of internet is contributing to an important democratization of knowledge. Anyway, it seems evident that, in order to get fair play in the globalization process, we need a new international framework for a non-monopolic protection of intellectual property rights.

#### *A tipology of governments*

The outcomes of the flip side of the coin of globalization are not limited to the economy or to social life, but they also reach the field of politics. On the macro side, the emergence and, particularly, the probability of success of nationalistic ideologies and movements are very frequently associated with bad economic or social performance. On the micro side, when people cannot have access to legal ways of life, the probability of illegal behavior is really higher, either regarding international activities like drug production, narcotraffic and weapon traffic, or regarding national activities, like creating opportunities of rent-seeking and different kinds of bribery. As the vicepresident of Bolivia Jorge Quiroga said: 'The key of the question is that developed nations should open their markets in order to allow the profitability of economic activities different from coca crops'.

Perhaps the following tipology will help us for a better understanding of the issue of globalization and governance, and particularly corruption. My own hypothesis is that the place a country has in this typology is critical to understand the prevalence and the kind of corruption it has and its future developments.<sup>12</sup>

Countries in the NW quadrant not only have been the most successful regarding economic development, but also have had their regulations enforced by governments long ago established from the civil society

<sup>12</sup> The variables of our tipology are partially taken into account by the author when introducing colonial past, religious traditions, and democratic institutions as important explanatory variables for the level of corruption.

## TIPOLOGY OF GOVERNMENTS

KINDS OF GOVERNMENTS	ESTABLISHED 'FROM THE BOTTOM'	ESTABLISHED 'FROM THE TOP'
REGARDED AS LEGITIMATE	Constitutional monarchies/ New countries (North America and Oceania)/ Commercial republics	Absolutist monarchies and successor states
REGARDED AS ILLEGITIMATE	Paralell governments: maffias, guerrillas, bandoleers	Dictatorships (Africa, Asia, Latin America in the past)

upwards. Those regulations are, for that reason, legitimate or, as Max Weber said, people in those societies tend to act *as if* those were legitimate. This legitimacy is the matrix that gives birth, simultaneously, to accountability and law enforcement. At the same time, the principle of fiscal correspondence, clearly stated in sentences like 'no taxation without representation', was one of the bases of that legitimacy. This was typically the case of constitutional monarchies in Northern Europe, their offsprings in North America and Oceania and commercial cities or republics. In these countries, and for the same reasons, local governments have been traditionally very important. The possibility of corruption is always open, but societies' control imposes stricter limits to bribery.

In countries of the eastern quadrants, on the other hand, the presence of absolutists or very powerful monarchies or dictatorships was much more pervasive and, as a consequence, people got used to perceiving much of their regulations as illegitimate.<sup>13</sup> Moreover, the idea of legitimacy itself originally became from top to bottom and an anthropomorphic idea of the

<sup>13</sup> By the way, this tipology could also lead us to a better understanding of the relationship between religion, economics and politics. Even when protestantism is positively associated with less corruption and more economic development – as Braga de Macedo says following a very long tradition – is probable that the efficient cause of this association is the type of government as suggested in the tipology.

State, with capital letters, still tends to prevail. Local governments, on the other hand, tend to be weaker.

Let me remember in this context the Italian saying: 'Se piove, governo ladro; e se non piove, governo ladro'.<sup>14</sup> Illegal activities have tended to be frequently seen as legitimate, because they were considered as a reaction against a government perceived as illegitimate. A very clear and widespread example of illegal behavior is tax evasion. And a typical situation in which it arises, as can be read from the Gospel onwards, is the imperial or colonial domination. Of course, if because international economic conditions or otherwise, legal ways of winning the bread are scarce, different kinds of rent-seeking and bribery are going to be much more frequent. The other side of the coin of this 'legitimate' bribery of the citizens is the equally 'legitimate' corruption of governments that comes from the fact that their control from society is very weak.

Under extreme conditions, a complete parallel government is created through guerrillas, mafias or bandolerism (SW quadrant). One of the most interesting cases we can quote in this context is Sicily. Its capital, Palermo, was the most populated European city at the eve of the second millenium (Shleifer and Vishny).<sup>15</sup> Precisely from those times onwards a never ending succession of foreign princes invaded and dominated the island, as Lampedusa in *Il Gattopardo* so wonderfully tells us. The most striking outcomes of this incredibly long historical process were the economic stagnation of Sicily and the development of a powerful mafia, so pervasivse that have even been exported to other countries.

'Quality of government' has historically meant: legitimate and deep rooted origin, fiscal correspondence, rule of law, accountability, societal control and law enforcement. On the other hand, once behaviors like rent-seeking and bribery become widespread in society, they tend to survive far beyond the removal of its original causes.

It seems clear that deep changes in the political decision making process, along the lines just mentioned, are critical either to significantly reduce corruption, at the national level, as well as to build adequate institutional frameworks at the regional and international levels. The reconstruction of fiscal correspondence, i.e., the unification of the roles of citizens, tax payers and beneficiaries of public expenditure, can also play a cru-

<sup>14</sup> If it rains, thievish government; if it does not rain, thievish government.

<sup>15</sup> Andrei Shleifer and Robert W. Vishny, *The Grabbing Hand*, Cambridge: Harvard University Press, 1998, esp. chapters 1 and 11.

cial role in this institutional building process. However, looking at the widespread disenchantment towards politics and politicians that is going on in many countries we have mixed feelings. On the one hand, this is putting strong pressures to improve the performance of political systems. On the other hand, they can lead to anti-democratic governments. In this context, I agree with the author that the outward orientation, either regional or international, can play a very important role as a quality enhancer for domestic institutions and growth.