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From Development and Grand Corruption to Governance[1]

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Abstract

In development policy circles, corruption has become a pressing global issue. Yet the contemporary relationship between corruption and development is complex and contested. For many, corruption robs people of economic resources and social wealth, and denudes the state of important capacities. That is, corruption prevents or blocks development. For others, corruption often occurs in the process of development as the form in which a class of developers accumulates wealth. That is, corruption is a phase of development. This article explores the contested relationship through two case studies: in Sub-Saharan Africa and in the former Soviet Union. The article also links contemporary debates about corruption and development with earlier thinking about capitalist progress and development.

Keywords

Development; under-development; underdeveloped; corruption; shock therapy; impoverishment.

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Introduction

Corruption, a word that could not be even used in official World Bank reports until the late-1980s, and which did not become an explicit Bank policy target until the late-1990s, is now seemingly occurring on an unprecedented scale (Jain 2011). According to Frank Vogl (2016), founder of the corruption monitor Transparency International, corruption is now no longer just a minor issue of bribery and petty theft, it '… thrives and is universal'.

The negative effects of corruption are now thought to be manifold, from growing control of political institutions by small groups of economically powerful people, to fiscal and environmental crises and widening inequality. Corruption is said to be holding millions of people in poverty and reducing the possible rate of economic growth as well as the distribution of its benefits. Furthermore, corruption is also now widely seen to be emasculating the state and private institutions that have traditionally been the vehicles for addressing poverty and bringing development. In this context, it is surely worth asking what is the connection, if any, between corruption and development.

In interrogating the contemporary links between corruption and development, this article ties those connections into the longer historical trajectory of capitalist development and corruption. Two decades ago, Cowen and Shenton (1996, 1997) observed that the contemporary literature on development was divided over whether corruption is the negation of development and the marker of the process of under-development, or whether it is a condition which will only be eliminated after development has happened: that is, corruption is a phase of actual development.

The view that corruption is dysfunctional for development—where corruption is tied to state personnel changing policy when induced to do so by bribes and other inducements, or advancing their own direct commercial interests—conceptualises corruption as the negation of the policy of development. Here corruption distorts and refracts the authenticity of development, with the direct policy implication that development can and must be redeemed *from* corruption.

The counter claim is that corruption is essentially the primary accumulation *for* development to occur. In the formation of a class of 'developers', it is first necessary for them to be able to command enough resources to set a process of development in motion. Later, and again in their own self-interest, developers will look to protect their interests by instituting the rule of law, and democratic checks on what is then recast as arbitrary (and corrupt) authority. In other words, developing capitalist nations must generally go through a phase of corruption.

Cowen and Shenton's dichotomy of the controversy over corruption helps to link it to historical debates about development and under-development. As they note, in many ways the current controversies mirror much of the historical evolution of the meaning of development itself (with Cardinal Newman, John Stuart Mill and August Comte as its key figures). Indeed, it is possible to see several phases in the history of capitalism characterised by quite intense concern with the negative effects of capitalist development (including poverty and inequality, as well as concentrated political and economic power). Each age of what is now being termed 'grand corruption' appears to have some of its own characteristics, with, for instance, the 'gilded age' populated by 'robber barons' a central feature of late nineteenth century USA. While there are many parallels with earlier periods, what seems to make the decades from the late 1970s distinct is the apparent universal spread and scale of corruption. Concern for its corrosive and destructive effects (what then World Bank President James Wolfensohn (1996) called the 'cancer of corruption') is characterised as an especially prominent feature of globalisation.

Paradoxically, the contemporary rising concern with corruption is a period when the post-World War II international enthusiasm for development continues unabated. Post-war developmentalism is often supposed to have commenced with US President Harry Truman's inauguration speech of 20 January 1949 linking 'improvement and growth of underdeveloped areas', with the death of the 'old imperialism' (cited in Cowen and Shenton 1996: 7). Despite so much of the rest of early post-war policy being rejected or left behind, the idea of development continues to dominate discussions of global change. Even though the concept of development has changed, international and national planning continues to bear such slogans as 'accelerated development', 'spontaneous development', 'sustainable development', and 'governance reforms to bring development'.

To address the article's opening question about the connections between corruption and development, the paper briefly outlines development's pre-1949 history to show that corruption was integral to the initial formulation of the concept of development. In particular, it will show how the characterisation of corruption became associated with what the project of development was to counter and transcend: the condition of underdevelopment.

The continuity in the relationship between development and corruption is then illustrated with two accounts of the post-1970s drive to bring development, in this case Sub-Saharan Africa and Kenya, and post-1989 Soviet Union and Russia. In the former, 'accelerated development' opened space for corruption on a scale and in forms which were unprecedented; in the latter, nation-states re-entering capitalism were subjected to the notion that (market) development was spontaneous and simply needed the state to wither away. As Janos Kornai argued, this sense of spontaneity meant that it was thought that '[c]apitalism does not need to be imposed on society … If nothing else had happened but [by] removal of the barriers, capitalism would still start to develop …' (Kornai 2000: 32). Instead, via a program of rapid marketisation and privatisation (the removal of the 'barriers' to capitalism that came to be known as 'shock therapy'), control of the state was effectively handed to a small group of powerful state apparatchiks and aspirant capitalists. They found an easy way of accumulating from the privatisation and plundering of state assets. In a very short space of time, one form of concentrated ownership (the socialist state) was replaced by another form (oligarchical capitalism).

The problems of corruption (or non- or distorted development) have recently been reposed in terms of 'governance' and 'sustainable development'. Governance reforms have been introduced with the intention of reining in what had occurred spontaneously when the fetters were removed from private (or privatised) accumulation. Thus, from being concerned with changes to state actions, and in the wake of the failed attempts with initial moves to foster development, we are seeing development further reformed to what is intended under the rubric of governance. Here we can see the politics of governance coming increasingly to the fore, including greater emphasis on state capacities, popular participation and accountability through 'free and fair' elections, and 'transparency' in government decision-making processes.

The corruption of development in the nineteenth century

While the case studies presented below detail the connection between development and corruption in our epoch, it is important first of all to show the intimate and necessary connection between the two in some historical perspective. In brief, the simple argument is that, in the nineteenth century, corruption was understood to be embedded within, and inseparable from, development. Corruption is the process of under-development, rather than the condition of being underdeveloped, or underdevelopment as in the sense implied in Truman's inauguration statement, cited above. Before moving to the case studies, it may be worth a brief diversion into the etymology of the terms corruption and development.

While it is now fashionable to elide development and economic growth with such claims as 'development is more than economic growth', the modern idea of development commenced as a proposed antidote to some of the effects of rapid commercial expansion (that is, economic growth). In the early nineteenth century, progress epitomised by rapid industrialisation in

Europe was also directly associated with growth's negative effects, particularly unemployment, industrial injury and social disorder. Instead of advocating for what are today's 'market clearing solutions', positivists argued that the deleterious effects of growth were predictable and capable of solution. Instead of simply accepting the positive and negative effects of capitalism's spontaneous process of accumulation, intentional development could be engaged to make productive that which had become unproductive, damaged or under-utilised, including labour. Development could, in this way, supplant progress, making change a unity of dichotomies; that is, a combination of spontaneous and intentional processes. Most importantly, the two processes of spontaneous and intentional development could operate in tandem, with no necessary temporal lag. Because of the inevitability of spontaneous development's negative effects, it would even be possible to anticipate their occurrence by intentional development planning.

Intentional development did not aim to override the external authority of capital. As Chalmers Johnson (1999), one of the academics central to the contemporary 'developmental state debate', has stressed, Japan and other similar countries were/are forms of the capitalist and not socialist states. Industrialisation, especially manufacturing expansion, occurred through intentional state practices, which supervised and supported private firms in production and marketing, including through providing subsidised finance and a supply of labour (Amsden 1989).

Spontaneous development, by contrast, represents the imperative to accumulate and capitalists acting compulsively: 'Accumulate, accumulate! This is Moses and the Prophets' in Karl Marx's well-known punning aphorism. By contrast, trusteeship and trustees are required to make forms of intentional development happen, and especially to counter the negative consequences of spontaneous development. Trusteeship is not, however, inevitable, and at various moments is unable to stay the deleterious effects produced by the drive to accumulate spontaneously. Since the 1960s at least, and particularly since the 1980s, the contempt in which trusteeship came to be held created space for a prolonged attack on state practices. The thrust of what is often inaccurately labelled neo-liberalism (Stedman Jones 2014) attached itself to this contempt in the guise of 'freeing up markets', 'letting the market rule' and other similar slogans. State planning to restrain deleterious forms of private accumulation, as well as to reduce unemployment and under-employment, came under sustained global attack.

The effect became what nineteenth century English Catholic clergyman John Henry Newman termed 'under-development' (Cowen and Shenton 1996: 9-10; Newman 1845). This was not a state or condition of underdevelopment—as in underdeveloped areas or nations—but one where corruption attacked the previous basis of state power through which intentional development was joined to spontaneous development. As Cowen and Shenton note, 'Corruption … came to refer to cases where state order had become unstable and national power had declined because the balance of political and economic power had been shifted, either against the few of the aristocracy, or the many, of the people' (1996: 93). And as Cowen and Shenton (1996: 99) go on to conclude: '[w]ith the development of capitalism in the twentieth century, the connotations which had hitherto been conveyed by "corruption" were now conveyed by "underdevelopment"'; that is, under-development as a process akin to corruption as particular actions.

The remainder of the essay shows, through the cases of Sub-Saharan Africa and Kenya on the one hand and post-Soviet Union Russia on the other, how attacks on previously constructed state power led to disorder and plundering of the state. In response to the re-assertion of the external authority of capital, which in many places became grand corruption, we are seeing demands for state reform in the name of governance to bring further development.

Accelerated development

During the 1970s, in a period of slowing economic growth, international supervisory institutions including the International Monetary Fund (IMF) began to warn industrial countries about the dangers of further deterioration in domestic economic and financial conditions, including rising levels of public and private debt. The IMF increasingly demanded cuts to public expenditure as a condition of its lending. Its concern with fiscal austerity continued into the next decade, when Australia too came in for attention. However, the focus upon 'western' democratic countries was distinct from the attention being paid at around the same time on how to 'accelerate' development in 'developing' countries, particularly in Latin America and Africa. For this drive, it was the World Bank's development agency, the International Bank for Reconstruction and Development (IBRD) rather than the IMF, which led the new prescriptive charge.

There appeared to be many similarities in the prescriptions offered by both institutions, which has created some subsequent confusion for many commentators (*vis-à-vis* 'the Washington Consensus'). However, the outcomes, including the concern with governance and grand corruption, show the need to distinguish between what was being proposed for countries 'already developed' and those which were considered, in Truman's terms, 'underdeveloped', and needing development. For the former, reducing debt, cutting public expenditures, removing restrictions on currency fluctuations and privatising state agencies were central demands for IMF loans or credits. These actions, it was suggested, would reduce 'crowding out' effects and open domestic markets to international competition. Given that the industrial countries already contained primarily urban populations, with most workers in waged employment, barriers to reducing wages and labour costs were a central focus of policy prescriptions. Levels of unionisation and the effectiveness of trade unions in determining wages and working conditions, as well as the organisational and political power of labour more generally, were targeted for attack. Protection of manufacturing industries was also to be reduced—and eventually eliminated—in order to produce an international 'level playing field'.

For the developing countries, the prescriptions had some striking similarities: reducing public debt, cutting government expenditure, and so on, appeared in all proposed remedies. The prescriptions for these countries also tried to take account of some striking differences, including that, in most, the bulk of the population lived on rural smallholdings, producing for immediate consumption as well as often for domestic and international markets. The question of how to increase agricultural production by non-waged workers, as well as on large holdings operating as forms of industrial capital, became a central concern for development prescriptions. Most importantly for this essay, it was the attraction of privatisation and the subsequent consequences of privatisation moves, which showed how accelerated development opened the door for grand corruption.

An important document that presented the World Bank's prescription for many countries in Africa was the 1981 *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, commonly referred to as the Berg Report, after the name of the lead author, US economist Elliot Berg. Researched and written when growth rates in many of the region's countries had stalled or declined, the Berg Report endorsed the position adopted by the World Bank's African governors which criticised the 1980 Lagos Plan accepted by African heads of state for a continuation of 'inward-looking' policies. The Bank's approved position would come to be known by the term 'economic liberalisation'. Subsequently this description was swallowed under the omnibus neo-liberalism, a term more correctly reserved for the international vanguardist movement which focused initially upon political-ideological changes in the USA and Britain (Stedman Jones 2014).

In the Foreword to the Berg Report, World Bank President, AW Clausen, asserted that the 1981 Report's central proposal, which placed a greater emphasis upon the private sector:

> … is not a recommendation which derives from any preconceived philosophy of ownership. It derives from considerations of efficiency, which suggest that governments can more effectively achieve their social and development goals by reducing the widespread administrative over commitment of the public sector and

> by developing and relying on the managerial capacities of private individuals and firms, which can respond to local needs and conditions, particularly in small-scale industry, marketing, and service activities. (World Bank 1981: v)

In other words, of particular importance for public policy was the apparently technocratic belief that private enterprises were invariably more efficient than government agencies. Wherever possible, existing public enterprises, including marketing boards and transportation facilities (seaports, railroads, airports), should be privatised. The state marketing agencies were a special focus of attack, backed by the fashionable claim often associated with the work of British economist Michael Lipton (1977), that official setting of domestic agricultural prices shaped a continuing bias in favour of urban consumers and against rural, particularly smallholder producers of food crops.

Despite Clausen's claim that the Berg Report did not stem from 'any preconceived philosophy of ownership', important underpinnings of the report were deeply ideological and without substantial empirical basis. Thus, the proposals to increase agricultural output overlooked the reality that largeholders and smallholders operated according to different rationalities, and that neither danced to the same tune as set by national objectives. As Michael Cowen (1986) pointed out in the case of Kenya, the national government's need for internationally generated revenues through increased exports of agricultural crops, especially coffee, did not necessarily match household need for income to maintain or increase consumption. When coffee prices fell, as they had done from the late 1970s after the Brazilian-frost induced boom of 1975-1977, households acted rationally in pulling out coffee bushes and planting maize for immediate and locally marketed consumption. But, for the Kenyan government, such action was anathema.

With increasing international loans to service, threatening state revenues in this manner was tantamount to treason. That privatisation of the marketing of cereal food crops advantaged large farmers and disadvantaged small producers distant from railheads and major collection points did nothing to help the government politically either. This effect, favouring large farmers over many small producers, was particularly detrimental for incoming Kenyan President Daniel arap Moi, who was trying to distance himself politically from the previous regime by appealing to the 'little fish' and not the *samaki wakubwa* (big fish). However, large farming output of wheat and maize did not increase either. During the 1980s, Kenya had to commit foreign currency reserves—already stretched to meet international loan commitments—to purchase maize and flour (MacWilliam, Desaubin and Timms 1995: 56). Instead of the policies of 'liberalisation' and 'privatisation' promoting increased marketing of produce, households accelerated their shift into arenas of self-sufficiency, producing maize for immediate consumption, as had begun a decade earlier with milk production. For a government that came to power aiming to 'effect (national: SM) self-sufficiency in production and storage of food' such trends were not propitious (Moi 1986: 54).

The World Bank document's producers had provided themselves with an escape clause against such changes in domestic outcomes by stating that, given the diversity of conditions in individual countries, the Berg Report could not 'deal with specific programs or problems of individual countries' (World Bank 1981: 1). Nevertheless, it soon became obvious that the economist Berg was unable to adequately include determinations of political and state power in his analysis and proposals for reform. Thus, what occurred in Kenya in the years after the release of the Berg Report provided a template for what was lacking in the strategy behind accelerated development (MacWilliam 2012). Ignoring the politics of state power, which accompanied the previous decade of stagnation that reform intended to fix, the Berg Report also showed a simplistic grasp of the class politics of what was prescribed.

Privatisation and corruption: The case of banking in Kenya

In 1978, President Moi came to power in Kenya, a country still regarded as one of the economic success stories of post-colonial Sub-Saharan Africa. He immediately set about trying to break the hold on state power of a Kikuyu bourgeoisie, which had been in control through a regime headed by President Jomo Kenyatta. A layer of indigenous, primarily Kikuyu capital, had displaced the previous European dominance of largeholding agriculture and began to move into other areas of commerce, including banking and manufacturing (Njonjo 1977; Swainson 1980). As much as Moi presented a populist image, opposed to corruption and against the Kikuyu commercial interests which had dominated since Independence in 1964, he also represented the drive of a further, second layer of indigenous capital. For this layer, the task was to extend capitalism into other arenas as well as advance the accumulation of a KAMATUSA (Kalenjin-Masai-Turkana-Samburu) bloc of bourgeois and would-be bourgeois (Cowen and MacWilliam 1996, especially Chapter 5).

However, in the circumstances of the 1980s, and the continuing presence of international, Asian and other indigenous capital, the space for any new layer was confined. While there was some room in largeholding agriculture, especially for tea production, further extension in the Rift Valley and adjoining areas brought the Kalenjin bourgeoisie up against other largeholding owners and smallholder demands for land. One resolution of this clash was to privatise state landholdings, most notably forests which included important game reserves and water catchment areas (MacWilliam 2012). Faced with declining living standards and widespread poverty, the regime turned increasingly authoritarian at the same time as it represented the activities of the KAMATUSA and politically allied bourgeois (MacWilliam 2012). As the national economy entered a prolonged downturn, representation of this new layer was increasingly portrayed as corruption on an unprecedented scale. Kenya became like other countries, in Africa and elsewhere, characterised as dominated by 'crony capitalism', 'patrimonialism' and 'the politics of the belly' (Bayart 1993; Robison 1986).

One commercial arena in particular came to be identified with the means by which accumulation was extended during Moi's reign. As Cowen and MacWilliam (1996: 181-182) note:

> From 1978, private banks multiplied as, first, non-Kikuyu staff were promoted within the (existing) parastatal banks and Kikuyu managers, excluded from promotion, set up their own banks and financial institutions …Then, second, Kalenjin-owned banks were created … the 'political banks' were the latter group of Kalenjin owned and/or sponsored banks which were often managed by Kenya Asians and Kenya or expatriate European managers. Given that the late-1980s thrust of the banking phenomenon was to discriminate against Kikuyu-owned banks, it is the sub-set of banks which were tied, one way or another, to the regime which are properly deemed to be political banks.

By the early 1990s, scandal enveloped these political banks which had initially received surplus funds, much of it illegally transferred from parastatals including the National Social Security Fund and the National Hospital Insurance Fund. Much of the credibility of these banks 'rested upon the expectation that the (Kenya) Central Bank would use state finance to bail them out if their loanees defaulted' (Cowen and MacWilliam 1996: 183). The political banks also became conduits for transferring funds overseas, and provided major funding for the ruling party, KANU, at the 1992 election. In short, corruption flourished as the Moi regime extended accumulation into the state itself, via the much-applauded privatisation of supposedly inefficient state enterprises, including banks.

When a major financial scandal erupted in 1990-92 (the Goldenberg scandal), engulfing some of the most important members of Kenya's political leadership, the IMF exerted pressure on the government to close Transnational, the main bank implicated in the affair. This followed the insistence by other donor agencies that all political banks be liquidated (Cowen and MacWilliam 1996: 182, citing Furuholm and Järsenholt 1994). Privatisation of banking, as with other areas of the economy, succeeded or failed according to political as much as commercial criteria. This puts into sharp relief World Bank President Clausen's supposedly non-ideological claim about the superior technocratic efficiency of private over public enterprises.

Sustainable development and governance

Kenya's 'transformation', if it can be called such, was not unique when compared to other countries in the region. By 1989, the World Bank had published a 'long-term perspective study' on Sub-Saharan Africa—*Sub-Saharan Africa: From Crisis to Sustainable Growth*—concluding that the period since the appearance of the Berg Report was not characterised by accelerated development, but something much less rosy. This World Bank report noted that:

> Africa's deepening crisis is characterized by weak agricultural growth, a decline in industrial output, poor export performance, climbing debt and deteriorating social indicators, institutions, and environment. Agricultural output has grown by less than 1.5 percent on average since 1970, with food production rising more slowly than population. Although industry grew roughly three times as fast as agriculture in the first decade of independence, the past few years have seen an alarming reversal in many African countries where deindustrialization seems to have set in. With export volumes barely growing at all since 1970, Africa's share in world markets has fallen by almost half. (World Bank 1989: 2)

Perhaps unsurprisingly, World Bank President Barber Conable pinpointed the inadequacy of public institutions as 'a root cause of weak economic performance' (Conable, in World Bank 1989: xii). He then introduced a theme, first raised the year before in an assessment of ten years of structural adjustment lending (World Bank 1988), which would become central to many development programs for the next two decades:

> Private sector initiative and market mechanisms are important, but they must go hand-in-hand with good governance—a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public. And a better balance is needed between the government and the governed. Thus, the report sets out a range of proposals aimed at empowering ordinary people, and especially women, to take greater responsibility for improving their lives—measures that foster grassroots organization, that nurture rather than obstruct informal sector enterprises, and that promote nongovernmental and intermediary organizations. The growing conviction is that development must be more bottom-up less top-down and that a learning approach to program design is to be preferred to the imposition of blueprints. (Conable in World Bank 1989: xii)

Governance reform was thus formulated out of the earlier failure of measures proposed to 'accelerate development'. As Conable's statement suggests, 'the empowerment of ordinary people', a political recognition of those who did and did not hold power that was missing from the Berg Report, was to be the means of reining in the 'deepening crisis' and producing 'sustainable growth'. In the process, the idea of governance was itself transformed.

As Andrew Kerandi has noted, governance first appeared in a 1988 World Bank Report assessing ten years of structural adjustment lending. The Bank concluded that 'severe institutional and managerial weaknesses in the public and private sector have proved unexpectedly serious as constraints to better performance' (Kerandi 2008: 1, citing World Bank 1988: 3). A year later, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (World Bank 1989) began a policy process through which shifts in political power were to be promoted. In 1992, in another World Bank publication, governance was described in a form which emphasised its connection with development, as '… the manner in which power is exercised in the management of a country's economic and social resources for development' (World Bank 1992: 1). As the document's abstract pronounced: 'Good governance is synonymous with sound development management'.

The idea of governance subsequently underwent further reformulation, under the influence of officials in other countries including the UK, Japan and Australia. As Peter Larmour (1998: 1-2) noted, by the mid-1990s 'Japan's International Cooperation Agency (JICA) began to link good governance with participatory development, democratisation and economic liberalisation'. Citing Australia's Department of Foreign Affairs and Trade, Larmour provides another official definition of good governance as 'open, transparent, accountable, equitable and responsive to people's needs' (1998: 1-2).

For present purposes, the 1992 enlargement of the description contained an even more significant feature. World Bank and other official concern for governance was now moving beyond its roots in Sub-Saharan Africa's 1980s 'crisis of development'. As the World Bank's 1992 report, *Governance and Development,* noted, with the Bank's concern for 'equitable and sustainable development', the 'crisis of governance' first identified in Sub-Saharan Africa was now found to be present in Eastern Europe, Latin America and parts of Asia as well. The document indicated that:

> In Eastern Europe, the lack of a legal system conducive to private sector development is a severe impediment to privatization and new investment. In some Latin American countries, rapid decentralization has outstripped systems of accountability and civil service institutions at the provincial or state and local government levels, which has in turn increased already unsustainable fiscal deficits. (World Bank 1992: 4)

With the dissolution of the Soviet Union, the field for concern about and prescriptions for development was further transformed. While countries in Sub-Saharan Africa, Latin America and Asia continued to receive attention, a wave of prescriptions for bringing development in Russia and other newly independent 'eastern bloc' countries soon appeared. 'Shock therapy' was added to the language of development in order to promote spontaneous accumulation and a class of accumulators while decomposing and transforming the socialist state. Once more corruption was set to go hand in glove with a form of development.

Post-Soviet Russia: Capitalist development unplanned

When the Berlin Wall fell in 1989, the idea that markets were central to capitalist development was still ascendant internationally. Indeed, the collapse of the Soviet Union seemed for a time to signal the historical triumph of market-based capitalism. This view of capitalism was fortified by the Hayekian notion that market processes under capitalism were spontaneous. So, when US government and international agencies were asked to advise post-soviet regimes, the principal reform idea was to bring markets back to the planned economies, and as quickly as possible. For instance, following von Mises notion of 'catallaxy', Hayek suggested that socialism suffered from a failure of socialist economies to develop an 'extended order', which '… resulted not from human design or intention but spontaneously …' from market processes and the cultures that support them (Hayek 1991: 6).

Leading economic thinkers like Frederich Hayek, Milton Friedman, Ronald Coase and others (mostly of the Chicago school but, as we will see shortly, notably from Harvard too) had developed an economics extolling the political and economic virtues of free markets. Institutional advisers whose main experience had been in implementing policies based on their ideas in Latin America—notably Argentina, Chile and Bolivia—became important for post-Soviet reforms. In the former, markets had been brought to life by forms of authoritarian rule. In the latter, advisers fresh from Latin America linked up with leading politicians including Boris Yeltsin, Anatoly Chubais and Yegor Gaidar as well as a handful of senior apparatchiks, to bring market-based reforms (Wedel 1998). And, instead of the World Bank—which had, via its auto-critique of accelerated development in Sub-Saharan Africa, moved away from market-fundamentalism, particularly after 1992—it was the US government and the Harvard Institute for International Development (HIID), which assumed principal responsibility for advising on economic policies.

The two key advisers to the post-soviet Russian regime were Harvard-based economists Jeffrey Sachs and Andrei Schleifer, who together ran the partly US-government funded HIID. Sachs, who had previously worked as an adviser to the Bolivian government (which, through the famous Decree 21060, led attacks on workers under the banner of structural adjustment), was an advisor to the Yeltsin government in Russia from 1991 to 1994, and also advised Poland, Slovenia and Estonia.

Sachs famously advocated a rapid program of transition in Poland and Russia on the basis that, even though there would be some economic dislocation (and thus some fall in output and incomes), the sooner market-based processes got working, the sooner economic growth would recover. 'The economic strategy … argues for a rapid, straightforward and sharp program of economic reform' (Lipton and Sachs 1990, cited in Murrell 1993: 113). The rapid transition strategy became known as 'shock therapy'.

Central to the economic strategy was a program of rapid privatisation and price liberalisation. Jeffrey Sachs (1991: 8) wrote that 'the need to accelerate private[s]ation is the paramount economic policy issue facing Eastern Europe'. A key assumption for Sachs' privatisation program was the Coasian view that markets work best when ownership of economic property is in the hands of agents with an incentive to expand and accumulate capital. Even bad private owners were thought to be better than state ownership (see Black, Kraakman and Tarassova 2000). The privatisation project was thus thought to be about creating capitalist property firstly without capitalists but, in so doing, bringing that class to life. With ownership rights restructured and market incentives instituted, economic agents with privatised property would rationally seek to maximise profits from that property (see, for instance, Schleifer 1998).

As we will show, there already was a class of accumulators and would-be capitalists active in Russia but not in the form that Sachs and Schleifer understood. Furthermore, the HIID advisers, in framing the development project as one of building markets had shown—as had the authors of the Berg Report—that they had no clear conception of the role the state should play in society, including its relationship with contradictory class forces. Indeed, as Louise Shelley astutely notes, the theft of the state that occurred referred not simply to the state property assets handed over to oligarchs, but also to 'functions of the state, appropriated by corrupt officials for their personal gain' (Shelly 2005: 9).

Given this lack of understanding of class, power and capital, it was no surprise that the economic reforms, especially privatisation, would permit state officials and aspiring capitalists to massively enrich themselves. By the mid-1990s, mass privatisation on an unprecedented scale had occurred, and ownership concentration had become extreme. Despite the proposition that markets processes are innate and that capitalist accumulation tends to be crowded out by the state, it turns out that, as William Tompson observed:

> … the defining feature of the relationship between business—particularly big business—and the state in Russia is the extent to which the two have inter-penetrated each other … (and as far as the oligarchs are concerned, their) fortunes have always depended on state patronage (Tompson, cited in Rivera-Werning and Rivera 2006: 130).

Russian privatisation and ownership concentration can be understood as occurring in four main phases:

1. The incumbent managers of many state-owned enterprises, those who exercised effective control over large amounts of state resources, effectively looted those firms.
2. The voucher privatisation schemes, which were quickly subverted by fund managers who tunnelled money out of them and re-emerged as the new owners.
3. The loans for shares arrangement (LFS) where key state assets, especially natural resources, were granted to Yeltsin backers for a fraction of their value in return for electoral funding support.
4. Putin era ownership restructuring, where Putin, his allies in the *siloviki* (colleagues in the military and security services), along with the St Petersburg- based bourgeois which he is said to lead, gained control of the remainder of state property, as well as property confiscated from recalcitrant oligarchs.

The net result was that Russia, as with most other former soviet states, went from one form of highly concentrated and centralised control to another. While the idea informing reform was to bring markets to life and reduce central planning, there were already large markets in the Soviet Union. These just were not the markets that late twentieth century US-trained economists understood. Instead, they were markets in the so-called informal sector, 'black' markets and organised crime. Private economic activity in late Soviet history was formally illegal and variously termed the 'second', 'black' and 'shadow' economy. Indeed, some accounts of the collapse of the Soviet Union argue that the various breaks were *de jure* recognition of the de facto development of these markets, and that the scale of the informal and black markets had made Soviet central planning obsolete (Grossman 1987). What is less controversial was that this class of accumulators was already in motion, and their ties to state power secured, when the Soviet Union collapsed. Market reforms aided their moves to further enrichment when property rights were privatised (Shelley 2005).

Many of the current oligarchs owe their fortunes to the 'loans-for-shares' (LFS) auctions held in mid-1990s, widely regarded as the most scandalous episode of Russian privatisation. The LFS scheme was designed to consolidate the bankers' support for Yeltsin's re-election campaign in 1996. The rise of Roman Abramovich (in 1995-97, a junior partner of Boris Berezovsky), Mikhail Khodorkovsky and, especially, Vladimir Potanin are examples of the LFS phase of accumulation. The other two major winners were in the oil sector, where insiders Vagit Alekperov and Vladimir Bogdanov obtained larger stakes in firms they already controlled. However, the LFS scheme was only one means by which oligarchs managed to secure access to state property (Stark 1996).

However, there was a tranche of older oligarchs from the Soviet-era *nomenklatura* who were either managing the respective enterprises or working in government agencies supervising them. When the Soviet-era firms were privatised, they found ways of converting their de facto control into ownership rights. By the mid-1990s, Russia was clearly a capitalist country, with a capitalist class, but more like late-nineteenth century capitalism in the United States of the 'robber baron' days than late twentieth century capitalism in 'Western' countries.

In the Putin era, a new layer of oligarchs emerged, while others such as Berezovsky, Vladimir Gusinsky, Yakunin, and Khodorkovsky had their property confiscated or positions of power revoked in a series of tax and corruption scandals. Often the property appropriated from the fallen oligarchs and other privatised state assets has been transferred to Putin's St Petersburg-based bourgeois allies (Bershidsky 2016; Reznik 2016).

Almost immediately also, the post-Soviet 'transition to capitalism' became associated with social dislocation and poverty, unemployment, homelessness, food scarcity and a massive resource redistribution and looting, which was reflected in, among other things, severe health impacts. Death rates soared and infant mortality increased rapidly. By 1996, the World Bank was already (implicitly) announcing the failure of the policy of shock therapy. It cited estimates that, during the 1990s, life expectancy had declined rapidly and perhaps 3.4 million people had died prematurely (Rosefielde 2005). In its review of the transition record, the World Bank posed the bleak question, 'Is transition a killer?' (World Bank 1996: 128).

The World Bank report on transition wrote of a neglect of the damage transition had done to people in the former Soviet Union by unchecked processes of spontaneous or immanent development:

> Beyond these essential technical and institutional elements of transition, this Report is about people. It is about how people can be protected from the loss of security and income that can accompany transition, how they can be helped to cope with the increased mobility and know-how required of workers in market economies, and how their children must receive the education and health care that will allow them to contribute to the prosperity to which their countries aspire …. (World Bank 1996: iii)

The World Bank's ten-year review of transition (2002) later extended its implicit critique of shock therapy, noting that there had been a five-fold increase in poverty in post-soviet Russia. In 1998 one in five people in the country survived on less than US$2.15 a day, a standard measure of absolute poverty. A decade before fewer than one in 25 lived in such absolute poverty. The World Bank also concluded that, 'Ownership concentration has been associated with diminished state capacity to provide public goods needed for the market economy as a result of corruption, and weak public sector management' (2002: 5).

Even more explicitly, the World Bank's ten-year review of transition made a direct challenge to shock therapy and its denial of political power. It concluded, for instance:

> Political developments and economic reforms are closely interrelated ... reform choices shape the configuration of social groups and the distribution of power, which affects the structure and functioning of the political system … As a result, a stronger case can be made for identifying the direction of [successful] causation from political choices to economic choices. (World Bank 2002: 22)

But while the hegemonic development policy view is now that Russia is a corrupt state that is preventing development, there is a contending view that Russia is still going through a phase of development. Former Harvard Institute for International Development economist Andrei Schleifer, and his colleague Daniel Treisman, argue that Russia is now just a normal capitalist country. They suggest:

> Countries in this income range have democracies that are rough around the edges, if they are democratic at all. Their governments suffer from corruption, and their press is almost never entirely free. Most have high income inequality, concentrated corporate ownership and turbulent macroeconomic performance. In all these regards, Russia is quite normal. (Schleifer and Treisman 2005: 152)

Conclusion: Corruption, governance, intentionality and capitalist development

This article used Cowen and Shenton's observation about the policy division on development and corruption to explore two cases of development: 1980s Kenya under the influence of the World Bank's policy of Accelerated Development; and 1990s post-Soviet Russia under the policies of shock therapy and spontaneous development. The article showed how, in the two cases of unfettered capitalist development, the destructive consequences were such as to institute forms of accumulation that are now characterised variously as corrupt, oligarchical, authoritarian and kleptocratic. These forms of development are also seen as denuding the state of capacities to ameliorate the destructive effects of accumulation.

The destructive and enduring effects of these forms of development have been such as to provoke a redefinition of the policy of development under the guise of governance and sustainability, to attempt to make productive that which actual development has damaged or displaced. Central to the new policy of development is the renewed view that unfettered development produces forms of disorder, destruction and corruption. This has involved not just a change in the understanding of the dark side of market processes, but also much greater attention to the importance of the state, political power, legitimacy and social organisation (Ostry, Loungani and Furceri 2016; World Bank 2017). As World Bank President Paul Wolfowitz observed about anti-corruption initiatives in 2006, now at the centre of international state practices and policies to ameliorate forms of capitalist development and bring development:

> In the last half-century we have developed a better understanding of what helps governments function effectively and achieve economic progress. In the development community, we have a phrase for it. We call it good governance. (Wolfowitz, cited in World Bank 2007: 1)

Under the expanding rubric of governance, a notion of the developmental state (though perhaps not the often-corrupt nation state) is re-emerging, but so too is the focus on social and political organisation. As a World Bank report put it, one of the lessons for strengthened governance and anti-corruption is the necessity of '… capacity in government and institutions outside central government, such as parliament, civil society, media and local communities, as well as an enabling environment in which these stakeholders can operate' (2007: iv).

Nobel Laureate institutional economist Douglas North recently gave this re-evaluation of development an explicitly political economic twist, and reminded us of its nineteenth century links. In pushing away from economistic conceptions of development as a spontaneous market process, he has rediscovered what Cowen and Shenton characterise as intentional development. North now claims that:

> The key to understanding the process of change is the *intentionality* [emphasis added] of the players enacting institutional change and their comprehension of the issues … In the Western world … we tend to take order for granted. We should not. Disorder—revolution, lack of personal security, chaos—has characterized a great deal of the human condition … Understanding the underlying conditions of order and disorder is essential for coming to grips with the process of economic change. (North 2005: 3)

North is saying here that corruption is one marker of non-development (or, as the World Bank puts it, one outcome of poor governance). He is also suggesting that it is possible and indeed desirable to intentionally govern to avoid or minimise disorder that inevitably comes from forms of spontaneous development.

More recently still, Francis Fukuyama has revisited (and recanted much of) his earlier thesis about the inevitability of progress and democracy under capitalism. In the face of mounting evidence of illiberal and oligarchical nations in the Middle East, Africa and Eastern Europe, Fukuyama (2006, 2014) has recognised the fragility of democracy and democratic institutions. After breaking with the neoconservatives in Washington, following unsuccessful military incursions in the Middle East, Fukuyama has shifted from urging US foreign policy-makers of the need to target anti-democratic governments (regime change), onto highlighting the need to actively promote democracy. In engaging with the shift of development policy toward governance, he has also been arguing for a changing focus from checking state power to developing state and civil society capacities.

While good governance and democracy tend to be twinned in development policy, Fukuyama has, more recently still, even suggested that the state can assert trusteeship (or, in his terms, good governance) through greater administrative capacity and autonomy *from* political forces (Fukuyama 2013). Indeed, he is now suggesting a provisional definition of governance as 'a government's ability to make and enforce rules and deliver services, regardless of whether the government is democratic or not' (Fukuyama 2013: 3). He motivates this rather instrumental and democratically agnostic view of governance on the basis that that he, following Michael Mann, is now more interested in 'infrastructural' rather than 'despotic' power. In articulating this view, Fukuyama leans toward a trusteeship concept of state power, which emphasises the role of development in producing social order. According to Fukuyama's new approach to political and social order, '[w]hat really distinguishes political systems from one another is the degree to which the elites ruling them seek to use their power in the service of a broad public interest or simply to enrich themselves, their friends and their families' (Fukuyama 2016: 1).

Finally, Jeffrey Sachs (2017), who moved on rapidly from Eastern Europe, notably playing a leading role in the development of the UN's Millennium Development Goals, has also expressed growing scepticism about the political and economic benefits of unfettered global capitalism. Sachs too has followed the move in development policy toward state capacity building and collective government action. But, given the problems with turning plans for intentional development such as the Millennium Development Goals into action, he is now interested in how to make development happen, extending his interest to political and civil society. Similar to Fukuyama, Sachs now regrets the loss of political power of middle and working classes. Commenting specifically on the demise of the political and organisational power of labour Sachs now laments:

> The parties I most admire are the social-democratic parties, and they're disappearing in most places, because their sociological base, which was trade unionism, has disappeared. We really need to reconstitute politics on a new sociological base that makes sense, given how people live, what young people do, how they earn their incomes, and so forth. So politics needs to be remade, I believe, through mass participation. (Sachs 2017: 7)

North, Fukuyama and Sachs thus bring us to the historical origins of our current thinking about capitalism, development and corruption. After two decades in which progress has been linked to re-imposing the external authority of capital under the banners of accelerated and spontaneous development, responding to the negative consequences (including much of what is now being called corruption) of this form of development is seeing efforts to ameliorate those effects. In so doing, the intentionality of development and the agency of development are again being brought to the fore. Whether it is under the banner of governance, sustainability or North's intentionality, the contradictory poles of capitalist development are now the subject of active policy and academic debate. And these debates echo and rhyme with earlier nineteenth and early twentieth century debates about progress and development under capitalism. As Cowen and Shenton speculated in the mid-1990s when contemplating how intentional development might be reformulated in the face of non-development, labelled now variously as failed states, illiberal capitalism or grand corruption:

> The main vehicle will be an amalgam of official and non-governmental aid organizations whose task, in assuming the mantle of development, is to confront the destruction wrought by progress. In the face of a corrupt leadership, trusteeship (though none dare speak its name) will have to be exercised by the

knowing and the moral on behalf of the ignorant and corrupt. (Cowen and Shenton 1995: 57)

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