



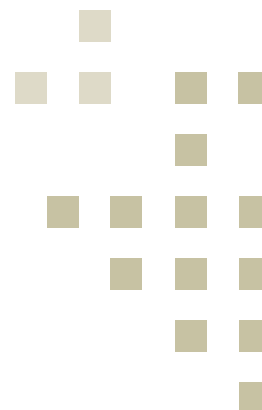
[650] Paper

Corruption and fast change: Shifting modes of micro-coordination

Jens Chr. Andvig

No. 650 – 2003

Norwegian Institute
of International
Affairs Norsk
Utenrikspolitisk
Institutt



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ISSN: 0800 - 0018

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Besøksadresse: Grønlandsleiret 25
Adresse: Postboks 8159 Dep.
0033 Oslo
Internett: www.nupi.no
E-post: pub@nupi.no
Fax: [+ 47] 22 17 70 15
Tel: [+ 47] 22 05 65 00

Corruption and fast change: Shifting modes of micro-coordination

Jens Chr. Andvig

[Abstract] The paper studies the effects on corruption of having coexisting, contradictory norms for allocating different micro-coordination modes across society. One important reason for their coexistence is fast change, and links to Huntington's classical analysis of corruption are worked out. The notion of micro-coordination mode is exposed and its usefulness for explaining corruption is argued through examples. The examples outlined are corruption in land allocation in Kenya, the economic transition in post-communist countries and the global telecommunications industry.

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1. Introduction

In an older, by now half forgotten work of the political scientist Samuel Huntington (1968) the rise of extensive corruption in many poor countries was explained as the passing outcome of fast changes in norms and behaviour patterns, an undesirable side-product of modernisation:

“Corruption may be more prevalent in some cultures than in others but in most cultures it seems to be most prevalent during the most intense phase of modernization ...Impressionistic evidence suggests that its extent correlates reasonably well with rapid social and economic modernization” (Huntington,1968: 59).

Here I seek to generalise his idea and also look at other instances of comparatively fast changes in modes of behaviour. However, no presumption is made that corruption levels may subside when the rates of change have slowed down.

Why introduce the notion of changing behavioural patterns? It is possible to explain variation in corruption levels assuming that economic agents maximise their private economic returns whatever the situation. I have once worked with that assumption (Andvig and Moene, 1990). Given that possibility, why not stick to Occam’s razor and avoid the detour of shifting behavioural modes?

Despite the possibility of observing low corruption equilibria with pure income maximisation, my hunch is that in most countries less corruption is going on than what we should expect on that assumption. The reason might be that we not always are in a corrupt frame of mind, but that we sometimes are thrown into it. When thrown into it, corrupt transactions may or may not be expected to be profitable, and hence may, or may not take place, depending on monitoring systems, penalties, transaction costs, and so on. In many situations we are simply not thinking of the possibility, however.

Generalising Huntington’s stylised observation, we may ask: What may happen with corruption levels in situations with rapid change in the set of applicable legal rules, in applicable norms or in the set of economic tasks? In particular, what may happen to corruption when the field of market transactions expands?

First I seek to clarify some of the analytical issues that arise when comparing corruption levels across two radically different situations in terms of rules as well as actual behaviour. In order to check whether we are dealing with a general issue, the tools are applied on a few, seemingly unrelated case stories: First a brief study of the original Huntington situation, exemplified with land tenure rules and corruption in Kenya, then a more extensive analysis of corruption issues in the transition from the socialist planned economies to the capitalist market. Brief remarks are made about recent developments in the telecommunication industry which also has experienced a rapid change in institutions and tasks.

2. Commercial and family-friendship corruption defined

Lengthy discussions of definitions are still quite common in corruption research, but more often than not they remain scholastic substitutes for theory, so let me here be brief, although an unfriendly reader of this paper may rightfully claim that it never leaves the classificatory stage. While the focus will be on commercial corruption, a proper discussion of the Kenya land grabbing situation as exemplifying Huntington's original case also has to touch upon issues that mainly deal with family-friendship corruption. I will stick to the following definitions:

An act is *commercially corrupt* if a member of an organisation uses his position, his rights to make decisions, his access to information, or some other of the resources of the organisation, to the advantage of a third party and thereby receives money or other economically valuable goods or services where either the payment itself or the services provided are illegal and/or against the organisation's own aims or rules. If the act is mainly motivated by the member serving the interests of friends or family, or his own standing in family-friendship networks, it is an act of *family-friendship corruption*. An act represents *embezzlement* if a member of an organisation uses his rights to make decisions, his labour time, his access to information or some of the other resources of the organisation to his own economic advantage, eventually to the advantage of some other members of the organisation, in ways that are either illegal or against the organisation's own aims or rules.¹

¹ These definitions of corruption and embezzlement are based on Rose-Ackerman (1978) and are reasonably compatible with the most frequently used definition of corruption as: "abuse of public power for private profit", originally formulated by Nye (1967), but our definition of commercial corruption is somewhat more restrictive.

It is worth emphasising the inclusive way corruption is defined here. An act may not be illegal and nevertheless be corrupt, or it may even further the aim of a company, but be corrupt, if it is illegal. In both cases the act needs to be kept secret, which often demands the same organisational precautions, a certain technology of secrecy. For empirical research the fact that corrupt acts are sought hidden, is, of course, a serious problem. Since the consequences are often quite similar although their transactional structure may be quite different, I may sometimes use the term corruption as shorthand for both corruption and embezzlement.

In general, the organisation's own, fungible resources are more important for embezzlement cases, but the members' decision-making powers may, for example, be important for organising the informal transactions inside firms that may embezzle the host organisations resources. Hence, the prospect of profitable embezzlements may be one of the many reasons for engaging in corrupt transactions, and corruption may be one of the instruments of effective embezzlement. Embezzlement may, of course, also be commercially or friendship-family motivated. It is mainly included here because of its importance in the post-socialist transition.

It may also be worth mentioning that as defined here an act is not considered intrinsically corrupt. It has to be related to a set of rules that apply either to a particular organisation or to a society as a whole. That is, even if the act may be observed, we cannot look at it and determine whether it is corrupt or not.

3. Tom Sawyer, Alfred Temple and switching modes of micro-coordination

In his vintage book on formal conflict models, the psychologist Anatol Rapoport (1960) elaborates the story of Tom Sawyer meeting the well-dressed stranger boy, Alfred Temple. While the setting (nice dress, stranger) signals conflict at the outset, the mode of conflict experiences a switch in behaviour. At the initial stage, mutual rational calculation dominates: size, likely courage, fighting abilities and so on are estimated in order to assess the probability of winning a contest. After the fight starts their mode of coordination switches: Rational calculation of winning probabilities is sup-

planted by blind rage. Before the fight both may rationally choose to start a fight. After the fact, they are in the rage mode and even the certain loser may be unable to quit fighting. Ex ante, they may rationally choose a micro-coordination mode that doesn't rely on rationality. In this case there may be some meta-choice of whether to choose rationally or not.

Bruno Frey (1997) has proposed a switch in coordination modes of direct relevance for our analysis of how swift changes may induce corruption. He points to situations where agents are focused on solving tasks. As long as their main motivation is simply the intrinsic one of solving them they may often work harder than when they receive either pecuniary or bureaucratic inducement or punishment. These forms of extrinsic rewards may crowd out the intrinsic motivation. The effect is partly cognitive: the attention has to be shifted away towards the incentives attached and partly motivational: Is the reward or punishment a proper one? Should I behave like a seller or a bureaucrat.? The agents have to shift their frame of reference and calculate what their most rewarding options are. The tighter the reward or punishment is tied to performance, the harder the extrinsic incentive, the stronger may the crowding out effect be.

Since our focus is on corruption, which by its very nature is involving at least two individuals doing a transaction, the corresponding task-solving will also involve at least two people. That is, **task coordination** is a mode of micro-coordination where at least two individuals are involved, whose efforts are both necessary for completing the task where their main motivation is the intrinsic one of solving the task. Strong technological and motivational spillovers (increasing returns) arise in many task-solving situations. For example, if the task is boring but strenuous, your laziness may easily become mine.

Task coordination may take place under a wide variety of institutions.

More generally defined, a **micro-coordination mode** (or transactional mode) specifies a set of rules for the engagement between at least two persons, a decision-making, information and motivational structure guiding the actions of the agents operating in that mode.

At the macro-level there exist legal rules or social norms about which micro-coordination mode to apply in any given situation.² Different societies may develop different configurations of such rules or norms. The agents may, however, choose to break these rules and apply a forbidden mode of micro-coordination. Commercial and friendship-family corruption are two differently motivated forms of such rule-breaking in modern societies. In order to relate them we need a benchmark. To that I turn in the next section.

4. Spheres of micro-coordination and corruption

A natural benchmark for elucidating modern forms of corruption is the formal Weber-type of **bureaucratic coordination** which still directs most private and public output in modern societies. Here is specified a set of positions, to which is allocated a set of tasks, a decision-making structure where superiors may give orders to incumbents of lower-level positions, formal prescriptions for which position may interact with which, rules for remuneration, and so on. Formally, the main motivation is obedience to superiors' orders and empathy for the organisation's aims. The main economic incentive for members is promotion, presumably based on competence, that is, ability of task-solving in lower positions. As pointed out by Alchian and Demsetz (1972), a main reason for the rise of formal bureaucracies is the need for supervision in team production, that is, task coordination. Bureaucracies give wider scope for the task coordination mode than other institutions when not tightly ruled, but as mentioned, task coordination may arise in many other institutional contexts, inside as well as at the interface of institutions.

The other transactional modes considered in the following are the family-friendship mode, the market and the political modes. Unlike task coordination they are alternatives to the bureaucratic mode, not more or less embedded in it. The key characteristic of the **family-friendship coordination**

² The notion of distinct modes of coordination has, of course, been made many times before. Kornai (1992), for example, distinguishes between bureaucratic, market, self-governing, ethical and family coordination. Here I will apply a slightly different classification. The most ambitious attempt to develop a consistent classificatory system based on interactions I am aware of, is Montias (1976). In the following outline of transaction modes I make no attempt to develop complete sets of precise definitions. The main features of each mode are only sketched, and the list of modes is not sought to be complete. However, with one exception - task coordination - they are constructed so that they in principle should not be overlapping.

mode is that the personal link between the individuals involved is the key to the transaction. For example, if altruism is involved, that altruism should only apply to a single person as a close friend, a wife or lover. If generalised, it may even lose value. While often demanding rough long-run reciprocity the exchange in values should not be too finely calculated in people's personal space, at least not in the short run. In large clan structures, for example, the personal link between the participants in the transaction doesn't have to imply that they know each other personally, only that there is a particular, defined family tie between them, the acceptance of which may make them behave differently inside compared to outside of the dyad. While friendship relations are horizontal, many of the family transactions may be clearly hierarchical, but unlike the Weber bureaucracy, the positions are not formally independent of the personal ties involved, but rather are defined by them.

For some purposes, it may be more important to distinguish between hierarchical and non-hierarchical relations. A part of the family-friendship transactions may then be allocated to the hierarchy - polity areas, eventually under a separate field of patrimonial transactions.

Political coordination modes mainly arise in situations where collective decisions are to be made including the choice of leaders of larger organisations then permitted to make decisions on behalf of the group/organisation. To reach such decisions, arguments, fights or elections may be necessary. Merit is not supposed to be the crucial rule for occupying positions in the polity, however, but rather rules of how to represent (stockholders voters, or citizens voters). Re-election or, more generally, political survival, are frequently the strongest personal motivation of politicians. These positions are neither to be sold or bought, however, nor determined by family or friendship ties alone, but the line between acceptable and non-acceptable modes of transaction for political versus family-friendship transactions is more broken than between the other spheres in the Weber benchmark society. Regarding the relative size of the polity versus bureaucratic positions modern societies may differ substantially. The Weber ideal is to make as many leadership positions as possible determined by bureaucratic rules, that is, to be determined on the basis of bureaucratic merit or other not so easy to manipulate criteria.

The **market coordination mode** is like the bureaucratic or hierarchic mode, but unlike the family-friendship mode, in the sense that the personal ties between the participants should in principle be immaterial. Like friendship coordination but unlike hierarchy, the relationships between participants are basically horizontal. Economic gain is supposedly the main motivation, whether that is the private motivation of the individual participants or it is on behalf of a hierarchy. Most large market transactions are taking place across hierarchies or family units. Note that inside a hierarchy the members' market transactions when acting as members will be centrally controlled. Neither personalised nor generalised altruism is normally any significant motivation, as it may become in political or family-friendship transactions.³ Unlike family-friendship transactions the exchange of values in market transactions should reflect finely calculated reciprocity. If not, one party is either exploited or cheated.

Our market mode encompasses a number of separate, more precisely defined procedures, for example (price)parametric buying and selling, price bargaining, auctions, etc.⁴ The other main modes of transactions may also be divided into several, distinct procedures. I have already suggested that patrimonial transactions may be considered a sub-category of either hierarchical or family-friendship sets.

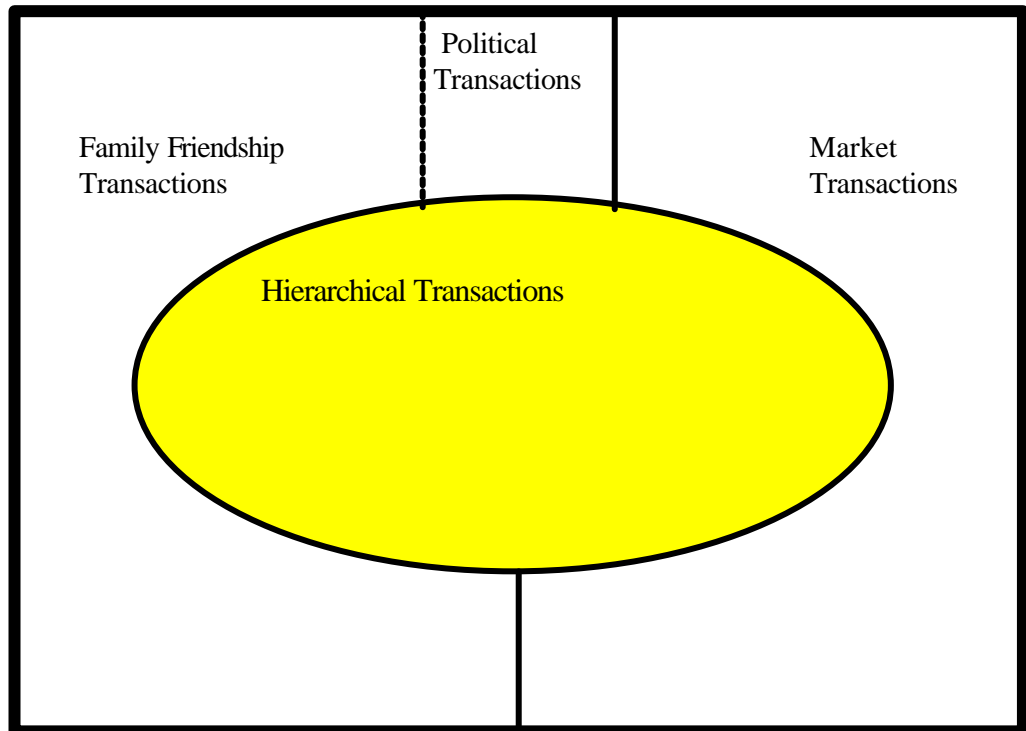
In most societies there exist legal or normative rules for which situations, services or goods one or the other of the main modes of coordination applies. While sometimes several modes may be an acceptable choice in a given situation, frequently strong ethical feelings are attached to whether the one or the other mode is appropriate. It has been one of the characteristics of the developed countries to operate with fairly sharp boundaries between the

3 This does not imply that individuals who are more frequently involved in market transactions than others, will prove less altruistic. In now well-known experiments eliciting altruistic motivation in different situations in small-scale societies the ones most exposed to markets were so far shown to be more altruistic (Henrich et al. 2001).

4 A few models exist where a switch from one type of market behaviour to another is specified. Several are outlined in Haavelmo (1960). For example, in one model price- and interest-sensitive coordination of investment demand and supply of capital goods is taking place under full employment, but the suppliers' behaviour shifts towards price-insensitive, order-determined supply of capital goods in unemployment situations. The shift from one situation to the other is endogenously determined in the model. The later so-called fixed-price macro implied several similar types of behavioral switches. See, for example, the mapping of classical versus Keynesian unemployment in the employment real wage space in Malinvaud (1977).

modes where institutions signal which mode to apply.⁵ Let us take a given society and list how it maps the the transactional modes considered here into fields. The map may look as follows:

Diagram1: Weber-spheres of transactions



I have drawn the figure so that each sphere borders every other sphere.

The figure may be interpreted as a normative map of how this set of micro-coordination modes should be distributed, a map of what the ruling operative codes are (Reisman, 1979), a map that describes how the listed transactions are actually performed, or a description of all the three mappings, if in equilibrium. Note that it does not describe the actual density of various types of transactions, but this may be imagined in a three-dimensional specification of the diagram by varying the vertical thickness above the fields. For example, if the list stays unchanged, but for economic reasons

⁵ Mistakes may occur in more diffuse settings, where one agent follows one and the other the other mode. One example of a family/friendship – market disequilibrium is meetings between prostitutes and people seeking contacts in bars or nightclubs.

family farming becomes less common, diagram 1 will be unchanged while the (imagined) height above parts of the family – friendship sphere shrinks.

The key point about the diagram, however, is the sharp boundaries drawn between these modes of coordination. This reflects, I believe, both Weber's and prevailing opinions about how a modern society should be and to a large degree also in fact is organised. The line between political and family-friendship transactions is partly broken to indicate that some inter-penetration of spheres here may be allowed.

Our list of spheres of modes of micro-coordination is not exhaustive. For example, violence as a separate coordination mode is not specified. Neither have we considered acts that not by any stretch of imagination may be considered as mutually coordinated, such as pure, unexpected predation.

The lines of division may also be disputed, cf. the case of patrimonial transactions, that may either be considered hierarchical or family-friendship based. But problems of the last kind is, of course, inherent in any system of classification.

At strategic points of the boundaries the ethical feelings that are aroused when crossings are considered, may be quite high. Allocation of children across families through either a market or a bureaucratic allocation mechanism is probably morally such a repugnant idea that most people are not even considering it as a transactional possibility. Why not? The first-order effect of allowing international markets in children may lead to a Pareto-improved allocation. The main ethical reasons for not making the market coordination mechanism expand into the field of family-friendship coordination mode in this case are not likely to be mainly consequence oriented.⁶ Sexual services is a less drastic case, where barriers against market expansion into the family-friendship field are established, but also frequently bro-

6 It is, of course possible to point to informational problems for establishing markets for children. The problems of 'lemons' is an obvious problem and have been observed in child trafficking in West Africa. One may also point to long-run negative efficiency consequences of breaking non-manipulative ties between a child and its mother (parents). These efficiency consequences may to a large degree be contained by regulatory measures, however, and are unlikely to be any major reason for the establishment of a barrier against market expansion in this case. The existence of moral boundaries for the use of market mechanisms have rarely been analysed by economists. One recent exception is Kanbur (2001) where he discusses several cases where market transactions are considered intrinsically repugnant. Given the tendency in recent economics to expand into new areas of research often proposing market simulation as solutions to ever new institutional problems, the idea of obnoxious markets promises to become an important field for applied welfare economics.

ken. Prostitution also illustrates the fact that it may be quite profitable to break barriers. Sexual services, like child allocation, is not considered to be more amenable to hierarchic transactions whether organised by private or public owners.

What about corruption? Looking back at our definition, we see that while the regular appearance of corruption may be considered an illegitimate expansion of market transactions into the fields of political or bureaucratic modes of micro-coordination, family-friendship corruption is a form of illegitimate expansion of family-friendship transactions into the hierarchic and (partly) the political field. Let us first look at the hierarchy-market border. If a member of a hierarchy sells his services to an outsider without the knowledge of the leadership, that is, engages in a secret market transaction – he may either embezzle some of the hierarchy's potential income if he in no other way influences its actions. If he does, the act is corrupt. Why are barriers established against unauthorised applications of market coordination in these cases?

Compared to the child allocation case, efficiency reasons are likely to be important. A hierarchy can hardly achieve its aims whether they consist in delivering some public goods or maximise its profit as a unit, if a larger number of its members privately collect significant amounts of its (potential) income or divert its task-solving abilities for private profit. Its potential for capturing increasing returns to scale may be significantly impaired. Spontaneous ethical feelings are also activated. Many will consider corrupt acts as disloyal. Moreover, to gain income simply through cashing in by (mis)using a formal position will be considered unfair. How strong feelings will be aroused, hinges, of course, on the particular circumstances: To demand a high bribe for accepting a seriously wounded patient, or a substandard material in a dam construction is normally considered morally more repulsive than demanding a bribe to accept the application for a renewal of a driver's licence. There are, of course, higher moral barriers to climb for allowing market transactions in the first two cases. Note, however, that the reason for divergence in moral response here is not likely to be caused by the rule-breaking as such, but rather from the likely effects of the corrupt act.

To determine where the line between the market and political modes of transactions in fact is drawn is exceptionally difficult, and the motivation for the construction of a barrier is different from the one dividing bureaucracy and market. Nevertheless, we may again distinguish between consequence-oriented arguments and moral spontaneity reasons. For democratic systems to work it appears essential to establish a barrier between voting and market power. If political decisions could be bought, ordinary voters would not in general have much influence. Such buying would also be in direct conflict with basic democratic principles. Furthermore, the knowledge that politicians (and judges) might be bought is likely to undermine the willingness to accept collective decisions and rules, undermining the overall efficiency in democratic and non-democratic regimes alike.⁷ In addition, spontaneous feelings of disgust may arise when citizens observe (or believe) that people who claim they are acting for the common good in fact are bought by special interests.⁸ Philosophers have been attracted to the fact that when different ethical principles seem to be involved in different parts of society, boundaries for their fields of applications naturally arises (Walzer, 1983). Here I will not delve further into the ethical motivation for this separation into spheres, however.

So far I have only considered a map of non-overlapping transaction modes that is roughly based on OECD experience. It may sharpen the imagination to look at different mappings. Barth (1967) analyses a Sudanese village economy where neither local labour might be bought in a market, due to

7 An empirical documentation of the extent and effects of crossing this boundary in a number of post-socialist countries, mostly non-democratic, 'state capture', has been made by World Bank researchers (Hellman, Jones & Kaufmann, 2000).

8 To surmount this barrier is exceptionally profitable in modern states with large implementation capabilities. Corruption is the most direct approach. There are indications (cf. PricewaterhouseCoopers, 2001) that corruption is more common in the political than the public bureaucracy field. Nevertheless, the importance (and the profitability) of the barrier is demonstrated by the large efforts applied to circumvent it by legal means. The evolving lobby business has reduced the transaction costs for buying the single politician indirectly. Strategic ownership of mass media where both voters and politicians may be influenced to support profitable regulation has been another legal method applied. Berlusconi is probably the most wellknown example of this strategy, but the first generation of post-socialist Russian capital owners was also entrepreneurs applying this method in breaking the barriers between the political and market modes of transactions. The buy-media roundabout is not a workable legal way around the hierarchy-market barrier that is possible to walk for the many, but the promise-a-position is. Like the case of politician the large increase in the consultancies that has grown around the larger public and private hierarchies has reduced the transaction costs involved both in legal job promises and in implementing purely corrupt transactions.

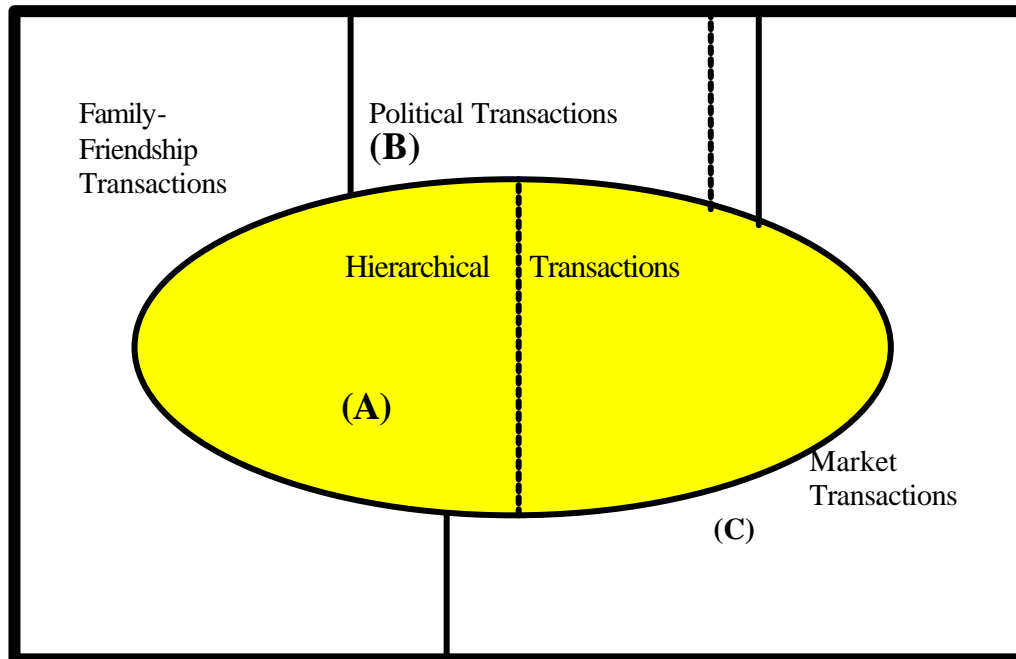
ethical restrictions nor millet sold, due to high costs of transport. Millet could either be consumed directly or used as input in beer brewing, but only by the wife. While transport costs for beer were not so high compared to its value, a regular market for it was not allowed to arise. Selling beer became a form of prostitution, since beer was so personal. Beer might, however, be used as a necessary input for work parties both in the millet and tomato fields. Tomatoes could be sold. In comes the Sudanese village equivalent of the lobbyist/consultant in the shape of an outside entrepreneur with considerable transport capacity. He is allowed to settle with his wife who makes beer for work parties in the tomato fields and he sells dried tomatoes with considerable profit.

Like the present-day hierarchy-market barrier, not only would forces rise to undermine it through illegal, corrupt means – the selling of beer – more roundabout legal strategies may evolve. If a sufficient number of outside entrepreneurs are attracted, we may surmise that the legal roundabouts break the barriers so that the more direct, formerly corrupt ways are opened: The women may sell beer freely and the men buy field hands. While not corruption in the strict sense, since no hierarchies or political agencies are involved, the case illustrates the point that the set of market transactions in any given society is likely to be contained by a set of rules or norms whose very existence makes profitable to break. Rules against corruption are one such line containing market transactions. The Sudan case also illustrates the fact that *where* the line is drawn, may be quite arbitrary. Hence, in the case of corruption, it is difficult to define any action as intrinsically corrupt. Corruption has to relate to a given set of legal rules or shared norms. It is when those rules and norms change, we are now to consider.

5. Modernisation and corruption. Some Huntington theories
The problem Huntington was concerned with was the possibility and the effects of political modernisation in the setting of non-industrialised, family-based economies. Political modernisation embraced the creation of impersonal forms of hierarchies and autonomous political organisations. Western capitalist democracies and the Soviet-style system he then considered as two sub-species of modern, workable political order. As mentioned, the stylised

fact – not possible to document at the time - to explain was that somehow corruption increased at its highest levels when the speed of modernisation was at its highest. He suggested three reasons, two of which are related to shifting modes of coordination. Let us look at the following figure:

Diagram 2: Modernisation



Here I have mainly copied diagram 1 of the Weber spheres, now considered as a norm structure specifying the proper allocation of the different coordination modes according to the norms of modern society. While the areas of the various fields may differ between a socialist and a liberal end points of modernisation, they share the ideal of a sharp separation of the fields, with the partial exception of the division between the political and the hierarchical spheres that characterises the liberal version of Weber.

The dotted lines represents the distribution of modes according to the ruling norms of the “traditional”, patrimonial type of society, the society to be transformed or “modernised”. If the old society has stayed in initial ethical equilibrium, the actual practices may at the outset remain close to these norms. The practices will not change immediately with the switch to the

modernist's glasses. Seen from the perspective of the modern normative grid many of the old practices to be observed will now appear corrupt.

Huntington writes: "Corruption in a modernizing society is thus in part not so much the result of the deviance of behavior from accepted norms as it is the deviance of norms from the established patterns of behavior" (Huntington, 1968, 60). Hence, in diagram 2, the areas **A** and **B** indicate the extent of family-friendship corruption. The larger these areas, the stronger may be the pressure towards modernisation. If we surmise that the realised speed of modernisation is also a function of the size of the gap, much in the manner of a Walrasian price adjustment rule, a positive correlation between the rates of modernisation and the rate of (family-friendship) corruption is to be expected. Needless to add, this is not meant to be a realistic theory of the speed of modernisation.

Comparing two actual distributions of transaction modes along a modernisation path, not an actual distribution with the Weber ideal, Huntington implied that the one that started with the highest incidence of family-friendship corruption also would tend to develop the highest incidence of commercial corruption. One reason is that a switch from family mode to market mode may be easier to make than the one from a formal hierarchic mode to the market mode. If a public position is sold rather than given to a member of an extended family, the money can be shared with the same family. If the appointment was decided on the basis of merit, and the winner was not a family member, there is nothing to share.

Huntington argued for a positive correspondence between the rate of commercial corruption and the rate of modernisation along another route. Let us look at diagram 2 again, but interpret the fields representing the traditional society not as the actual distribution of its modes of micro-coordination, but as representing its normative fields. Then the areas **A** and **B** (and **C** for that matter) will represent fields of decisions where opposite normative principles may apply. For example, according to the hierarchic mode I make the following consideration: "I should employ X rather than Y, since X clearly is more competent, and it is my duty to employ the one most qualified." According to the family-friendship mode, however, I make the opposite conclusion.: " Since Y belongs to the K clan as I do, and since he is a

nice guy, while X is a member of the L clan and therefore not likely to be nice to me, I should appoint Y.” When these principles are both sincerely held but leading to contradictory principles for action they may give rise to a feeling of anomie: Since both norm systems cannot be right at the same time, although they appeared to be so, nothing is likely to be right. No norms may exist. That being the case I may as well start to maximise my own economic interests. That is, I may as well appoint the one who offer the largest bribe.⁹

The faster the modernisation, the larger is the **A** and **B** areas of contradictory norms, and the more extensive the commercial corruption should be. Hence, Huntington’s anomie argument for a modernisation–corruption connection.

Seen from the perspective of our problem, Huntington has here made several arguments for why swift changes in norms about the proper fields for family vs hierarchic micro-coordination may induce large increases in either family or commercial forms of corruption, or both. Let us explore his conception by a brief case study.

6. Land grabbing in Kenya: A case of modernisation and corruption

This is a case where different norm systems have applied to the, in principle, same area of decisions for a prolonged period. Strongly held, family-based norms are held about proper reshuffling of land across members – differing in details across tribes – and have been co-existing with English law with its specification of rules for bureaucratic and market transactions in land for more than a century. The old norms appear to have been so strongly held that they have survived in a continued contradiction to English, colonial law. Their survival may, through their complex interaction with English law, have caused anomie-induced commercial corruption in land allocation. At the other hand the direct effects of their survival may in many cases be observed through simple forms of family-friendship (tribal) corruption in the bureaucratic processes doing reallocation of government land.

⁹ This clearly is a somewhat vague theory. Along a similar path of reasoning Durkheim concluded that the way out when confronted by contradictory prescriptions of action may be suicide. So why deciding by commercial corruption, not a lottery, for example?

One may question whether the rapidity of modernisation may have caused the coexistence of differing norm systems in this case. Already towards the end of the 19th century English land law was introduced in the colony (Wanjala, 1990) and it was applied in those areas set aside by force for white settlement. The rest of the land belonged formally to the government of the colony, but in practice most was regulated by customary law, that is, each tribe/community may basically follow its own rules for allocating land between its members. Since the mid-1950s there has been an explicit ideal of moving towards individual, private ownership of land (clearly formulated before independence in the so-called Swynnerton plan). In basic outlines it has been accepted by the post-colonial governments. Compared to most other African countries land scarcity in Kenya appeared earlier and private ownership of land has been more common and the market in land less thin. Given the fact that land ownership rules evolve rather slowly as do most rules that pertain to family structure, the change may be considered to be rather fast, however, in particular the idea, forced by the colonial power, that land could belong to an impersonal government, not to some kind of family-based entity.

It is then not so surprising that several different principles for holding the existing stock of land are applied a century after the initial shock. Even if the professed desired flow of ownership changes is toward individual private ownership, the de facto flow in certain areas may even in some cases be in the direction of traditional forms.¹⁰ Still 70% of land is held under customary systems of ownership and use, while 10 % is government land and only 20% being privately held (Njuguna & Baya, 2001). The customary systems differ according to tribe and the kind of land used. Some indigenous systems of land allocation, such as the ones of the Kikuyu tribe, traditionally allowed a decentralised system of ownership of land bordering on private ownership (Kenyatta, 1938). Nevertheless, any sale of land had to be confirmed by a council of elders in a boundary ceremony. Sales had to conform to a family-based set of norms.

¹⁰ The history of ownership to land in Kenya is rather complex. Inter alia, the colonial laws together with the strange outcome of the Mau Mau rebellion still play a surprisingly important role. However, I will make no attempt here to do justice to this complexity.

As in Huntington's case the basic contradiction giving rise to corruption during land allocation processes, is the contradiction between family-based and hierarchical-political coordination modes. In addition to the complex anomie and straight family-friendship corruption effects exposed in our interpretation of Huntington, the norm (or legal contradiction), the coexistence of different land allocation principles have opened up new opportunities of commercial corruption through arbitrage, or rather commercial corruption has in many cases been an instrument in moving a piece of land from one rule system to another. The prospects here are still considerable. Note that while the statistic tells that 70% of land is under customary use, the areas under customary use are also owned by the government, and hence may be reallocated under some kind of bureaucratic rule. The arbitrage patterns may become quite complex.

In the simplest case a public official may just grab a piece of land that is owned by the government, pay a nominal fee and claim private ownership. This is rather embezzlement than corruption, however, and family-based transactions play no part. The giving away of the Westland market and parts of Karura forests in Nairobi are well-known examples (Klopp, 2000). In practice the deals are often likely to be more complex involving some kind of reciprocity or payment for political services. For example, an official who has his family origin in tribe A may have to make some reallocation disposals in an area of tribe B, and he may give a slice of that area to an official from B who is in a position to make some reallocation disposals in A, of which he gives a slice to the official from A. Here traditional values play a role because the A-property is more worth for the A-official and the B-property for the B-official. The reason is that the risk of counterclaims is higher when owning private property in "foreign" lands.¹¹ In addition this two-ways gifts-giving reduces the probability of being caught in simple land grabbing.

A somewhat more involved procedure may arise in an area under both customary tenure and under some bureaucratic rule. For example, by turning on a sleeping bureaucratic rule, squatters holding land in a traditional way

¹¹ In the worst case one may risk even violence as shown in the famous clashes in the early 1990s in areas where Kikuyus and Luos had bought properties on traditional Kalenjin land. A description may be found in the Akiwumi Report, for long accessible through the web page of the *Daily Nation*.

may be chased away. That achieved, commercial corruption prospects may arise as the land has come under effective hierarchical control. Again, the bureaucratic rule may be turned off again, and the land may be given away/sold below market price for a bribe or officials may alternatively keep the land themselves. After either operation the land may become private property, and thereby increase in value.

In even more complex cases officials may transfer the property from the individual titleholder to a traditional group-holder, back to government land and from there into his private “pocket”. While commercial in form, the ultimate motivation for most of these transactions may rather be short-term political control.

At the low-scale end of land transactions we may trace corruption as an anomie effect of the coexistence of contradictory norm systems. In order to develop traditional claims on land to individual title-deeds, land has to be registered, preferably also consolidated. The often conflicting claims of which some are based on traditional family values, some on market-based purchases, have to be evaluated and considered carefully by local experts. To make this happen Kenyan authorities have introduced a system of council of “elders” who are supposed to be experts on local rules and traditions. However, they cover too large areas to really know the various claims in sufficient detail. The elders are often not even old. They are in fact more responsible towards local political authorities than their local constituency, and are in many ways in a centre of competing norms and legal rules (Okuro, 2002). In practice both their and the higher, formal court case decisions are frequently decided by the size of a commercial bribe.

7. Post-communist corruption: A switch in norms and practices

The most drastic change in the distribution in the modes of micro-coordination the last decade or so has undoubtedly taken place in the former planned economies. In both the countries where the communist parties have remained in power and in the ones where they have lost it, the post-communist ones, the share of market coordination has expanded drastically both *de jure* and *de facto*. In both, the corruption incidence is perceived as increased. How-

ever, the mechanisms leading to both the shifts in coordination modes, as well as the present sizes of the political coordination fields are so different that I believe they are better treated as separate cases. In economic terms the most visible difference has been the fact that while most of the countries where the communist parties stayed in power have experienced rapid economic growth, the post-communist ones have experienced strong production declines during their transition. Here I will only outline the post-communist case.

In the same way as Huntington perceived the modernisation process as instrumental in increasing the extent of corruption, most citizens of the post-communist states apparently believe that their countries' transition has been accompanied by increasing corruption levels. A number of questionnaire studies support this claim, as, for example, the one reported in the following table.

Table 1: Comparing the perceived corruption effect of the regime change (%)

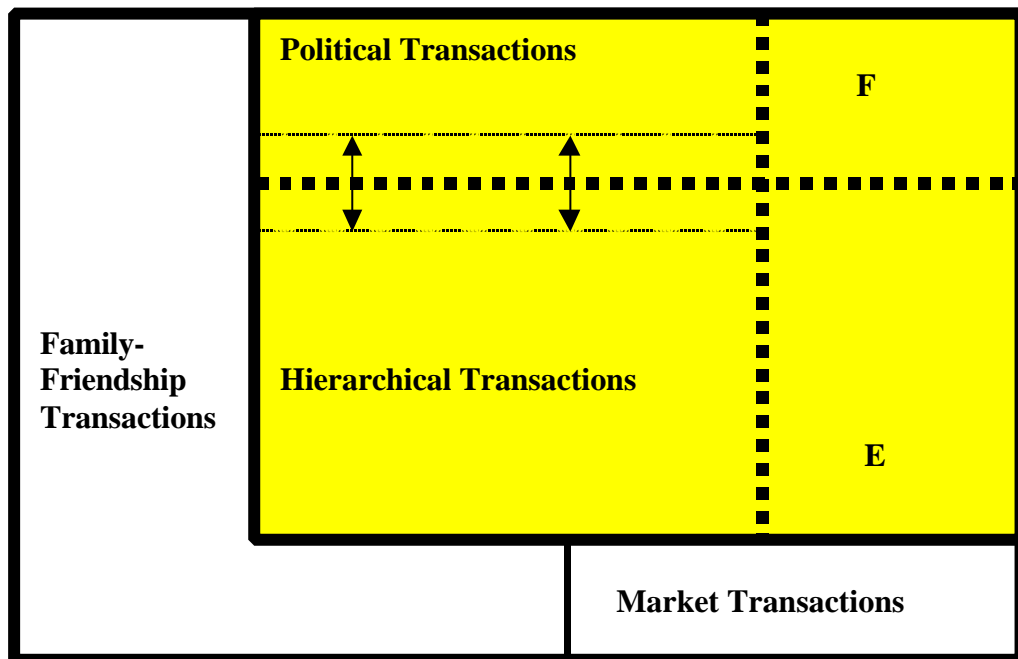
	<i>Corruption has increased</i>	<i>Corruption is the same</i>	<i>Corruption is less</i>
Ukraine	87	11	1
FR Yugoslavia	81	17	2
Slovakia	81	15	4
Hungary	77	20	2
Russia	73	23	4
Bulgaria	71	25	3
Czech Republic	70	24	5
Belarus	70	25	5
Croatia	66	28	6
Romania	58	28	14
Slovenia	58	28	14
Poland	52	37	12

Source used: Rose (2002). Question asked: "By comparison with the former communist regime, would you say that the level of corruption and taking bribes has increased?" The survey was done around 1997–98 except for Russia where the questions were raised in 1999–, 2000.

How would the transition look like in our coordination mode diagram? Ideally the development should end in a map like our diagram 1 of the Weber spheres. The starting point, the distribution of modes in a socialist economy in normative equilibrium would have equally high barriers between the fam-

ily-friendship and the hierarchical transactions as the Weber case, and even higher ones between the personal and political, but none between the political and hierarchical transactional mode. (The actual distribution of practices may, again, be a different matter.) Roughly, the area *F* would be added to the area of political coordination and *E* to the hierarchical area of the Weber case. To illustrate the fact that the Communist Party had the right and duty to intervene in all important matters that involved the state-owned industries, I have drawn a broken line between the political and hierarchical fields.

Diagram 3: Socialist spheres of transactions (normative equilibrium)



According to the socialist norm field¹² the areas *E* and *F* are areas where one should have used a bureaucratic, respectively a political mode, but where the new Weber-configured capitalist market economy would apply market transactions instead. Regular corruption is one kind of application of market coordination mode on bureaucratic and political decisions considered to be immoral. Hence the size of the *E* and *F* areas indicates the extent of corrup-

¹² This is, of course, the distribution according to the rules of working socialism, not the ideals of Marx or the early Lenin where the areas of markets and bureaucracy both were to shrink (together with the family). The friendship-like parts would encompass practically the whole economy of the comrades.

tion in the new Weberian, capitalist society – when looked through the glasses of the old socialist norms.

Like the Huntington modernisation case we see that the larger the norm shifts, the larger the prospects for corruption, as seen from at least one of the extreme points of change. Seen from perspective of a Weber-indoctrinated citizen, the situations are, of course very different: While in the transition from a traditional to a modern society, the people living through the transition do not believe that they are involved in corruption,¹³ but they do it in fact. In the transition from a socialist economy to a “modern” market economy, however, people may believe they observe increased corruption levels, but in fact they are not (when facts are defined by the Weber point of view and “corruption” is confined to the *E* and *F* fields). In the first case we observe old practices together with new norms. In the second case old norms are applied on new practices.

Both cases are, of course, rather unrealistic. For example, in the last case agents experiencing the transition of post-communism are assumed able to develop practices conformable with a Weber-configured capitalism at the same time as they keep norms relevant to socialism ideals undisturbed. In real life, the operational codes of the socialist economies differed widely from the idealised socialist norm spheres. For example, a large number of illegal markets had developed. The socialist norms were often not strongly held, and the new configuration of rules not known. Furthermore, the results, the actual practices so far, differ widely from any Weberian ideal.

To explain the fact that market coordination modes have expanded beyond their acceptable Weber boundaries, a Huntington-like anomie mechanism may also be relevant in the post-communist case. Consider the situation when the transition still is not completed and people are still working in the *E* and *F* fields: According to the old norms I should work inside these given hierarchical structures, but according to the new norms all these hierarchical transactions are going to be reconfigured. My work therefore has no value until the new set of rules for market coordination are established. The

¹³ Corruption did, of course, also take place within personalised types of hierarchies, and was then even more strongly condemned, since it implied treason. The only case where modern bureaucracies react so strongly on commercially motivated corruption is in the case when officials are spying for foreign powers.

norm contradiction experienced may lead me to take the matters in my own hand and I may as well search for any (illegal) market possibilities which I may find from my own position in the hierarchy. Feeling estranged by the conflicting norms embedded in the new and old order, I feel estranged from both and I therefore try to embezzle the resources I control and demand the bribes I may possibly get hands on at the moment.

Another, more cognitive mechanism through which the old and the new, not completely known, norm structures may interact during a transition and that may lead to a similar result is through what we may call *norm overshooting* : In situations $1, 2, \dots, j, j + 1, N$ under socialism, the bureaucratic coordination mechanism was supposedly to be applied. In transition situations $1, 2, \dots, j$ the agents have experienced or have been told that market coordination is the appropriate mode. It must then be correct to apply a market coordination mechanism in situation $j + 1, \dots, N$, they might reason, although according to the Weber fields they should be forbidden, such as selling political decisions in a market. For example, when my Komsomol comrades who happened to get leadership positions in Lukoil are allowed to sell and keep the money they earn for their efforts, why should not I, who work at the Ministry of Energy, do the same with my regulating powers?

The last question raises the difficult question of how to determine the levels of corruption when we cannot assume a given legal structure of hierarchies. It is only then we may determine, for example, what constitutes an embezzlement or a bribe. If the hierarchy is partitioned differently, a bribe may turn into a legal sale. If a further subdivision of a hierarchy is allowed, what would otherwise have been embezzlement becomes privatisation. This problem becomes particularly acute when the ownership to the pre- and post-partitioned hierarchies is unclear. Clearly these issues have been critical for the emergence of corruption in post-communist corruption, but of less consequence for the former socialist countries where the communist parties kept their power. I will return to the problem when analysing the corruption issues in the telecommunication industries.

So far we have focused on comparatively fast and large changes in rules regulating the proper fields of application for the different transactional modes, changes which may induce switches from hierarchical or political

modes of micro-coordination into illegal forms of market or family-friendship modes, that is commercial or family-friendship forms of corruption. One consequence of such swift changes may be a coexistence of contradictory operational norms giving rise to anomie effects that also may lead to such switches.

However, particularly in the case of the post-communist transition the rule shifts may have an impact on corruption levels through different roads. For example, the disappearance of excess demand and price regulation in the consumer goods markets wiped out actual corrupt practices there and still tends to reduce overall actual corrupt practices. On the other hand, the introduction of markets in the capital goods industries combined with unconditional private ownership of luxury items, made it easier to implement and induced a stronger overall motivation to switch from hierarchic to corrupt market transaction modes.

Most importantly, the loss of power of the communist parties together with the signals of extensive changes in the distribution of coordination modes, caused an extensive decline in production. A statistical exploration of the relationship shows that both the GDP level (negative) and the rate of production decline (positive) have strong, statistically significant effects on the corruption indicators (Andvig, 2002).

Some of that co-variation must have been produced by the policy shock itself. It was a shock that both weakened the monitoring apparatus and at the same time made monitoring more difficult by reducing incentives among the monitored to follow the rules by its sudden destruction of the whole stock of promotional capital. Corruption and production decline become two indicators of the strength of the policy shock. Furthermore, the production decline may itself have caused corruption without directly changing the distribution of the modes of micro-coordination. For example, its effect through the intermediary variable of tax collection is obvious.

More difficult to pinpoint empirically, but working in most sectors experiencing activity decline is what we may call the *Schumpeter effect*: The simultaneous experience of production declines and new, unknown institutional rules for operating the economy, implied that much of the traditional task-solving in the centrally planned economies either became

impossible or pointless. This may have shaken the enterprises and public sub-hierarchies away from their traditional task-solving and rule-abiding transactions. In Schumpeter's famous theory, regular depressions in capitalist economies led to shake-ups that stimulated entrepreneurs to look for new, applicable technologies as means for economic survival. After a while, a clustering in time of such applications led to economic revival. In the case of the even larger uncertainty of the transition, the shake-ups led to a search for private economic (and enterprise) opportunities in an economic environment where agents were uncertain of which micro-coordination mode to engage in, which led to a de facto shift into the economic gain (survival) mood, giving rise to a large number of corrupt transactions. That is the motivation part of the Schumpeter effect. It also has a cognitive aspect, however. In particular, since the economic rules to a larger degree become questioned, being in flux, more ways to circumvent them were explored. Corruption is essentially a rule-breaking activity and in that sense often entrepreneurial in spirit. As corruption entrepreneurs discover new ways to survive or become rich, followers will join and the incidence of corrupt transactions increase.

Unlike many of the preceding mechanisms outlined, the Schumpeter effect is not the direct result of changing or contradictory norms about the proper distribution of micro-coordination modes. Those contradictions had to work its way through an extensive production decline and its associated disorganisation and institutional reshuffling. Like the other mechanisms discussed here, it also represented a switch in transaction modes; a sub-class where task coordination switches into illegal market coordination and from there to corrupt transactions.

8. Deregulation and technical change in telecommunications
Like the post-communist revolution the telecommunication sector has experienced a dramatic legal expansion of the application of market coordination modes within the sector. The expansion has been partly driven by technological change, partly by privatisation combined with deregulation in some relevant financial and old telecommunication

markets, and the introduction of new regulations in other markets. At the ownership side, most older state-owned companies have become at least partly privatised and broken up into separate units with a variable degree of real independence. The break-up has been partly forced by regulators, partly induced by internal developments in the industry. Leadership teams are now shifted through the international capital markets, not through old national policy processes, which in this case consisted in mixtures of political and hierarchical transactions.

While only one sector among many, changes in telecommunications are global in scope, causing important changes in the ways both legal and illegal transactions are performed in a wide range of settings, in general reducing the transaction costs involved in settings ranging from partner infidelity to research cooperation – making the telecommunications sector a trendsetter both through its internal organisational changes as well as through its indirect effects on society at large.

Has this rapid change also induced illegal forms of market transactions, including corruption? It is clear that the new structure opens new opportunities, while closing some old ones. Strictly speaking the major “corruption” scandals in the telecommunications industry are not corruption according to our definition, but rather embezzlement or fraud.

However, the fact that more than half of the US billion-dollar-class scandals are taking place in the telecommunications industry (such as WorldCom, Global Crossing, Adelphia, Qwest) that experiences the fastest change of any economic sector today and not only in its technology, but also in its transactional modes, links up to our theme. The difficulty of pinpointing the exact nature of the illegal transactions performed in the industry points to a new theme. Corruption as we defined it implies that an agent *external* to the organisation buys a favour from an insider to the detriment of the organisation. A situation where organisations are always in flux: should we subdivide here or join there – makes it difficult to develop any lasting commitment to any organisation. What might be the meaning of commitment to an organisation if everyone becomes his/her own market agent only loosely joined to other agents through informal networks working across public and private

organisations? The members may cheat, commit fraud, but not be corrupt, because the formal organisations are not considered important any longer. The notion of corruption relies on some kind of Weber bureaucracy. If that breaks down, so do the notion of corruption.

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