

# Systems Corruption And The New Economic Policy

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*A potential for systems corruption has emerged alongside the provisions of the New Economic Policy (NEP) for creating a class of Malay entrepreneurs. The forms this potential may take in a policy system are varied and include black markets and diversion flows in allocative domains, corruption rent and discriminatory rule enforcement in regulating domains, and corruption tax collections in extractive domains. Actualization of this potential by organized groups aware of its existence has adverse allocative and welfare consequences for the final direction and outcomes of public policy. Consequently, policy analysis would benefit from models that treat corruption as a problem arising as a result of the inappropriate use of political, bureaucratic and self-governing structures and organizations in tackling the fundamental economic problems involved in the provision of public goods and services. Moreover, the aim of policy analysis should not be to prescribe an ideal situation of no corruption but to prescribe the limits to which private-regarding behavior can be tapped for the overall good of the system.*

## Introduction

This paper looks at some dimensions of systems corruption<sup>1</sup> in Malaysia, the roots of which lie in the structure of public policy and the

mode of its implementation. The focus of study is upon the policy provisions of the New Economic Policy (NEP), particularly upon those provisions designed to create a class of Malay entrepreneurs in the field of commerce and industry.<sup>2</sup>

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<sup>1</sup>The term "systems corruption" is used here to denote a mode of holistic corruption that is capable of affecting the whole political-administrative system, as distinct from other modes of corruption that affects only parts of the system. See Omotunde

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Johnson, "An Economic Analysis of Corrupt Government," in *KYKLOS*, Vol. XXVIII, (1975), pp. 47-61; and J. Waterbury, "Endemic and Planned Corruption in a Monarchical Regime," in *World Politics*, Vol. XXV, No. 4 (July 1973), pp. 533-555 for analysis of corruption at the holistic level.

<sup>2</sup>The New Economic Policy, formulated in 1971, attempts to achieve national unity through its two-pronged strategy of (a) eradicating poverty irrespective of race, and (b) restructuring society to eliminate the identification of race with economic function and specialization. The substantive aspects of the NEP are not really "new" and in many ways represent a continuation of past planning orientations. What gives it significance is its political and ideological value as a point of synthesis for various political ideas in the system. See Chandra Muzaffar, "Some Political Perspectives on the New Economic Policy," paper presented at the 4th Annual Convention of Malaysian Economic Association, May 19-21, 1977.

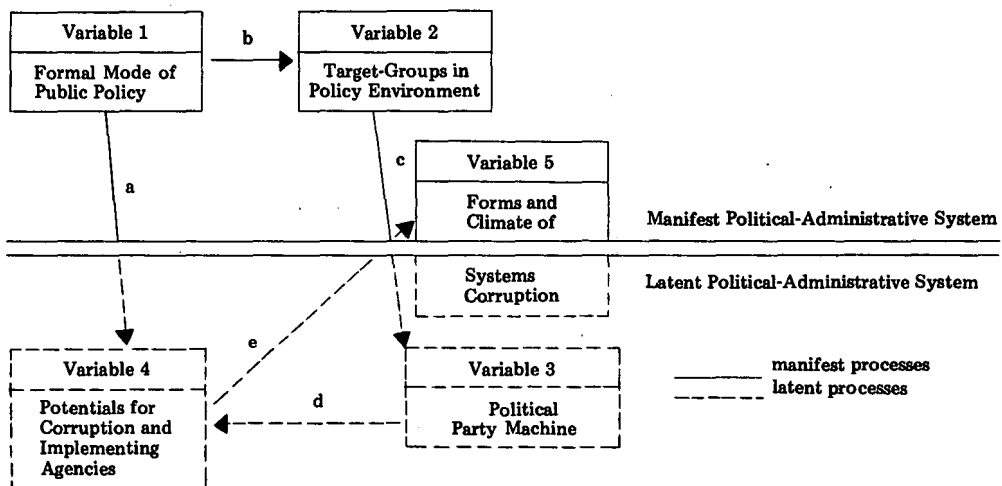
The thesis advanced is that a potential or capacity for systems corruption has emerged alongside the provisions of the NEP for creating a class of Malay entrepreneurs. This potential can be actualized when interest groups are brought into a state of awareness of its existence, come to a mutual understanding of their interests, and actively seek to capture it through organized efforts. The presence of this potential stimulates corrupt practice throughout the political-administrative system and is manifested in the form of a climate of corruption. Attempts

by organized groups to capture this potential have adverse allocative and welfare consequences for the final direction and outcomes of public policy.

**Framework of Analysis**

The elements and dynamics of this thesis can best be shown in the form of a simple diagram, as illustrated in Figure 1. A brief discussion of the variables identified in systems corruption is presented below.

**Figure 1. Variables and Dynamics In Systems Corruption**



**Dynamics in Systems Corruption:**

- a — Institutionalization of Potentials for Corruption in Arenas of Public Policy.
- b — Impact of Policy Outputs — Potential Winners and Potential Losers.
- c — Vehicle through which Propensities for Corruption are organized and given expression.
- d — Debureaucratization of Administrative Structures and Attempts to Actualize Potentials for Corruption.
- e — Transformation of Potentials into Forms and Climate of Systems Corruption.

*Variable 1 — Institutional Context*

Prior to the NEP, direct governmental intervention in the field of commerce and industry had been rare and limited. Currently, this field has acquired a "new" importance on account of (a) the provision of substantial *allocative* benefits/opportunities to induce Malay participation,<sup>3</sup> and (b) regulation of non-Malay, particularly Chinese, business behavior through a body of rules, regulations, and structures that impinge directly or indirectly upon their patterns of expectations.

*Variable 2 — Policy Environment and Target Groups*

The presence of this mix of allocative benefits/opportunities and regulatory requirements has implications upon the manner in which the impact of the NEP is politically perceived and evaluated by groups in the environment. Clearly a structuring of groups into "potential winners" and "potential losers" is present in the situation or at least in the perception of the situation by these groups. The important thing is that, irrespective of whether the impact is an intended design of policy or a purely perceptual phenomenon, it influences groups to behave in certain ways.

To the "potential losers," the threat of relative deprivation in the domain of their vested and established interests leads to an "extended search" for political protection in an unstable policy environment. They are impelled to seek "connections" and to offer a sharing of their wealth and interests

in exchange for continued access to the arena and participation in new opportunities in this field.<sup>4</sup>

To the "potential winners," the provisions of the NEP for creating a Malay entrepreneurial class provide an opportunity for self-gain and benefit. Predictably they are by virtue of their connections, status, and access to the power structure in a position to benefit principally as the direct recipients of these allocative provisions. The nature of this propensity for gain is not to be seen purely in terms of a "greed or venality" thesis as suggested by some.<sup>5</sup> Instead it has to be examined in terms of the dominant class interests and motives prevalent in the political community. To many, these provisions represent a solid opportunity for effecting a change for vertical mobility from the traditional agricultural and

<sup>4</sup>This situation may have resemblance to that described by Fred Riggs and amplified by James Scott in his analysis of corruption as the "pariah-entrepreneur" thesis. Though the broad lines of argument are valid, certain unique characteristics of the political community of the Chinese have to be noted: (a) their numbers, (b) their access to formal channels, and (c) their representation in the power structure which negates their status as a "pariah community." Consequently, more importance should be placed upon patron-client exchange relationships and upon economic wealth sharing and partnership arrangements than upon active patterns of open bribery. See R.S. Milne, "Patrons, Clients and Ethnicity," in *Asian Survey* October 1973, pp. 891-907. The policy environment discussed here consists of potential winners, potential losers and others who do not have the resources or access to the policy system.

<sup>5</sup>See Ghyasuddin Ahmad, "Roots of Corruption — A Sociological Analysis," *Bangladesh Observer* for an application of this thesis in the context of absolute economic poverty and deprivation.

<sup>3</sup>Details of these provisions are given in paragraph 583 to paragraph 610 in the *Third Malaysia Plan (TMP)*, 1976-1980.

urban middle (working) class to the capitalist-entrepreneurial class. Part of the strength of this propensity is historical, and part of it is a phenomenon of rising aspirations growing out of a "successful" mental revolution initiated from the top.<sup>6</sup> For these reasons, the prospects of gain/benefit to be derived from the provisions of the NEP exert a powerful stimulus upon those in positions of power and authority (or close to it) to seek these opportunities.

However, an open attempt to seek these opportunities for self-gain and benefit, i.e., private-regarding behavior, is not compatible with the formal norms governing official behavior and the high standards of conduct expected from public positions. Private-regarding behavior involves a conflict of interest with public-regarding norms, and the formal political-administrative system contains legal and administrative parameters within which behavior patterns must be contained.<sup>7</sup> In addition, societal norms prevalent in the polity by and large do not support the unrestricted accumulation of wealth by dominant groups in positions of power.<sup>8</sup> Hence for these

<sup>6</sup>See Chandra Muzaffar, *op. cit.*, for discussion of "mental revolution" among Malay community.

<sup>7</sup>See M. Pathmanathan, "Administrative and Legal Measures in the Fight Against Corruption," paper presented at the 2nd Working Meeting of the IDRC Project, Thailand, January 1977, for details of rules, regulations and norms which constitute an 'external constraint' upon the behavior of public roles.

<sup>8</sup>For a discussion of "constant-pie" orientations and "group-focused" images of wealth accumulation, progress and change, see James Scott, *Political Ideology in Malaysia: Reality and Beliefs of an Elite* (Kuala Lumpur: University of Malaya Press, 1968).

reasons, much of these propensities for self-gain cannot be too visibly manifested in the formal political system without incurring the political risks of sanctions.

Consequently, much of the actual adjustments and reactions of affected groups to the provisions of the NEP do not take place at the level of formal structures and processes alone. Instead, the more salient forms occur at the level of "informal politics." In this context systems corruption may be seen as the principal political process in informal or latent policy arenas through which potential winners and losers, based upon the strength and drives of their relative propensities, attempt to make such adjustments and to interact with one another.<sup>9</sup>

### *Variable 3 — Political Machine/ Patron-Client*

At the level of the latent political system, the party machine represents the organizational vehicle through which the propensities of affected groups can be satisfied. The search for extraneous access to opportunities, and the drives for private-regarding behavior can result, at the level of elites, in the emergence of a shared mutuality of interest, which lays the

<sup>9</sup>The saliency of corruption as an informal political process stems in part from the restrictions upon open democratic processes in the formal political system, the absence of investigative political reporting in the mass media, etc.

In the context of the present systems corruption, the strength of these various propensities are difficult to estimate. However, it appears that the propensities affecting potential "losers" constitute a given or fixed or dependent variable, and those affecting potential "winners" are the independent variable. Alternatively they may be seen as a set of "push and pull" variables.

basis for joint action involving various forms of corrupt transactions and exchanges.

The structure of party machines is patterned after patron-client relationships.<sup>10</sup> Political elites assume the role of patrons to business elites (clients). The relationship is one of exchange where clients exchange economic resources for an extra measure of access or for usufructuary rights to participate in certain ventures. Cooperation is possible within definite limits, for clear constraints exist as to the willingness of involved parties to pay the prices demanded. Characteristically, this relationship is one of asymmetry in that political power is primary over economic power.

It should be reiterated that such patron-client relationship which forms the basis for party-machine politics is only possible at the level of elites among potential winners and losers. In addition, the involved parties must (a) have sufficient resources for exchange and distribution, (b) have an interest to advance or protect that cannot be attempted too openly in the formal political system, and (c) be sufficiently motivated by the prospects of mutual gain.<sup>11</sup>

<sup>10</sup>For operations of patron-client relationships in Malaysia, see R.S. Milne, *op. cit.* However, the extent to which such relationships can "integrate" social masses into an organized entity and the extent of its linkages and connections are lower than in other developing countries where such relationships have been discerned. A party-machine institutionalizes these patron-client relationships in the informal political arena.

<sup>11</sup>Other assumptions in this variable are both the winners and losers (a) are motivated by utility-maximizing considerations, (b) voluntarily decide to enter into an exchange, and (c) have some notions of what constitutes a "fair exchange."

#### *Variable 4 — Potentials for Corruption*

The formal mode of public policy in developing countries sets the conditions under which various potentials for corruption may arise in the system.<sup>12</sup> As used here, the term refers to a capacity which can be captured through corrupt transactions by groups in the policy environment. The forms this potential may take in a policy system are varied. Using the conventional Almond-Powell classification of policy outputs, it is possible to identify the basic forms shown in Table 1.

*Black-markets and diversion-flows in allocative domains.* A very rough and conservative estimate of the probable size of potentials for *black-market operations* in land administration in the State of Johore is attempted in Table 2 below.

*Diversion-flows* are flows of resources, funds, etc. away from the intended and officially stated purposes, and from target groups to groups who are not intended as recipients. Such flows are usually tapped by middle-level and higher-level bureaucrats either on their own or in collaboration with individuals and small groups outside the bureaucracy. Diversion flows may be manifested in such forms as illegal surcharges, unrepresented checks, spending not governed by rules

<sup>12</sup>It might be more proper and useful to view the concept of a corruption potential as a *flow* of resources during a particular period, one which is regular, stable and predictable enough to serve as a basis for inducing corruption rather than as a *fixed* stock of capacity. Often in practice, actual development expenditures exceed the initial allocations and estimated amounts -- the rate of this "over-fulfilment" may be related to the flow of this corrupt potential.

Table 1. Models of Policy Outputs  
and Potentials for Corruption

Mode of Public Policy	Characteristic Feature of Outputs	Typical Items Involved	Corruption Potentials Available	Impact/Effect of Corruption upon Policy Environment
Allocative Domain	Goods and services allocated to target groups in relatively direct manner through bureaucratic delivery system	Land, subsidies, credit, loan facilities, rubber replanting grants, fertilizers, etc.	(a) "Black-markets" (b) "Diversion flows" of resources away from intended purposes	(a) Social groups have to pay extra price or fees and bribes to obtain allocative outputs of the bureaucracy. (b) Total amount available for distribution and investment is reduced.
Regulative Domain	Bureaucratic regulation of economic activities of groups through rules, regulations, and structural arrangement	Licenses, grants, permits, loans, etc. that are necessary for conduct of social economic activity	(a) "Corruption rent" (b) Discriminatory rule enforcement	(a) Social groups have to pay corruption rent to obtain or renew usufructuary rights to such items. (b) Social groups have to pay "rent" or "share" profits to ensure their positions of comparative advantage.
Extractive Domain	Bureaucratic extractions upon economic activities of social system in form of taxes, duties, customs levies, etc.	Custom duties, land and forest revenue, income and indirect taxes, etc.	"Corruption tax" Collections	Social groups have to pay "corruption tax" to avoid, reduce, or seek exemptions from formal taxes, duties, etc. Loss of revenue to state

Table 2. Size of Potential for Black-Marketing  
in Johore (Crude Estimate)

(1) Demand and supply, as seen by cumulative outstanding applications over a ten-year period (1967-1977)

1977<sup>a</sup> : 40,000 outstanding applications

1977<sup>b</sup> : 26,000 outstanding applications

ten-year period : 14,000 outstanding applications

Annual growth of outstanding applications (i.e., disequilibrium between demand and supply) is about *1400 cases a year*.

(2) If about five percent of these outstanding applications<sup>c</sup> a year have to pay "black-market" rates for expediting, facilitative and other gate-keeping services, then about *70 cases a year are involved*.

(3) If the average, on-going "black-market" rate for these corrupt services is around \$400 per case<sup>d</sup>, then the *size of the potential available per annum is about \$28,000*.

(4) If ten bureaucrats are potential beneficiaries<sup>e</sup> of these black-market operations every year, then their *income from these operations is about \$2,800 per annum, or about \$250 per month*.

<sup>a</sup>Figure given by STAR, June 6, 1977.

<sup>b</sup>Figure given by Badarian B. Arshad in "The Decision-Making Process in Land Administration in Johore," *FEA Graduation Exercise*, 1969.

<sup>c</sup>According to statement by Director-General of the National Bureau of Investigation as reported in *New Straits Times*, October 5, 1977 — "the amount charged may be small, but the number of cases and persons affected by 'small fish' corruption may be large." Assuming that one per cent cases a year is minimal rate, and ten percent to be a maximal rate, then five percent appears to involve a sufficiently large number of cases.

<sup>d</sup>An analysis of newspaper clippings from 1969-1977 containing publicly tried cases of corruption of the black-market variety in land matters (alienation, approval, conversion, etc.) contained 15 cases. The fees asked/demanded ranged from \$100 to \$1500, depending upon the circumstances and positions of the officials. Taking \$400 seems to be near enough as being typical, assuming that inflation rates force such rates up.

<sup>e</sup>As in (d) above. Assuming that not all cases of corruption actually land in court, and that the larger portion of them may be handled by administrative discipline or else go undetected for sometime, the figure of 15 officials over nine years seems unrealistic. Assuming that about ten officials a year in a large state like Johore are involved seems to be more realistic.

and regulations, illegal collection of fees, unauthorized and unvouched payments, irregular purchases, abuse of powers, and improper contract awarding.

In Johore, the extent and degree of diversion flows involving the forms cited above has been calculated for the period (1961-1970). (See Table 3.)

Thus, the extent of diversion-flow between 1961-1970 (prior to NEP) in Johore has been quite significant. A total sum of money exceeding more than \$43 million had been diverted (through manifest mismanagement). This amounts to about \$4.3 million per annum or about ten percent of total development expenditure for that state.

*"Corruption rent" and discriminatory rule enforcement in regulatory domains.* Dominant forms involved in systems corruption are those of "corruption rent seeking" and "discriminatory rule enforcement." Regulatory outputs may be seen as being produced in the formal bureaucracy but their actual distribution is done through organized party machines in the informal political arena — or at least the channels of access to such outputs is highly controlled by them.<sup>13</sup> A great discrepancy exists between: (a) the value at which these outputs are made available by regulatory policies like subsidies, special privileges, and quota arrangements, and (b) the actual market value of these resources where public demand for them from groups

<sup>13</sup>The *Third Malaysia Plan* has numerous references on access as being an important factor in determining the eventual distribution and availability of "intended" benefits. See in particular, paragraph 298-300.

in the environment exceed the supply made available. On account of these divergences in value, recipients of such resources can in turn "rent" them out to actualize the differences in value.

Discriminatory-rule enforcement, a related form of corruption in this arena, could either be of a "parochial" or "market" type. In the former, ties of kinship, affection, and ethnicity determine access to favors and resources, while in the latter a relatively impersonal process cuts across ethnicity and kinship in which influence is accorded to those who "pay" for such resources or for the maintenance of their comparative advantages in certain sectors.<sup>14</sup>

<sup>14</sup>"Market corruption" has been the conventional and dominant form in the "old" or pre-NEP period. A commonly expressed view at that time was that the level of integrity and honesty of the Malaysian bureaucracy and political leaders was high, and the blame had often been placed upon 'unscrupulous' businessmen and the "general public" who exert a corrupting influence to meet their private needs. For details, see Sri Tharan, "A Typology of Measures Against Deviant Bureaucratic Behaviour," paper presented at the 2nd Working Meeting of IDRC (Asia) Project, Bangkok, 1977. In the present systems corruption, the "focus of blame" seems to have shifted to political-administrative roles.

Also, much of the popular albeit silent opposition by businessmen to the alleged growth and increase in corruption in recent years may stem from the fact that the old dominant forms and patterns of market corruption may be giving way to "parochial forms" wherein access is restricted along ethnic lines. This shift from "market" to "parochial" corruption reflects the situation that political groups now have an alternative source (namely, the state role in commerce and industry) of potentials and are attempting to disentangle themselves from too close an association with "Chinese money."



Table 3. Extent and Degree of Diversion-Flows in Johore

Year	Extent of Diversion-Flow	Total Expenditure	Degree (%)
1961	\$ 2,269,087.25	n.a.	-
1962	9,930,916.40	\$ 37,465,211.65	26.5%
1963	2,654,728.50	n.a.	-
1964	5,459,201.13	41,915,658.94	13.0
1965	3,420,978.10	44,617,947.80	7.6
1966	2,346,608.50	43,478,760.70	5.2
1967	3,742,592.00	43,736,367.11	8.6
1968	4,303,167.00	47,425,865.76	9.0
1969	4,163,562.80	53,729,713.64	7.7
1970	4,216,515.70	51,617,274.42	8.1

Source: G. Sivalingam, "Deviant Bureaucratic Behavior and National Development: Case Study of Land Administration," Paper presented at the 4th working meeting of the IDRC Project on Bureaucratic Behavior and Development Hongkong, August 1978.

Distinguishing factors in such forms include: (a) the presence of a symbiosis between affected interest groups operating through a party machine. The party machine becomes a vehicle for creating and refurbishing a constant flow of such resources into the system, resources which in turn are rented out to clients closely associated with the machine, and (b) the maintenance of the system by differential and selective access, i.e., as the party machine controls access to resources, groups, and individuals outside the machine would be precluded from access to resources.

The points at which these potentials can best be captured are at the interface of the party machine with the principal agencies created to administer and implement commercial and industrial programs. This is particularly important in view of the fact that most of the implementing agencies for creating a Malay entrepreneurial class are public enterprises, operating with greater autonomy, without direct or discernible control, coordination and accountability to bigger structures.

Data on patterns of inequality in access to resources provided to Malay business through commercial banks are shown in Table 4 below. Note that fewer than 1000 "rich" Malay recipients (only two percent of the total) are getting almost two-thirds of total loans.

*Diversion of tax: Case of timber as a source of state revenue in Kelantan (1969-1974).* There is sufficient reason to believe that a substantial portion of revenue generated, or that could have been generated, by timber in Kelantan during the period 1969-1974 has not gone into the State Treasury but has been diverted to private interest groups. A crude estimate of this diversion flow of State revenue is attempted in Table 5.

#### *Variable 5 — Forms and Climate of Systems Corruption*

Commonly, forms and definitions of corruption are largely viewed through a "legal framework" that emphasizes the pernicious and debasing aspect of "illegal" private-

regarding behavior in public roles. The focus has been upon "behavior that violates rules and regulations set up to guard against the exercise of certain types of private-regarding influence or upon behavior which deviates from formal duties of a public role because of private-regarding (status or pecuniary) gains."<sup>15</sup> Norm violation, or deviation from legally prescribed role expectations, is the standard criterion in legal definitions of corruption in general, and corrupt practices in particular.

In the context of the Malaysian situation since 1970 described above, identification of corrupt practices through the approach of norm violation and deviation is not wholly appropriate to the nature of the phenomenon. The forms of systems corruption do not openly and fully contravene the legal and administrative norms as set up by the Penal Code, Anti-Corruption Law, etc. Many aspects or phases of behavior in these situations are within the purview of law, and are "lawful" in content but up to a point. For instance, at the manifest level, many joint ventures between Malays and Chinese would appear to be legitimate business concerns based upon "active" partnership, actual sharing of profits, and the pooling of resources to tap legitimate business interests and opportunities. At the latent level significant proportion of such big businesses may be nothing more than "Ali Baba" arrangements registered under Malay names (especially under names of notable and influence-yielding individuals and groups) and operating

with Chinese capital and control. In this instance, there is no open violation of legal norms; however, the rentier arrangement is "socially" questionable.

Also, the pattern of distribution that emerges in the allocation of resources to target groups does not by itself constitute corruption. To take the example of access to commercial bank loans in Table 4 below, there is evidence to suggest or *denote* elements of social inequality being present in that only about a thousand rich Malays have been able to take advantage (on a large enough scale) of these benefits made available for the total Malay community. At best this pattern merely connotes that certain forms of corrupt practices principally of the parochial sort might have been present in producing this pattern of inequality in access to opportunities. Alternatively it can be argued that the presence of such a pattern of inequality (which arises from such factors as the presence of few Malays with sufficient skills, education, motivation, and resources to venture into business) makes "corruption" all the more relevant as an informal political process.

For purposes of this study, the actual identification of corruption vis-a-vis norm violation or deviation is of lesser importance than the focus upon the dynamics of the process. The fact that norm violation may not be readily observable does not in any way undermine the saliency and importance of systems corruption as a latent political process for making adjustments to policy intentions. Norm violation merely makes the phenomenon more congruent with legal definitions of corrupt practice.

<sup>15</sup>See J.S. Nye, "Corruption and Political Development," *American Political Science Review*, Vol. LXI, No. 2 (1967), p. 419.

Table 4. Malay Recipients Of Loans From Commercial Banks  
And Average Total Amount Of Loan

No. of Malay Recipients of Commercial Bank Loans	(% of total)	Amount of Loans Received by Malay Recipients	(% of total)	Average Size of Loan (per share)
968 Malay Recipients	( 2%)	\$743 million	(64%)	\$2.43 million
46,132 Malay Recipients	( 98%)	\$419 million	(36%)	\$9,082 million
47,100 Total Malay Recipients	(100%)	\$1,162 million	(100%)	

*Note:* Data on patterns of inequality in access to resources provided to Malay businesses through public enterprises like MARA, UDA, etc. are more difficult to come by. However, there is reason to believe that a similar pattern of inequality connoting discriminatory rule enforcement practices prevails. (See Appendix.)

*Source:* Mimbar Sosialis, December 1977, p. 2, quoting figures from "Economic Report (Ministry of Finance) 1977/78."

Yet in many instances, the legal definition and the broader societal perspective may remain distinctly separate. The legal approach focuses on the behavior (corrupt practice) largely in the area of policy "means" (administration) rather than on the actual goals of public policy. Social viewpoints, on the other hand, pay great attention to "corrupt" intentions behind policy means.<sup>16</sup> Insofar as

there is a fusion of unfair or discriminatory policy goals, and questionable means for achieving them in the social imagination of affected groups, it becomes futile to view the problem only from a legalistic viewpoint.

#### Allocative and Welfare Consequences of Systems Corruption

A number of consequences may be derived from the model of systems corruption presented above. These consequences pertain to the efficiency of resource allocation and welfare position of the system. It is assumed that these consequences are generally adverse in that (a) they cause greater inefficiencies in the allocation of resources, and (b) they impose welfare losses to the system.

<sup>16</sup>The Democratic Action Party (DAP) — the main opposition party — contends that the approach adopted by implementing agencies is not a valid interpretation of the NEP. They say that too much attention is given to the "restructuring of society" programs at the expense of sufficient "eradication of poverty" programs. Insofar as the former set benefits only a few and the latter is capable of benefitting larger groups, the DAP implies there is a clear fusion between "corruption" and "exploitation" of the poor. See Sri Tharan, "Case Study on Malacca State Economic Development Corporation," paper presented at the 4th Working

Meeting of IDRC Project, Hong Kong, August 1978.

Table 5. Size of Probable Potential for Diversion  
State Timber, Kelantan (1969-74)

Extent of Deviancy (1969-74) <sup>a</sup>	510,202 acres
Average yield per acre <sup>b</sup>	20 tons
Worth of Potential	10,204,040 tons
Revenue Due <sup>c</sup>	
Royalty @ \$10 per ton	\$102,040,400
Premium @ 10%	10,204,040
Total Collectible Revenue <sup>d</sup>	\$112,244,440
Total Revenue Collections <sup>e</sup>	60,000,000
Probable Diversion <sup>f</sup>	52,244,440

<sup>a</sup>For details of this deviancy during period 1969-74, see Sri Tharan, "Notes Towards a Case Study on Deviant Bureaucratic Behavior in Revenue-Raising Arena: The Case of Timber as a Source of State Revenue," paper presented at the 4th Working Meeting of the IDRC (ASIA) Project on Bureaucratic Behavior and National Development at Hong Kong, August 1978.

<sup>b</sup>According to the Land Capability Classification of the Economic Planning Unit, 1969, timber forests of 'marginal productivity' are capable of yielding 16-28 tons of timber per acre. In practice however a substantial portion of the acreage sold or given away through improper and questionable arrangements remains unworked.

<sup>c</sup>The *minimal* royalty charges of \$14 per ton (for low grade timber) and *minimal* premium charges of about ten percent of the royalty are levied by the State Forest Department. Other fees and duties (processing, marketing, etc.) are not included in this crude estimate.

<sup>d</sup>This is the 'probable' collectible revenue that *would* have been due the Treasury if all the acres had been worked and taxed accordingly; i.e., it represents a maximal amount, amounting to about \$18.7 million per year for the period. This figure is in line with the rich potentials available in the State as identified by the Economic Planning Unit Study of 1969.

<sup>e</sup>The actual collections from timber over the period 1969-74 do not exceed this figure, and other States which have poorer timber potentials are able to show higher contributions from timber sources to State revenue.

<sup>f</sup>Calculations do not include "deviancies" before 1969. It is commonly believed that as much as 675,000 acres had been improperly sold or given away prior to 1969 by the State Government. As calculated here, the \$52 million that could, at a conservative estimate, have been diverted amounts to only about 50 percent of total collectible timber revenue, yielding a corruption-tax diversion ratio of 1:1. If "deviancies" prior to 1969 are taken into account, the corruption-tax diversion ratio would be much higher in the region of 1:6. For details see paper cited in note (a) above.

Table 6 identifies three behavioral propensities associated with the presence of a potential for systems corruption, namely: (a) propensities for excessive political flows into public policy markets, (b) propensities for the growth and institutionalization of

machine-politics, and (c) propensities for reducing the efficiency of legal and competitive structures. The adverse allocative and welfare consequences that follow from these propensities are discussed below in the form of postulates.

Table 6. Some Postulated Allocative and Welfare Consequences of Systems Corruption

Behavioral Propensities Associated with Potentials for Systems Corruption	Adverse Consequences	
	Allocative Inefficiencies in Public Policy	Welfare Losses to System
Excessive Political Flows into Public Policy	(a) Inefficiencies associated with distortion between planning politics linkages: false signals, adaptive policies, irrational decisions, etc.	(a) Inefficacy of policy outputs; (b) Instability in course of political development
Growth and Institutionalization of Machine-Politics	(a) Inefficiencies associated with waste monopoly situations and incompetence. (b) Inefficiencies associated with big and ambitious spendings and projects	(a) Lowering of marginal and average propensities/aversions against corruption; (b) Imposition of external costs upon unorganized and non-participative groups
Reduction in the Efficiency of Legal-Competitive Administrative Controls and Structures	(a) Inefficiencies arising from attempts to perpetuate the potential for corruption	(a) Expansion of corruption in the system; halo effect, changed incentive/norms/motivations of bureaucracy; (b) Perpetuation of a vicious circle of corruption in the system

*Excessive Political Flows into Public Policy*

Political flows refer to the articulation and conveyance of demand inputs into the policy system by social groups in the environment. Under

steady state conditions, this flow is functional in that it provides the criteria by which the outputs of the policy system may respond to the needs of its broader societal environment. A pragmatic linkage develops between "politics" and "planning"

wherein politics provides the test of relevance (efficacy) to the outputs of the policy system, and planning operating within the established institutional zone of "bounded rationality" provides rational (efficient) solutions to the problems of the system.<sup>17</sup>

Under conditions of systems corruption this linkage becomes distorted. The presence of a potential for corruption becomes a cause and effect for excessive political flows in two stages. At the first stage, the presence of this potential stimulates social groups in the policy organization, and enhances the instrumental value of organized politics as a means to this potential. The net result is a flow of induced demands into the policy system greater than what would have been in the absence of the potential.<sup>18</sup> At the second stage, the groundwork for machine-politics is laid: the focus of this induced political flow is the preservation and maintenance of the corruption potential in as stable and predictable a form for as long an expanded time period as possible.

<sup>17</sup> For operational "process-linkage" models of policy inputs-outputs-outcomes, see *Philippine Journal of Public Administration* (Special Issue on Administrative Productivity), Vol. XVII, No. 3 (July 1973).

<sup>18</sup> In a political environment that for a decade had been at an unstable equilibrium, the NEP provided (a) the necessary inducement, stimulus and resource base to "new" power seekers (who had in the past been ostensibly contained by established "old guards") for forming alternative party machines, and (b) the political symbol for projecting a "new order" to the masses in their attempt to mobilize popular support. See Sri Tharan, "Case Study . . . Malacca . . ." pp. 20-24.

The implications of this development are as follows. At the first stage, politics acquires a new saliency and the initial balance between planning and politics is disturbed. More and more public policy arenas that were previously bureaucratic in character now become highly politicized. At the second stage, politics subverts planning rationality; it becomes more "bounded" and is kept in continued subservience to organized political interests that seek to perpetuate the corruption potential. Consequently, the policy outputs respond increasingly more to the political signals associated with the excessive flows rather than to the rational-efficiency norms of planning structures. Characteristically, greater "adaptive" and "irrational" policy making takes place in the system.<sup>19</sup>

Certain consequences for the welfare position of the system follow from this excessive flow. Not only does this induced flow represent an increased rate of political growth but it also generates instability in the course of political development of the system. First, the intensity of stimulation encourages hectic political competition between rival groups for control of the party machine. Insofar as this instability implies such consequences as a fragmented power structure and the presence of political crisis which are capable of reducing the administrative capabilities of the system, a welfare loss to the whole society arises. More important is the possibility that the induced political flow might be excessive with reference to the existing arrangements and

<sup>19</sup> See Sri Tharan, *Ibid.*, pp. 27-37 for an instance of a "planning-politics" controversy over the industrialization issue in Malacca.

formal institutions within which it could be aggregated. Institutional weaknesses and failures will become overtly apparent if these limits are exceeded, thereby necessitating constitutional choice revisions, away from unanimity decision-rule positions.<sup>20</sup>

### Growth and Institutionalization of Machine-Politics

The relationship between the presence of the potential for corruption and the growth of machine politics was discussed under variable 4. The role of the patron, in the person of the Chief Minister or *Mentri Besar*, is crucial in this process of political growth. In most states, to begin with, there exists a number of aspirants who consider themselves as natural heirs-apparents to this office. Also, the excessive political flow insures a regular supply of such aspirants, and the presence of political crisis provides the mechanism by which freedom of entry and exit is open to them. The net result of this focus is that the machine, in its initial

stages, is in a state of dynamic competition.

Under such conditions the task of corruption-potential management by the patron becomes important. A *Mentri Besar* who enriches himself or only a selected few almost invariably risks the stability of the machine. However, in the hands of an astute *Mentri Besar*, the potential could be used for building elite-cohesion and for mobilizing popular support to his regime. Here the essential question is: how is the *Mentri Besar* to distribute the potential to as large a coalition of interest as is politically necessary without adversely affecting the members' conception of a fair and adequate share? This task is facilitated to the extent that he is able to replenish the resource base, and more important, to defer consumption, time, and schedule preferences of members in the machine.

Two sorts of allocative inefficiencies may be postulated in the course of this political growth of machine politics. Firstly, the requirement that patronage be dispersed to a growing coalition implies that more and more of the recipients would be persons who have connections with the machine. These recipients need not necessarily be the most productive of all entrepreneurs and operators in the policy environment. In addition, the second requirement that this distribution be fair and adequate would make the relative size of unit dispensations large rather than small. As large units of patronage (in the form of monopolies, special concessions, and grants) are handed out to relatively inexperienced operators, inefficiencies in the form of waste and administrative incompetence in the operations

<sup>20</sup> Constitutional choice has been defined as "a choice of decision rules assigning decision-making capabilities among a community of people for making future decisions in the conduct of an organization or enterprise." Vincent Ostrom, *The Intellectual Crisis in American Public Administration* (University of Alabama Press, 1973), p. 66. The entrenchment of certain "sensitive" issues away from politics after the May 1969 racial riots, the subsequent reassessment of the 1957 Bargain could be seen as an exercise in revising constitutional choice in Malaysia. Most likely future revisions would place greater decision-making powers to the army and bureaucracy, should systems failure arise. Insofar as the changed rules of the game correspond less to some "ideal" of democracy, a welfare loss is implied in the transition.

of these benefits are likely to increase.<sup>21</sup>

Secondly, as the resource-base has to be continuously replenished, rationalizations and justifications for bigger and more ambitious spendings would emerge. Budget allocations would increasingly be unmatched by rational criteria like the capital absorptive and implementing capacities of state governments and actual performances would have higher "slacks."

There are two important welfare consequences that need to be mentioned in the course of this political development. The first concerns the falling of marginal (and subsequently average) aversion against corruption in the machine over time. The model posits a relatively low average aversion against corruption in the first instance. At the first stage, the presence of the corruption potential itself lowers the marginal aversion at least for some sectors in the policy environment.<sup>22</sup> At the second stage when the machine grows, for reasons of its own survival it has to coopt persons with similar levels of marginal aversions against corruption. Persons with levels of

marginal aversions higher than that of the group would be excluded, and persons with levels lower than the group norm would be preferable. The implication of this is that as the machine develops, it is highly probable that political activity becomes dominated by coalitions which may have lower levels of aversion against corruption, as compared with groups in the policy environment who are not likewise motivated by the corruption potential.

The second welfare implication pertains to the imposition of external costs by coalitions of potential winners and losers in the machine upon the unorganized and non-participative groups outside the machine. As discussed under variable 4, discriminatory rule enforcement and differential access problems become important when organized coalitions emerge. Clearly the size of non-participating groups denied access would, at any moment, be greater than the size of participating coalitions; hence the gains of groups in the coalition (in the form of mutual benefits) would be less sustained by larger groups outside the coalition. Also, in such circumstances, groups outside the coalition may derive little discernible benefits or utility from the very nature of the policy outputs of the system<sup>23</sup> and there is always the possibility of exploitation.

<sup>21</sup>The inefficiencies involved in this instance are those associated with the growth of a rentier class of entrepreneurs, i.e., a class which thrives best under protected markets, nominal exercise of business functions and with no long-term control over the concessions. Under such conditions, there is a high probability that the wealth required would not remain in their hands for a substantial period of time.

<sup>22</sup>To start with, many of the new power seekers would probably have a noticeably low aversion against corruption, on account of having been suppressed or kept away from positions by well-established old guards in the past.

<sup>23</sup>See Sri Tharan, "Case Study. . . Malacca," pp. 35-36. The Auditor General's Report 1973/74 raises the question as to whether the benefits of subsidized rates of land given at 10¢ per sq. foot to "dummy housing companies" will actually accrue to potential buyers of homes from this company or to those who hold shares in this company.



More important than this unfair advantage that accrues to organized coalitions on account of their organized power is the tendency for a coalition, once having attained control and a dominant share of the potential, to prevent the emergence of alternative coalitions and competitors. A fully institutionalized machine (i.e., one which has become dominant in the formal political structures) would actively seek to perpetuate itself in the form of a permanent coalition by removing competition and rival coalitions from the policy arena. The implication of this is that, when machine politics is fully institutionalized, the formal political structures themselves would be organized to allow "deviants" to benefit at the expense of others — a situation that constitutes a most serious barrier to reform.

#### *Reducing the Efficiency of Legal-Competitive-Administrative Control Structures*

The importance of appropriate control mechanisms for restraining strategies (both private-regarding and utility-maximizing) of coalitions in public situations has been recently reaffirmed by students of the "new" public administration. Mechanisms like legal prohibitions and restrictions, competitive and open political processes as well as social norms against corruption could be externally imposed or self-imposed, but irrespectively they exercise a fundamental constraint upon one escalation of the dynamics of systems corruption. In so far as these constraints provide the institutional-cultural setting within which the pursuit of private-regarding behavior is rendered "acceptable" and within which the scope of external costs is

reduced, they have an importance to the welfare position of the system.

"Revisionist" arguments which contend that the presence of administrative controls over economic activity engenders corruption by providing the latitude for discretion, poor policies and waste, and which advocate the dismantling of such controls in favor of "bureaucratic free enterprises" are built around the assumption that the system is expected to operate perfectly without such controls.<sup>24</sup> As shown in this model the system is highly marked by "political-market" imperfections, namely (a) differences between social groups for political organization, and (b) possibilities for coalitions to become permanent. Given these imperfections, control mechanisms must provide appropriate constraints in the form of decision rules or decision-making arrangements in public situations.

As these rules and regulations affect the returns of coalitions engaged in corrupt transactions (e.g., legal structures impose stiff punishments; open political and democratic processes remove the element of secrecy, making it more difficult to hide the more conspicuous aspects; etc.), fully institutionalized machines would attempt to reduce the efficiency of such controls in the formal administrative-political-legal structures. A variety of techniques may be open, ranging from direct bribery and protection-buying,

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<sup>24</sup>See for instance N. Leff, "Economic Development through Bureaucratic Corruption" in *American Behavioral Scientist* November 1964; and S.J. Nye, "Corruption and Political Development: A Cost-Benefit Analysis," *American Political Science Review*, June 1967.

to increasing the cost of availability of information to voters and competitors. Also as these rules and regulations are not self-generating or self-enforcing, an interesting and formidable option available is that formal controls themselves are expanded to cover more economic activities and the private sector, under the guise of ideology of national interest, thereby concealing the true intentions and interests served.

This attempt at reducing the efficiency of formal control structures, if successful, results in an expansion of corruption in the system. Corruption becomes more pervasive, and in particular encourages the growth of bureaucratic corruption. As this expansion is "top-downwards," it becomes more difficult to contain, and a vicious circle sets in.<sup>25</sup>

The welfare consequences of this expansion are that a "halo" effect is created; the incentive, motivation, and norms change to accommodate the new climate of corruption that has set in. The obvious net result is a lower level of average aversion against cor-

<sup>25</sup> Commonly, the expansion and growth of corruption are seen as following a "bottom upwards" line or path. It is generally assumed that in countries that shared the British traditions of administration, corruption is largely an "administrative" problem, not capable of subverting institutions nor eroding the political leadership. This might have been a fairly accurate picture in the initial years after Independence. However, given the increasing political mobilization and shifts in public policy, the reverse line of causation should not be ignored. See Sri Tharan, "A Typology of Measures Against Bureaucratic Corruption," paper presented at the Second Working Meeting of IDRC (Asia) Project, Bangkok, 1977.

ruption in the system than what was the case in earlier periods.<sup>26</sup>

These consequences when considered aggregatively imply that severe strains would be placed upon the system. However, they need not directly and immediately affect the stability of the system, though in the long run, they become "real" burdens. The system would withstand these burdens in the short run by (a) relying upon its past performance and level of outputs, (b) diverting the public to other forms of threats, real or otherwise, and (c) showing a level of "satisfactory" performance in strategic socio-economic development projects and activities.<sup>27</sup>

#### Conclusion: Implications for Empirical Policy Analysis Research

Despite the growing literature on the subject of corruption in develop-

<sup>26</sup> Public sensitivity to the prevalence of corruption (especially if it is felt that the prevalence is widespread) results in a qualitative deterioration of the image of Government, and possibly in a change in interaction-patterns between Government and its public. In so far as there has been a growing number of complaints by the public about corruption in Government, it can be said that they point to a changing climate of corruption in the country. See Sivalingam, "The Public Complaints Bureau: A Structural Functional Analysis of Performance," paper presented at the 4th working meeting of IDRC Project, Hong Kong, 1978.

<sup>27</sup> It is being argued that corruption is seen as a "tolerable" problem in developing countries on account of the social value systems of people in these countries. It is contended here that this sense of tolerance is not purely a cultural-value affirmation, rather it has a "rationale" and is related to social perceptions of "how much the system can take."

ing countries, there still remains a lacuna in the area of incisive policy-oriented research and studies that actually grapple with the real and root issues of the problem. Most studies using conventional and established bureaucratic-sociological methodologies do not really look into the problem but rather talk about it in broad generalities. Given an intellectual crisis in development administration that in many ways parallels the crisis in American public administration, this deficiency is likely to continue for some time.

An attempt has been made here to sketch the rudiments of a framework of analysis that may have more operational relevance and benefit for empirical research into the problem of corruption in Malaysia in recent years. The model (if it might be called so) focuses on the rational calculations and purposive actions of organized groups and coalitions directed at securing disproportionate benefits, imposing external costs, changing institutional constraints, etc. in public policy arenas. At this stage, only a very limited validation of the propositions and postulates has been attempted. However, the general guidelines for further empirical research can already be seen. Even at this juncture, it is possible to spell out a few reformulations of the phenomenon and to point to some methodological implications. A few issues regarding the nature of the problem, the choice of units for analysis, the loci of the corruption potential, and dynamics involved are discussed briefly.

Corruption is not a mere adjunct to a particular sort of political process that takes place in developing countries, nor is its study to be confined

purely to the implementation (output) stage of public policy.<sup>28</sup> It is endemic in all public policy systems wherein inherent institutional imperfections create potentials for corruption over time. This is not quite the same as saying that corruption in developing countries arises because of weaknesses in "the" or "a" public organization. It might be useful to reserve the term "latitudes for corruption" to refer to the weaknesses in organizational settings and not to confuse it with "potentials for corruption" which connote imperfections in institutional arrangements.

Empirical research which use intra-organizational factors like the poor pay thesis, lack of hierarchical ordering (or too much of it), lack of coordination, supervision, etc. to explain the phenomenon fails to get to the root of the phenomenon — that of imperfect boundary management between public organizations and their environment. Some studies have drawn attention to this boundary, but have sought to explain it in "social interaction and reciprocity"<sup>29</sup> terms rather than in its quintessential characteristics — that of institutional failures in enacting, maintaining, and enforcing an "appropriate" set of decision rules and arrangements that would be an able and efficient translation of individual pre-

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<sup>28</sup> See the works of James Scott and Fred Riggs in this regard.

<sup>29</sup> See in particular L.V. Cariño, "Bureaucratic Behavior and Development Types of Graft and Corruption in a Developing Country," paper presented in the Conference on Political Economy of Development, Manila, December 1974 and "Bureaucratic Norms, Corruption and Development," *Philippine Journal of Public Administration*, Vol. XIX, No. 4 (October 1975), pp. 278-292.

ferences into an orderly collective choice in a variety of public situations. This is not to suggest that intra-organizational factors and sociological explanations are of limited use — just that it amounts to mistaking the branch for the root cause of corruption.

A related problem pertains to the choice of units for analysis. Conventionally, the choice has been for clearly identifiable bureaucratic agencies in some functional area of public policy (revenue-raising, revenue-spending, or regulatory administration), chosen usually on the basis of researchability. An important flaw in this sort of expediency selection needs to be stressed. Case study descriptions about how corruption takes place through “latitude,” even if done in terms of “organizational social-psychology” virtually explain little about underlying forces in the functional domain in which *public* organizations are embedded. It is as if the domain is purely incidental, and the assumption made is that, given the constraints of the cultural-value system, all incongruencies are bound to be resolved in corruption. (If it can happen in Bureau X, it can just as easily happen in Bureau Y.) Also, the underlying assumption (arising from defining corruption as a form of deviancy from norms and principles of bureaucratic organization) is that a single form of bureaucratic organization is assumed to be good for all public situations.

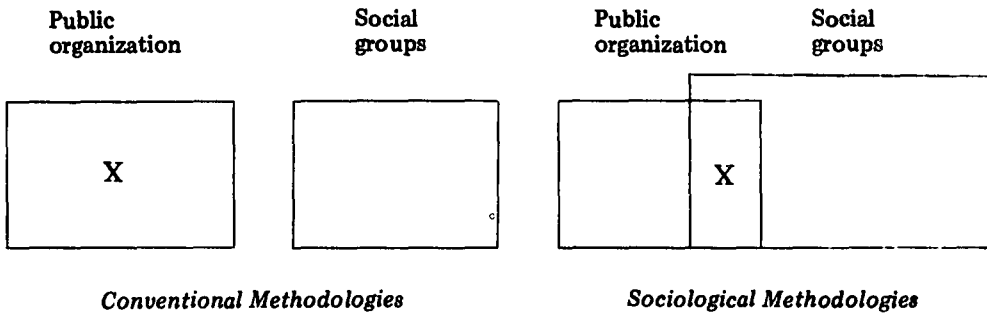
Contemporary students of public administration point out that the principles of organization needed for public organizations are quite distinctly different from that of private organizations on account of the unique problems of unrevealed preferences,

indivisibilities, and jointness of supply associated with the provision of a variety of public goods and services. In this context, structures of public organizations cannot be looked at without reference to imperfections in the process of political choice in the domain. Optimal *public* structures cannot be conceptualized without focusing directly on the issues of diversity in consumer preferences, relationship of demand to available supply, externalities and spill-over effects which provide the general conditions under which public structures are subjected to problems of institutional failure. Contextually, the problem of corruption is a special category of institutional failure, and its roots logically should be traced in that context.

Under this context, it is valid to treat corruption as a “lag” or “incongruence” problem. However, conventional bureaucratic corruption methodologies refer to this incongruence largely in terms of a “bureaucratic-legal norm versus societal norm” conflict, focusing on such things as the resilience of traditional norms in a “modern” setting, etc. Comparative political science methodologies more accurately speak of corruption as an index of incongruity between formal and informal political structures. However, a concern with political activity in itself has limited utility for practical policy analysis unless the political content is seen within the economic context of policy situations. After all, the dynamics of corruption is essentially a dynamics pertaining to the possession, exchange, use, and control for public goods, common-property resources, and public services.

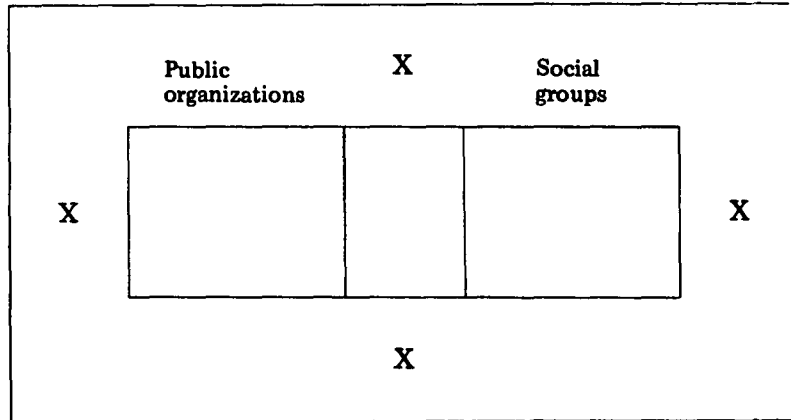
Consequently, policy analysis would benefit from models that treat corrup-

Figure 2. The Location of Potentials for Corruption (X) According to Three Methodologies



*Conventional Methodologies*

*Sociological Methodologies*



*Policy-Analysis Models*

tion as a problem that arises as a result of the "inappropriate" use of political, bureaucratic, and self-governing structures and organizations to tackle the fundamental economic problems involved in the provision of public goods and services. It is this inappropriate or incompatible use of political, bureaucratic, self-governing, and multiple organizations to discharge public functions that creates the potential for corruption in the system. Hence policy analysis research would be considerably enriched if the relevant functional domains and sub-domains, with-

in which the potentials for corruption lie, are chosen as the appropriate units for analysis. Should single and large bureaucratic agencies have to be selected for reasons of expediency, it becomes necessary to provide the context of the domain of that agency. A good starting point for policy analysis is to classify the domains into allocative, distributive, redistributive, and regulatory arenas, from which the constants and variables in the economics of public goods provisions can be discerned, and how they provide for various sorts of potentials to arise.

To reiterate this point about the loci of corruption potentials, conventional bureaucratic corruption methodologies tend to place it inside the organization, while sociological methodologies place it at the boundary of bureaucratic-client interactions. It is contended here that policy analysis models should treat it as existing in the domain itself, in the form of underlying economic forces which provide the context for bureaucratic-client interaction.<sup>30</sup>

The final point pertains to the nature of effects. Most methodologies tend to treat corruption as a "negative phenomenon," i.e., connoting a moral judgment about the desirability of its effects. This in part arises from the basic assumption inherent in these models about the nature of role expectations for public actors (roles). Actors are expected to seek values and norms and to ignore their private-re-

garding motives of gain and profit in public behavior situations. Any deviancy from this role expectation is seen as "corruption," and the effects are generally held to be undesirable.

It is of little use for policy analysis models to specify a level of public morality that is not feasible, given the intensity of private-regarding behavior in a variety of public situations. Neither is it valid to treat all the consequences that follow from such behavior as being negative. Instead, policy models should proceed from the assumption that public roles *do* in fact have private-regarding values and norms, and in a number of instances such behavior (in the form of exchanges and trade-offs) has "positive" effects.<sup>31</sup> "Adverse" effects arise only when such behavior imposes external costs to others, or affects the institutional constraints of the system. Thus, the aim of policy analysis should not be to prescribe an ideal situation of no corruption, which is neither possible nor desirable, but to prescribe the limits to which private-regarding behavior can be tapped for the overall good of the system.

<sup>30</sup>The impression might be given that such models posit a reified picture of corruption — as if corruption is something that lies "out there," not having roots in the nature of man himself. It is contended here that this model is *not* a model of public institutions without persons. Rather, it draws attention to features in the domain that compel bureaucratic-client relationship to follow "corrupt cleavages." In short, it shows why under the conditions of public situation, corruption becomes a relevant form of behavior.

<sup>31</sup>See Zakaria Ahmad, "Notes on Police Corruption in Malaysia," paper presented at the 4th working meeting of IDRC Project, Hong Kong 1978, for a discussion of the implications of police corruption for racial integration and stability.