

# Regulation and Corruption: A Hidden Relationship

Byung-Sun Choi\*

**Abstract:** It is a *non sequitur* to attempt to combat political and bureaucratic corruption while leaving intact the existing regulatory structure and practices—the single-most important source of incentives to engage in corrupt activities for both private and public actors. Anti-corruption efforts will be self-defeating if they are made without keeping this fact clearly in mind. Unfortunately, however, this obvious fact is not well recognized. The lack of recognition can be found in the widespread erroneous belief that all the government regulations exist to protect and enhance the public interest. This is emphatically not so. As abundant literature on rent-seeking or economic theory of regulation amply attests, a large chunk of regulations has come into being as a result of self-interested attempts to appropriate economic rents, which must be created in the exercise of government's power over allocation of resources. Nevertheless, the efforts to put existing regulations under scrutiny from this perspective have been conspicuously lacking in the anti-corruption movement. Most importantly, we have to examine them whether they are of such a nature as to come into existence to promote particular actors' interest in disguise of public and general interest. In addition, we have to see whether they are simply mal-designed to encourage corruption at the stage of implementation. In this paper I will try to give pertinent examples of each with a particular reference to Korea, and strongly contend that anti-corruption should go hand in hand with regulatory reform, the emphasis of which should be placed on making regulations more market-conforming, transparent, and self-enforcing.

## INTRODUCTION

What is the cause of political and bureaucratic corruption? The most frequent answer is that it is one of or a combination of the following. First, some political actors (legislators) and bureaucrats are so corrupt that they use the public authority entrusted to their discretion for private interest. Second, private actors tend to seek special gains by bribing political actors and bureaucrats. Third, anti-corruption measures are ineffectual. While it is true that, in these situations, corruption is more pervasive, to say that these factors constitute the main fundamental causes of corruption is wrong-headed.<sup>1)</sup>

---

\* Seoul National University, Korea

1) Certainly, these factors contribute to corruption that arises in the process of allocating, distributing and using governmental financial resources, or in the process of government procurement. However, when corruption is examined in connection with laws, regulations and public policies, as in this paper, these

If such conditions prevail, corruption cannot be contained for good, since there are always corrupt and self-interested political, bureaucratic and private actors (Choi and Sakong, 1997).

In this sense, this way of answering is tautological. It cannot provide a persuasive argument for why corruption persists in defiance of the ongoing anti-corruption movement, either (Kanti Dey, 1989: 503). It goes without saying that under the same laws and regulations, or in the same policymaking and implementation environment, when these conditions become more serious, the corruption problem would certainly be getting worse. However, it is also obvious that if these laws, regulations, and policymaking and implementation practices themselves contain the seed of corruption, it would be almost impossible to uproot corruption. We reach this situation when laws and regulations are economically unreasonable and non-transparent,

---

factors no longer figure prominently.

and enforced in arbitrary, prejudicial and inequitable manner.

Thus, laws and regulations, and public policies are potential sources of corruption. This may sound very strange to those who believe that all laws, regulations and policies are made to benefit society and enhance public interest. Certainly, all laws, regulations and policies should follow this dictum. However, in reality and from the political-economy point of view, it is fair to say that the ideal is rarely achieved, since laws, regulations, and public policies are political products that exist only as a result of political influence and rent-seeking behavior in one form or another. In some cases, nonetheless, some of them may serve public interest. In most cases, however, laws, regulations, and policies provide fertile ground for seeking self-interest and prime opportunities for corruption.

This suggests that any anti-corruption efforts are to no avail unless they are undertaken in full cognizance of the inseparable relationship between corruption and laws, regulations, and policies. In order to control corruption more effectively, it is necessary to review the legislation and policies with a suspicious eye toward corruption. This paper seeks to explain why laws, regulations and public policies—hereafter referred to as regulations—serve as a fertile ground for corruption and suggest ways in which regulations should be reformed. The focus will be on illustrating the mechanisms through which rent-seeking behaviors take place and analyzing how opportunities for and the patterns of corruption in the areas of economic and social regulation differ in these respects.<sup>2)</sup> Along the way, the paper will call attention to why reform of economic regulations tends to be more difficult to undertake.

---

2) Rent seeking is defined as the collusive pursuit by producers of restrictions on competition that transfer consumer surplus into producer surplus (Tullock, 1990: 199).

## ECONOMIC REGULATION AND CORRUPTION

Economic regulation—including entry regulation and price regulation, among others—is a regulation whose common feature is that it restricts market competition in one way or another. As long as market competition is reduced or restricted, economic rents,<sup>3)</sup> which are akin to monopoly profits (rents) and are more stable and resilient than those that might be obtained in normal market process, invariably arise.<sup>4)</sup> In other words, in regulated industries, owners of factors of production—capitalist or laborer—earn extra incomes in excess of incomes normally attainable in a competitive market. Here we can find the reasons that industries are often the first to call for regulation in the name of public interest. Although most economic (and industry-specific) regulations come into being in this way, the result is not affected even if industries become ostensibly regulated for the public interest. It may run counter to one's understanding of economic regulations, but this misunderstanding leads one to be oblivious to the notion that even public-interested regulation usually begets corruption.

The most obvious case is the protection of domestic (infant) industries from foreign competition. From the nationalist perspective, fostering the development of domestic industry through trade regulations is a lofty and laudable goal. Nevertheless, a political-economic analysis of trade protection invariably shows that protective regulations

---

3) Economic rents are defined as incomes accrued to the owners of factors of production in excess of incomes to be earned in their next best alternative employment.

4) Economic rents that are created by entrepreneurs' new technological development, managerial innovation, etc eventually disappear as other competitive firms enter the market and emulate the market leader. In contrast, economic rents created by the government in a fashion to restrict market competition tend to persist.

create economic rents for domestic industries to the detriment of public (i.e., consumers' and related industries') interest. Moreover, regulations retard rather than foster the development of domestic industries because of the lack of sufficient competitive pressures and incentives to innovate. Domestic industries that are shielded from foreign competition become more inclined to devote their resources to retain protection instead of undertaking innovative activities that are deemed more costly and burdensome. It is thus no wonder that corruption is widespread in the area of trade regulations (Krueger, 1974; Ades and Di Tella, 1999). Of course, when it is difficult for domestic companies to bribe political and bureaucratic actors, they still have an avenue open to turn the formal policymaking process in their interest. In this case, their lobbying activities consume scarce economic resources--the services of lawyers and political lobbyists, for example--which would otherwise be utilized more productively for other purposes of the society.

Next, consider the somewhat different types of entry regulations of industries undertaken in the name of industrial policy. It is customary for governments to regulate entry into so-called natural monopoly industries such as railroads, electrical power, gas and telecommunications. In many countries, these industries are public monopolies. These public corporations are notoriously inefficient. However, entry regulations in certain industries are undertaken more often to attain the minimum efficient scale of the industries, exploit industrial linkages, turn them into higher value-added industries and create 'national champions.' In these circumstances, it is obvious that such entry regulations restrict market competition and thereby create economic rents for the government-selected firms. As a result, those firms vying for selection have every incentive to bribe political actors and bureaucrats, in addition to advocating the need for protective regulation. Since the economic rents are

enormous, a political-business nexus is usually formed in an attempt to prolonging such symbiotic relationship.

Whereas these industrial regulations normally pertain to large firms in growing sectors, small and medium-sized firms in declining sectors are not immune to this rent-seeking behavior. To their desperate call for relief measures to overcome their difficulties, governments are usually forced to respond by providing market protection in the form of 'industrial rationalization,' or by allowing them to form a 'recession cartel.' The economic effects are the same. The companies are in a position to enjoy economic rents resulting from reduced market competition, while their restructuring efforts are dampened and retarded, thereby delaying the reallocation of resources economy-wide. Even under fair trade regulation, especially when fair trade regulation is misunderstood to mean protection of small and medium-sized firms against larger firms, companies are often granted protection from competition with larger firms. In this instance, however, the charge of corruption is not as strong as the above cases involving large firms.

Occupational licensing for doctors, lawyers, architects, etc. constitutes another major type of entry regulation. People in these occupations strongly favor entry regulation under the pretext of protecting public interest. They argue that without licensing consumers will be harmed by unqualified people providing services. Indeed, there are plausible reasons why occupational licensing is needed. According to the theory of transaction costs, consumers are incapable of discerning qualified from unqualified professionals. Furthermore, the asymmetry of information between the professionals and consumers is so great that the latter cannot correctly measure their performance or enforce effectively service contracts. Nevertheless, these professionals earn a greater income due to restricted entry and consumers must pay higher fees than in a free market. Some consumers simply

cannot afford to such services. It must be noted that these professionals invariably form trade associations of their own, and that one of their main activities is to retain entry regulations that make them wealthier and guarantee a higher social status. Here, the government may not be creating economic rents *per se*, but as long as the government has power to threaten their income and status by deregulating the entry into the professions, trade associations have an incentive to bribe regulators to prevent this from occurring.

Governments sometimes regulate interest rates, a typical form of price regulation for purposes of industrial policy. When interest rates are below market rates, there is excess demand for loans. The difference between the actual rate and the market rate of interest rates amounts to a government subsidy. It is a special privilege for firms or individuals to take advantage of these circumstances, while the government naturally gets a handle on credit allocation of the financial institutions under its control. It would be surprising if private actors are not tempted to bribe political and bureaucratic actors, and if the latter are able to resist the temptation. In some cases, the government will allocate cheap credit to industries designated as important industries. With respect to opportunities of corruption, it does not matter whether industries are so designated; the same situation occurs as long as prices of goods and services are regulated and thus excess demands are created. The government takes on a new, self-assigned role to dole out credit in a discriminatory and discretionary fashion. Examples include governmental allocation of under-priced apartment units, industrial parks, lands, oil, foreign exchanges, etc.

Even industrial price regulation, which on the surface seems far less amenable to private-interest theories of economic regulation, can be a conduit for rent seeking and corruption. To understand this correctly, it is necessary to understand that prices are not usually regulated at a level where only

normal profit is obtained. On the surface, so it seems. Otherwise, there would have been no reasons to control prices in the first place. The reality, however, is that prices are usually regulated at a level high enough to confer economic rents to the regulated industries. One reason for this is that the regulated industries are often those that are subject to entry regulations at the same time. The rationale is clear. Unless these industries have a monopolistic character, market prices will be competitive and consequently, no reason to regulate in the first place.

Similarly, when the government allows trade associations to form price cartels, cartel prices tend also to be set higher than in a competitive market, thereby creating economic rents. Moreover, price cartels raise the possibility that some of member firms will defect and cut prices in an attempt to exploit higher prices. Thus, trade associations that form price cartels usually count on the government to fully enforce the cartel arrangement. Opportunities for corruption arise in these circumstances. On the other hand, if regulated prices are set below competitive prices — a common occurrence — it is probably because the regulated industries was trying to prevent the entry of potential competitors. In either case, it is evident that price regulation, by reducing and restricting competition, presents regulated firms with economic rents.

Up until now, the regulatory environment in which political actors and bureaucrats act as passive agents in corrupt activities has been discussed. In certain circumstances, however, these actors assume a more active role. In other words, political actors and bureaucrats may create a situation in which private actors are forced to present them with bribes, and in this way they can extract private rents (McChesney, 1988). This can be accomplished in two ways (Kanti Dey, 1989: 504; Alam, 1990: 93~94). First, regulators promulgate economic regulations in such a fashion that they can exercise as much discretion as possible.

This condition creates uncertainties for private actors who cannot be sure whether they can continue enjoying economic rents under such regulations and choose to offer bribes. Second, regulators may threaten regulated industries with a price reduction or increased costs. This is why regulators tend to adopt regulatory instruments far more conducive to regulatory manipulation. In short, the ambiguous and non-transparent regulatory standards and criteria tend to pit private actors against regulators, and in the face of a regulatory environment that is highly uncertain and unpredictable, private actors are pressured into doing something (bribery) to avoid the threat of regulations detrimental to their interests.

It is in this context that the regulatory system becomes complicated, and political corruption becomes the dominant form of corruption. When the regulatory regime becomes so complicated that private actors are required to go through numerous steps to obtain complementary permits from many different ministries and agencies to do any business, they may turn to political leaders in an attempt to circumvent the bureaucratic regulatory complications. This tendency is stronger in those dictatorial states in which political power is highly centralized (Shleifer and Vishny, 1993). Even worse, in these states, private actors with political connections or sufficient finances for bribes tend to ignore the problem and costs of unreasonable regulations, since they can get away with them anyway. As a result, actors lacking status or monies cannot mobilize political opposition strong enough to alter egregious and unreasonable regulations. Despite the immense costs to society, such regulations persist, and many private actors find themselves locked either into offering bribes or to withstanding the regulatory burden.

The above is well corroborated in a recent empirical study by Ades and Di Tella (1999). They find in their cross-section analysis "that, other things being equal, countries where firms enjoy

higher rents tend to have higher corruption levels... [We] find that corruption is higher in countries where domestic firms are sheltered from foreign competition by natural or policy induced barriers to trade, with economies dominated by a few number of firms, or where antitrust regulations are not effective in preventing anti-competitive practices. The size of effect is rather large: almost a third of the corruption gap between Italy and Austria can be explained by Italy's lower exposure to foreign competition." (p. 992). This strongly suggests that regulatory reform aimed at making markets more competitive could play a significant role in controlling corruption.<sup>5)</sup>

## **SOCIAL REGULATION AND CORRUPTION**

In the areas of social regulation such as the environment, industrial and workplace safety, and consumer protection, the relationship between regulation and corruption has a different character from economic regulation. Whereas, in the case of economic regulations, corruption may take place in the course of instituting and changing them, it arises primarily at the enforcement stage in the case of social regulations. This is because of the different natures of economic and social regulations. Most importantly, while economic regulations are often cast in an aura that questions their necessity and legitimacy, social regulations, which are generally targeted to correcting market failures in one form or another, involve no serious similar controversy. Instead, most of concern hinges

---

5) Of course, the relationship between competition and corruption may not be so simple or unidirectional. For example, Bliss and Di Tella (1997) note that there is a possibility that the increased levels of competition may lead to greater corruption, while corruption modulates the degree of competition. They conclude: "everything depends on the structure of the uncertainty about the costs that the corrupt official faces." (p. 1021).

whether the chosen regulatory policy instruments are efficient, effective and fair.

First, social regulation, however legitimate, invariably causes an increase in the production costs for the regulated firms. Therefore, regulated firms have cause for concern whether the chosen regulatory instruments represent the most efficient way of solving the problems in question. For social regulation to be efficient, the regulated firms must be permitted some leeway to achieve the desired result at the least cost. This condition, however, is rarely satisfied. One major reason is that the regulators prefer input (technology) standards to output (performance) standards. Input standards certainly help to detect violations more easily, to demonstrate the necessities of regulatory compliance and to communicate to the public that they are performing efficiently, but it does not allow regulated firms, who are in a better position to search the best alternative means to achieve the desired results, a flexible response. This is critical because social regulation is applied to a wide variety of industries and firms differing in innumerable aspects. This economic efficiency problem dominates the controversy over social regulation and lies at the heart of most complaints. Although this rarely represents a factor directly causing corruption, it is nonetheless the most important underlying cause of corruption, as will be discussed below.

A more serious problem with social regulations in relation to corruption is that it is often very hard to implement regulations in such a way that the regulatory burden falls equitably and fairly on regulated firms. There are many reasons for this. First of all, the government (or regulatory agencies) sometimes enforces them strictly, as is the case when accidents, catastrophes, and similar crises occur, while enforces them leniently in times of economic downturn. The same logic applies to geography: the government pushes regulatory standards hard in some regions, while relaxes them

in others. Given the same economic conditions, regulatory attention shifts often; from environmental regulations to consumer protection to industrial safety regulations, as the social conditions at hand dictate. Second, under severe resources constraints, regulatory agencies enforce regulations in a highly selective fashion in terms of both time and place. For example, regulators cannot inspect so many factories and facilities at the same time, and the responsibility for inspection is usually lodged in different levels of governments with varying incentives to enforce them. As a result, similar violations of environmental regulations, for example, are dealt with very differently depending on various kinds of circumstances illustrated above.

This variability of regulatory enforcement causes opportunistic behavior on the part of regulated firms and frequently leads to corruption. As the regulatory compliance cost structure differs, the way in which each firm responds to a diverse set of regulations also varies widely. What we can say, however, is that generally a regulated firm chooses to comply with some regulations whose cost is less than would be incurred under non-compliance, while for other regulations that it deems otherwise, it would rather opt to pay bribes. Certainly, as corruption is a two-way street, such opportunistic behavior of firms must be matched by that of regulatory officials. Here the usual discussion comes in about the calculus of private benefits and costs of those engaged in corruption, where the likelihood of detection and the severity of punishment play a decisive role (Becker, 1976).

Our concern here is different, however. Our concern is with the characteristics of social regulation that enhance or hinder corruption. Broadly speaking, the opportunities for corruption increase when social regulation becomes unreasonable and unrealistic. The government may indulge in authoritarian, patriarchal thinking that concludes that private actors lack autonomy, civic

spirit, the sense of public interest, and social responsibility, so it is necessary to direct and supervise their behavior very closely. Private actors, however, consider such regulations to be too great an intrusion into their autonomy and unduly constraining their economic freedom. Second, in the face of accidents, catastrophes and crises, governments tend to rush into instituting regulations in an attempt to avoid public criticism and scorn. The resulting regulations are often inflexible, unrealistic, and unnecessarily burdensome. Third, when society pursues extremely idealistic standards of conduct and is mindful of eradicating social ills however insignificant they may be (for example, a crackdown on crime when only 1~2% of people or businesses are likely to perpetrate a crime), extremely complicated and unrealistic regulatory measures tend to be put in place. These regulations inhibit innocent private actors from taking innovative and creative endeavors, while they are mocked by the real perpetrators.

Private actors, then, have little incentive to comply with such regulations and tend to ignore them, only to fall victim to corrupt officials. The problem does not end here. In particular, if the mode of regulatory enforcement is perceived as arbitrary, discretionary and unfair, private actors tend to revolt against them. This is especially so when regulatory and law enforcement is under political influence. The arbitrariness and unfairness of such law enforcement not only damages the rule of law but also weakens the credible commitment that is so essential for effective regulatory and law enforcement. The necessary outcome under these circumstances is a vicious circle of regulation and corruption. As regulatory malfeasance and corruption increase, the government tends to respond by further strengthening regulations, which in turn only increases the incidence of malfeasance and corruption (Howard, 1994).

The discussion thus far harkens back to the importance of the economic efficiency of social as

well as economic regulation. In short, unreasonable and unrealistic social regulations result from a biased calculation of benefits and costs of them. There is a notorious tendency to overestimate the former and underestimate the latter. In addition, governments tend to regard administrative regulatory enforcement costs as the cost of regulation to the neglect of private actors' compliance costs, which constitute a far greater part of total costs of regulation. Moreover, although such invisible social costs (brought about by those social regulations) as corruption and damage to the rule of law, are immeasurable, they scarcely figure in designing or reforming regulatory schemes.

Regulatory Impact Analysis (RIA), which originated in the United States and has now become the norm in undertaking regulatory reform in most OECD countries, is especially relevant here. Its goal is to evaluate the economic efficiency and feasibility of regulation so that the benefits of any regulation outweigh the costs. Certainly, conducting RIA's is fraught with difficulties when it comes to considering the regulation's effect on the distribution of income and equity, or when it involves calculating the value of lives saved in the case of safety regulations, since this touches upon human ethics. Nonetheless, it is useful to have policymakers and citizens who both favor and oppose any proposed regulation weigh the regulation's costs and benefits. In addition, rejecting a proposed regulation on the grounds of economic efficiency promotes the search for non-regulatory policy alternatives. In these ways, among others, the RIA's are instrumental for improving the quality of regulation.

## **POLICY IMPLICATIONS FOR REGULATORY REFORM AND ANTI-CORRUPTION**

This paper has argued that far more attention

should be paid to the inefficiency of regulation as the major source of corruption. In addition, the paper has emphasized that we should not be led astray by the ostensible claims of “the public interest” of regulation. The political-economic theory of regulation and the rent-seeking literature amply attest that regulations are often the product of self-interest and frequently subject to political manipulation. Most notably George J. Stigler, who spearheaded the development of a new theory of economic regulation, opened his seminal article with the following:

“The state—the machinery and power of the state—is a potential resource or threat to every industry in the society. With its power to prohibit or compel, to take or give money, the state can and does selectively help or hurt a vast number of industries...Regulation may be actively sought by an industry, or it may be thrust upon it...[As] a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit. There are regulations whose net effects upon the regulated industry are undeniably onerous.... These onerous regulations, however, are exceptional and can be explained by the same theory that explains beneficial (we may call it “acquired”) regulation” (1975: 114).

A clear and accurate understanding of these facts is invaluable to keep us pointed in the right direction. In particular, we should not be deceived by the cover of the “public interest” for government intervention and regulation (Tullock, 1990). If it is fortunate that the recent studies on corruption have begun to give heed to such literature and take a similar tack, it still is unfortunate that the facts stated above are far from being reasonably understood by policymakers, let alone the public at large. Indeed, we need to switch our attention from the consequences of corruption to the very causes of corruption, and from an ethical approach to corruption to economic, or more widely, a social-

scientific approach to corruption.

In this sense, it is an imperative that regulatory reform must constitute an integral part of anti-corruption. Without economically efficient regulations in place, no attempt at anti-corruption can succeed. We need to examine and reexamine the existing economic regulations by asking the following questions. What are the purposes of such regulations? If the public interest is being served, how clearly can it be specified? What in fact is the public interest? Is the public interest argument being made to disguise what in reality is self-interest? To answer these questions correctly and set the course of regulatory reform on the right track and thus to foreclose opportunities for corruption, we need to realize first that “there is no such thing as a free market” (McChesney, 1988: 192). This maxim applies to both economic and social regulation. Moreover, this market-oriented consideration not only pertains to whether to institute economic regulation instead of letting the market decide, but to how to design and enforce social regulation.<sup>6)</sup> Only when we compare situations that would be obtained when market forces are left free to play with those under regulation, can we have an unbiased view of what market could achieve and the limitations of economic regulation. Only when resultant situations when the means to achieve the socially desired outcome is left to private actors’ choosing are compared with situations imposed one-sidedly by regulatory agencies, can we have a balanced view on which side must undertake greater initiatives.

The ultimate goal of regulatory reform is to

6) For example, Rose-Ackerman (1978, 1999) suggested that one way to reduce corruption was to introduce competition at the level of official that receives bribes. When a bureaucrat dispenses a scarce benefit, the existence of competing officials to whom to reapply will bid down the equilibrium amount of corruption. This view is also shared by Shleifer and Vishny (1993).



properly establish the division of labor between the market and the government suitably and in accordance with the changing economic and social environments. In a society such as Korea, in which a deep distrust in the market system and competition prevails, it is very difficult for regulatory reform to achieve this goal. The most important reason, despite the continued efforts of more than two decades, that regulatory reform has failed to produce results must be found in this serious defect. As long as competition is wrongly blamed on for corruption, the breakdown of the rule of law and social disorder, and the government is likewise mistakenly believed to be an entity with perfect knowledge and above self-interest, there is no room for free market competition to play its powerful role. In this sense, the first thing we need to reexamine is the presumption that the government is wise and benevolent. If this presumption is correct, it is incomprehensible why there are so many policy failures, errors and charges of political cronyism. Indeed, most political and economic inequalities in Korea have been produced not by competition, but by government intervention and regulation that was undertaken in the name of promoting economic and social development and correcting existing inequalities.

We ought to understand clearly the vicious circle of government intervention and regulation which is at work, and break out of it. That is what regulatory reform is meant to achieve. It aims to distinguish between “what the government should do and is capable of doing better than the market” and “what the government is not supposed to do and cannot do better than the market.” Only with this correct distinction between the spheres of government and the private sector, can we set the proper limitations on the government’s roles and harness the market forces fully to most efficiently allocate the resources of an economy and society.

Only after thinking through the problem along these lines, can we appreciate the full importance

of transparency, which has now become a buzzword. Transparency reduces opportunities for corruption and malfeasance on the part of political actors and bureaucrats and forces problems in policymaking to come out into the open. Only in this way, can we cast doubts on the current division of labor between the government and the market. Only in this way, can we pin down which tasks are wrongly placed in the hands of the government, and which are better to be left to market forces. Of course, the lines that demarcate the proper spheres of the government and the market are not *a priori* drawn; they must be redrawn and redrawn in accordance with the changing political, economic, social and cultural landscapes. What matters here, however, is a correct understanding of the workings of the incentive structures that arise in each configuration of the spheres. It must be stressed that after many decades of widespread government intervention and the experimentation with a welfare state, it is now a commonsense notion that the market is a better mechanism than the government to allocate economic and social resources.

Tying regulatory reform efforts to anti-corruption efforts would be doubly beneficial. Of course, regulation problems do not only involve corruption, but corruption powerfully points to areas where regulatory reform is urgently undertaken. It should be no surprise that we have come full circle to this perspective taken from Adam Smith onwards regarding government intervention into the economy only after some scholars and researchers studying economic regulation with a keen eye on special privileges and corruption have brought the relationship to the fore. On their part, proponents of regulatory reform, who have shown greater interest in efficiency and welfare effects of regulations, now find that the case for regulatory reform can never be as compelling as when they highlight the logical connection between regulation and corruption. Now is the time for both sides to speak the

same truth. If they can unite and raise their voice together, it will be all the better for both the course of regulatory reform and anti-corruption.

### Bibliography

- Ades, Alberto and Rafael Di Tella. 1997. "Does Competition Kill Corruption?" *Journal of Political Economy*, vol. 105, no. 5 (Oct.).
- \_\_\_\_\_. 1999. "Rents, Competition, and Corruption," *American Economic Review*, vol. 89, no. 4 (Sept.).
- Alam, Shahid M. 1990. "Some Economic Costs of Corruption in LDC's," *Journal of Development Studies*, vol. 27.
- Becker, Gary S. 1976. *The Economic Approach to Human Behavior* (Chicago: University of Chicago Press).
- Bliss, Christopher and Rafael Di Tella. 1997. "Does Competition Kill Corruption?" *Journal of Political Economy*, vol. 105, no. 5 (Oct.).
- Choi, Byung-Sun and Youngho Sakong. 1997. "Government Regulation and Corruption," *Korean Journal of Public Administration Studies*, vol. 5, no. 4, Korea Institute for Public Administration. (in Korean).
- Howard, Philip K. 1994. *The Death of Common Sense: How Law is Suffocating America* (New York: Random House).
- Kanti Dey, Harendra. 1989. "The Genesis and Spread of Economic Corruption: A Micro-theoretic Interpretation," *World Development*, vol. 17, no. 4.
- Krueger, Anne O. 1974. "Political Economy of Rent-Seeking Society," *American Economic Review*, vol. 64 (June).
- McChesney, Fred S. 1988. "Rent Extraction and Rent Creation in the Theory of Economic Regulation," Charles K. Rowley, Robert D. Tollison, and Gordon Tullock (eds.), *The Political Economy of Rent-Seeking* (Boston: Kluwer Academic Publishers).
- Rose-Ackerman, Susan. 1978. *Corruption: A study of Political Economy* (New York: Academic Press).
- \_\_\_\_\_. 1999. *Corruption and Government: Causes, Consequences, and Reform* (Cambridge: Cambridge University Press).
- Shleifer, Andrei and Robert W. Vishny. 1993. "Corruption," *Quarterly Journal of Economics*, vol. 108, no. 3 (Aug.)
- Stigler, George J. 1975. "The Theory of Economic Regulation," in George J. Stigler, *The Citizen and the State: Essays on Regulation* (Chicago: University of Chicago Press).
- Tullock, Gordon. 1990. "The Costs of Special Privilege," James E. Kalt and Kenneth A. Shepsle (eds.), *Perspectives on Positive Political Economy* (Camb., Mass.: Harvard University Press).