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# Good Governance Against Corruption

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## CORRUPTION IN TRANSITIONAL DEMOCRACIES

Barbara Tuchman once observed that humankind makes a poorer performance of government than almost any other human activity. Day in and day out, politicians worldwide are busy proving her right. In this country, Americans are still debating President Clinton's questionable use of his pardoning power during his last weeks at the White House. In India, a government minister was recently caught on candid camera accepting a \$2,000 "donation" from internet journalists pretending to be sleazy arms merchants. In Italy, the "clean hands" scandals of the early 1990s swept away an entire generation of politicians. In Germany, Helmut Kohl, leader of the Christian Democrats, has just paid a fine to head off a trial over illegal party donations. In France, a state oil company's slush funds are even now being traced to the highest national officials. In Japan, since the 1970s, successive corruption scandals have brought down one government after another.

As a degenerative disease of governments, political corruption is endemic in the Third World. In parts of Africa, it has caused legitimate authority to disintegrate and entire states to collapse. In East Asia, it has become the biggest problem of both transitional democracies and authoritarian regimes. Minxin Pei, of the Carnegie Endowment for International Peace, suggests that graft may cost the Chinese economy 4 percent of its Gross Domestic Product. A 1999 *World Bank Report* estimated that 20 percent of the Philippine government's budget (equivalent to \$3.25 billion in 2000) is lost to corruption every year. After surveying business executives, country analysts, and ordinary people in 90 countries

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in late 2000, Transparency International ranked China sixty-third and the Philippines sixty-ninth (tied with India) in their degree of corruption. The Anti-Corruption Campaign Group ranked Singapore sixth; Hong Kong, fifteenth; Japan, twenty-third; Taiwan, twenty-eighth; Malaysia, thirty-sixth; South Korea, forty-eighth; Thailand, sixtieth; Vietnam, seventy-sixth; and Indonesia, eighty-fifth (lumped together with Angola).

Why has corruption become so widespread? The simplest reason is the increased opportunity for rent-seeking and crony capitalism that aggressive state interventionism in the economy creates. Economic modernization in our time—late industrialization—calls for a greater degree of state intervention than in the eighteenth and nineteenth centuries, when the western countries industrialized by invention and innovation. The problem is that, in transitional societies, the state is typically inefficient and ineffective. It cannot prevent interest groups from capturing interventionist policies for their own benefit. India's "License Raj" was a well-known example of how interventionist policies by "weak states" create profit opportunities for crony-capitalist networks.

In the Philippines, during our own protectionist period—which began in the 1950 and lasted well into the 1980s—the government routinely fixed prices, allocated import licenses, approved preferential loans, gave away tax incentives, and limited entry to specific industries. In addition, of course, it awarded extremely high tariff protection to infant industries, which never grew up enough to compete in the world. At one point, Filipino consumers had to pay nearly four times world prices for imported luxuries.

In their effort to spur development, governments also increased public spending for infrastructure and social services. This made public works projects attractive milking cows. An Asian Development Bank (ADB) expert estimates that as much as one-third of public investment in many Asia-Pacific countries is being dissipated in graft.

#### **TRANSITION TO REPRESENTATIVE SYSTEMS MADE CORRUPTION MORE WIDESPREAD**

In many cases, the problem of corruption is simply that of badly underpaid officials possessing wide discretionary powers over the conduct of business, the amount of taxes you must pay, and even whether or not you are to go to jail for violating some law or other. In Indonesia, the impoverished state pays barely a third of what it costs to maintain the armed forces. Local commanders must raise the balance by generating "off-budget" income. In most poor countries, corruption has become so commonplace that business people regard bribes as a kind of transaction cost, an informal "user's tax" paid to grease the wheels of slow-moving bureaucracy.

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Even efforts to modernize public administration may increase corruption, at least in the short-term. One example is decentralization. Giving local governments greater authority can increase corruption in provincial and municipal administrations ill prepared to handle new responsibilities. As the World Bank warns, "Devolution of large amounts of state resources to a level of government that has had little past experience risks the money being abused." In Malaysia, the ruling party's *Bumiputra* policy to raise the Malay majority's stakes in the economy seems to have generated, as a byproduct, cronyism and the debauching of public corporations.

The transition from authoritarianism to representative systems has, by itself, made corruption more widespread. Formal democracies increased from 30 in 1974, to 120 at the turn of the century. The dismantling of the authoritarian state often brings back to power opposition politicians long out in the cold, and, therefore, eager for their turn at the perks of the office. This transitional period is, typically, also a time of tremendous activity and agitation within civil society. Not only do electorates expect great things from their new democratic government, but the media, reveling in their newfound freedom, are also typically feisty. In the Philippines, metro Manila journalists had a large part in bringing down Mr. Estrada. Newspapers like the *Philippine Daily Inquirer* in Manila, *The Nation* in Bangkok, and *Tempo* in Jakarta are all perennial scourges to those in political power.

#### PATRONAGE MACHINES AND ELECTIONS

Winston Churchill memorably characterized democracy as, "the worst form of government." The representative system does seem that way every time the electoral cycle reaches its peak. Politicians' need to feed patronage and electoral machines is a worldwide problem of democratic politics. In a kind of Gresham's Law, the politician who refuses to make deals and trade favors becomes electorally disadvantaged. In East Asia, campaigns to win over fickle mass-electorates have become more and more expensive.

"Money politics" has become the name of the game in Thailand, the Philippines, Taiwan, and Japan—and it is corruption that finances it. Thai Poll Watch has estimated that, during the early 1990s, up to 50 percent of all votes cast throughout Thailand involved an exchange of money. In the kingdom's poorest region, the independent volunteer group's estimate ran as high as 70 to 90 percent. And during Thailand's recent elections for parliament last January, some 20 billion *bah*t—the equivalent of \$465 million—was apparently given away in bribe money. Local politicians have devised ingenious ways of exchanging money for votes. One popular Thai practice is to give the voter a pair of shoes—one shoe before and the other shoe after the votes have been counted. It is also said that in Japan, in 1992, it was estimated to cost an average of \$68 million to win a seat in the Diet.

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## **CORRUPTION: "THE TRAGEDY OF THE COMMONS"**

Corruption in office is the saddest example of the well-known "tragedy of the commons"—the despoiling of the collectively owned organization that provides public goods. Like the village pasture, the state is owned by everyone and by no one. And because everyone would benefit if government were better run, most people naturally choose to "free-ride" on the efforts of more militant citizens, who bear the private costs of political and bureaucratic reform. Even so, East Asian civil society is angry enough at the magnitude of public corruption to do something about it.

Thus, last January 20, Filipinos threw President Joseph Estrada out of office in a peaceful "people power" movement in which church leaders, business groups, labor unions, professionals, students, NGOs, and the armed forces and national police officer corps all took part.

In Indonesia, President Abdurrahman Wahid is facing corruption inquiries in parliament that seem certain to lead to his impeachment before the year is over. Even among the strongly traditional Japanese, middle class rebellions are rising against factional machines. In Tokyo, the right-wing maverick Shintaro Ishihara has been elected governor. In other prefectures, LDP candidates are being defeated by outsiders who promise to change the ways of government. A few local governments are even rejecting public works projects Tokyo has initiated.

In Thailand's most recent elections, many provincial barons were dumped in the political dustbin. Half of the new members of the kingdom's parliament are apparently young people between 26 and 45 years of age. This purging of the old guard is also true of modernizing sectors of the Philippines.

## **CURBING CORRUPTION IN OFFICE**

By now, most of us realize how corruption saps the resources available for development, distorts access to social services, and undermines public confidence in government. But how is to be checked?

One obvious way is to limit state interventionism: to deregulate the economy, spur competition, and generally allow the market more elbowroom. This is why even China's communist rulers seem determined to dismantle the mechanisms of central control which have shielded China's command economy from global contagions. In the Philippines, over the six years of my presidency, between 1992 and 1998, we were able to curb corruption and organize a modest resurgence of the Philippine economy by dismantling cartels, monopolies, and other forms of crony capitalism left over from the period of protectionism and import-substitution industrialization.

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We started out by breaking up the telecommunications monopoly—of which it was said (by Lee Kuan Yew) that, “ninety-eight percent of Filipinos are waiting for telephones and 2 percent are waiting for dial tones.” Then we went on to deregulate land, air, and sea transport, banking and insurance, the oil industry, water, and mining.

We also began to bring down our tariff walls. By 1994, we had pared down our list of 2,720 trade items once restricted, through either tariff or quotas, to only 183. We made foreign exchange freely convertible, and we lifted all restrictions on remittances of profits and capital. We were able to overhaul the tax system. Until we did so, high income tax payers could deduct as much as 92 percent of their gross incomes!

Early on, we also realized that the bigger the public sector, the greater the scope for corruption. My government, therefore, took up the task of getting itself out of business. One after the other, we privatized the great public corporations, beginning with the flag-carrier Philippine Airlines; the state petroleum company, Petron; the Philippine National Bank; and even the water system of metropolitan Manila.

We laid down a plan, for future governments to take up, for privatizing basic education and hospital health care, mass housing, and the postal corporation. We also increased the maximum penalty for corruption. Mr. Estrada, shorn of his presidential immunity, is being investigated for economic plunder, an offense that is non-bailable and punishable by death through lethal injection. The thrust of the reform has been to get government out of business—off the backs of business people—and to focus it on the basic things it should be doing; which is to provide political stability, a level playing field for enterprise, a policy and physical infrastructure, and the rule of law that people need to pursue the full possibilities of their lives.

Nowadays, in the wake of the civil disaster that the Estrada administration proved to be, our current buzzwords are “transparency,” “accountability,” “predictability,” and “good governance.” We particularly need to increase public oversight of government by expanding the information made available to ordinary people about its activities. Last week, our new president Gloria Macapagal Arroyo revived the presidential anti-graft commission that had been set aside by ousted president Estrada—after I created it in 1994 and made it operationally effective during my presidency.

## **REFORM OF THE ELECTORAL SYSTEM TO CURB CORRUPTION**

Thoughtful Filipinos are also beginning to realize the need to reform campaign financing and to simplify the multiple party system introduced in 1987. Corruption can also result from flaws in political systems everywhere, especially

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in the counting, canvassing, reporting, and validating of election results. In Thailand, as in India, the same system generates intense wheeling and dealing, and the marginal parties who hold the swing votes auction their votes in parliament. In Japan, multi-member constituencies forced ruling-party candidates to compete against each other expensively. Recent reforms have introduced single-member constituencies, but Japan still needs to redraw its electoral map so that rural votes will no longer count three times more than the votes of big-city people.

Most everywhere in the democratic world, reformers need to encourage the evolution of less fragmented party systems and to limit the influence of big money in national politics.

### **WHY REFORM IS SO DIFFICULT TO CARRY OUT**

But why is it so difficult to carry out political and economic reform? The reason is simple. The groups that resist reform are powerful, well-organized, and focused—while active reform advocates and potential beneficiaries are weak, scattered, and disorganized.

The politics of policy reform are such that its costs must be paid before its benefits even become apparent. And the costs of reform must be paid largely by the rich and powerful families and social groups who have historically benefited from their influence over the political and economic system, while its benefits are diffuse and the beneficiaries are largely the inarticulate and powerless masses of ordinary and poor people. Indeed, even common people are sometimes hurt by the initial processes of reform—in the form of higher prices, the dismantling of state subsidies, and joblessness, as once-coddled “infant” industries fold up under increased competition.

For the reformist political leader in a transitional democracy, therefore, reform will often seem quixotic—since it could easily jeopardize his or her own political survival. Even where reelection is not a consideration, it is a rare political leader who will dare challenge the entrenched oligarchy and its allies in the legislature, the judiciary, the administrative bureaucracy, and the mass media.

### **OUTSIDE PRESSURES TO SPUR REFORM**

Fortunately, nearly everywhere in the developing world, outside pressures from globalization are working on the side of reform. Indeed, Beijing reformers seem to be deliberately using international agreements—such as China’s entry into the World Trade Organization (WTO), and aid programs by the International Monetary Fund (IMF)—as counterweights to political and special-interest groups that impede the structural reform of China’s command economy.

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In the Philippines, our commitments to the ASEAN Free Trade Area (AFTA), the Uruguay Round, and the Asia Pacific Economic Cooperation (APEC) forum are all spurring growth. Then, also, the reforms already laid down in the form of legislative measures are inducing their own liberating impetus, particularly since some of our former monopolists are profiting even more from increased business activity.

Indeed, even the loss of the American security umbrella is pushing the Philippines toward armed forces reform and modernization. Since 1947, the U.S. presence had shielded the Philippine state not only from outside threats but also from having to face up to its social inequities. Now we must deal with these threats on our own. The threat from within can be eased only by sustainable development, starting at the community level, which pulls out the roots of rural rebellion—development that lifts up the common life.

### **BUILDING STATE CAPACITY: THE WAY TO GOOD GOVERNANCE**

In the transitional democracies, the central task in the fight against corruption must be to build community and state capacity, because successful development needs an efficient state with transparent government, skilled and honest bureaucrats, stable policies, and an effective legal order. The quality of government is the first requisite to successful economic modernization in our time. Government's ultimate object must be to stop political arbitrariness, replace privilege with efficiency, and establish the social and legal equity that characterizes a working democracy. And the minimum requirement for effective government is one able to resist partisan political demands that would undermine overall economic growth.

In most of the transitional democracies, building the capacity to govern means a virtual renovation of the state. Building state capacity means enhancing the legitimacy and effectiveness of the institutions of government. Public institutions must be virtually rebuilt: to collect taxes broadly and efficiently; supervise banking and the stock market; stimulate development and competitiveness; ensure fair labor practices; develop and maintain infrastructure; offer social security; and efficiently provide services like health care and education.

The discretionary power of the administrative bureaucracy must be reduced by a greater degree of openness in decision-making, transparency in policymaking, accountability in the use of public funds, and by institutionalized regulations through the participation of peoples' representatives.

The building of political institutions may take a long time, and will certainly require intelligent direction, logistics, and patience. It will also require self-denial by the political leadership. In the Philippines, if the civil service is to be professionalized, the first thing the presidency must do is to give up its wide-ranging power to appoint and dismiss officials down to bureau level. An incoming president in my

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country is empowered to appoint some 8,500 high officials—double the number a new American president may appoint. By comparison, an incoming British prime minister appoints some 200 officials. I tried to moderate this awesome power by way of proposed corrective legislation entitled “Right-Sizing the Bureaucracy”—which, by the way, is still in the congressional mill.

This is part of a long-range program I initiated called the “5-Ds” of governance: devolution, decentralization, deregulation, democratization (of opportunity), and development (of the sustainable kind). I have also always believed that Philippine development will have to rely—much more than the East Asian tigers do—on the interplay of market forces. We must allow the free market more room—if only because the Philippine government’s capacity to intervene is less than that of our neighbors.

### **DEMOCRACY: ALWAYS A PROCESS OF EVOLUTION**

Now to sum up and conclude. The struggle against political corruption is an endless twilight struggle, not only in the new nations but everywhere in the world. The poet-philosopher, Vaclav Havel, who is also the Czech Republic’s president, thinks no democracy is ever completed.

“As long as people are people,” Havel once remarked, “democracy in the full sense of the word will always be no more than an ideal. One may approach it as one would a horizon, in ways that may be better or worse, but it can never be fully attained.”

You and I know democratic government to be at best a disorderly business. By argument, debate, and consensus building, democracy must proceed to reconcile conflicting interests. And democracy must also stop to listen for what ordinary people want, because it is they who are most affected by any political decision. In a word, democracy always involves long-maturing, internal processes within nations: in their economies, their politics, their social relations, and, in the end, their collective state of mind.

And even the most “mature democracies” have room for improvement. Consider the continuing influence of money politics in the United States and the persistence of class barriers in Britain. Obviously, there are no easy solutions to the problems of corruption, except to promote an ethical culture that encourages people to take up and fulfill their civic duties.

Fortunately, democracy is part of the spirit of the age. Democracy is the political system best suited to the sophisticated knowledge industries evolving in the global economy. Globalization is unavoidable, and globalization favors the open economy.

Authoritarianism might have been appropriate for the time our countries were undergoing labor-intensive industrialization. But, today, industry is less and

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less susceptible to central organization, as production grows more complicated, more varied, and more flexible. What is more, the structural reforms states must carry out will unavoidably result in more democratic governments. To stimulate individual creativity and invention—and so make their economies more competitive—governments must relax their restraints on individual freedom and civil liberty.

Democracy will thus be a part of the spirit of the new age, as ordinary people claim their right to take part in the economic and political life of national society.

### **BUILDING UP THE BASICS OF DEMOCRACY**

In most of our countries, we have already built up “the bare bones” or the basics of democracy. We can change our rulers without too much violence and bloodshed. And procedural democracy of this kind can lead to genuine democracy.

My own bottom-line requirements for a transitional democracy are three: free elections, free media, and free markets. Free elections guarantee there is open competition for political power, and every successful election helps consolidate democracy. Free media helps ensure people are able to choose their rulers wisely. And free markets, by nurturing civil society, stimulate popular demands for the rule of law and the protection of human rights.

I think it is on specifics like these—on the practical and even measurable concepts and institutions that underpin the truly functioning democracy—upon which intellectual meetings like this one today should focus. And these concepts should include transparency, fairness, and accountability in governance, a level playing field for enterprise, and public spiritedness and civic responsibility on the part of citizens.

If we work together to promote these relatively doable concepts in our national societies, then our Asia-Pacific region will have enduring stability and security, and our peoples will enjoy life-long well being and prosperity.

Thank you and *mabuhay* (best wishes)! ■

