MONEY POLITICS AND ITS IMPACT

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Thai academics invented the term money politics to describe the process through which politicians/businessmen deploy money to acquire political power. They invest in getting themselves elected to parliament (buying votes), forming themselves into factions and cobbling together coalitions to get access to power. The aim is to form a cabinet so that they can make policies which allow them to recoup their investment as well as making further profits by obtaining and distributing rents (licenses, permits, government concessions, subsidies, etc.) – activities giving rise to return higher than what could be gained under a competitive situation. They also seek bribes, and deploy the regular budget to benefit themselves and their cronies. The wealth obtained is then reinvested politically to perpetuate their power. Politics itself is a business, a means to make money.

The question is, what is the likely impact of money politics on economic development and political prospects? Money politics also changes through time. Straight vote buying, and commission fees may be the most common things in the old days when business owners and politicians are more or less separate groups. In the new politics after 2001, when business owners sit in the position of decision-making, money politics is no longer straightforward. Thus another important question is what are different new ways money politics operate in this era?

I will divide my talk into two parts. In part 1 I want to summarize four theoretical frameworks which help us analyze the possible impact of money politics: (1) the rent and rent-seeking approach of the new institutionalist school; (2) the political economy approach of Mushtaq Khan; (3) the public choice theory of the new political economy school; and (4) a model of corrupt government which I adapted from the analysis of the economist, O.E.G. Johnson. Then in part 2, I will use the last framework provided by the model of corrupt government to talk about the different ways money politics operates in the present era; the ways politicians try to avoid the cost of money politics and their impact on the economy, the media and democratization.

Part 1: Theorizing Money Politics

The New Institutional School

According to mainstream economists, rent-seeking in itself is a wasteful use of resources (Krueger 1974). The new institutionalism school agrees with this proposition, and adds that rent-seeking is a major source of institutional inefficiency (North 1981, 1990; Buchanan et al., 1980; Olson 1982), because "it generates transaction costs and welfare losses, causing cost-push inflation and misallocation of talents at the expense of growth and development" (Mehmet 1994:56).

Rent-seeking involves corruption. As rent is a return which is above the normal rate in a competitive situation, it incentivizes rent-seeking activities such as time and efforts spent to make connections, money spent to pay bribe to officials and politicians, and illegal means, e.g. extortion, threats, and even murder of opponents.

Using regression analyses on cross sectional data of many countries around the world, World Bank researchers have shown that countries with high level of corruption have lower GDP growth rates than countries with low level of corruption. So the World Bank concludes that corruption, rent and rent-seeking, are bad for economic growth. The study results support the new institutionalism school position.

But several empirical works question this conclusion. For example Mehmet's study of a system of rent-seeking and its returns in Indonesia in the early 1990s concludes that systemic corruption need not damage the rate of economic growth. The adverse impact of rent-seeking on inflation and transaction cost was contained because the military regime was able to pursue a cheap labor policy (Mehmet 1994: 59).

The Political Economy Approach by Mushtaq Khan

In his study of rent, rent-seeking and economic development in Asia, Mushtaq Khan pointes out that the World Bank study ignores a group of countries in Asia which are outliers in their regression analysis. South Korea, Malaysia and Thailand in the 1970s were high on the corruption index yet their GDP growth rates were spectacular.

According to Mushtaq Khan the traditional way of treating rent and rent-seeking as always bad focuses only on one type of rent, i.e. monopoly rent. Other types of rent can contribute to economic growth, namely rent from innovation (Schumpeterian rent), learning rent, skill and management rent, monitoring rent and transfer rent. Among these, rent from innovation is the most desirable.[1] Even the least productive one, transfer rent or the various types of subsidies and privileges, unlawful seizure of property through abuse of powerful official position, they contribute to economic growth by providing sources of funds for capital accumulation (primitive accumulation).

Also to analyze the impact of rent on economic development, one must look at the ways rents are being distributed to "distributional coalitions." If too much rent falls into the hands of groups which do not invest in productive business, then the result can be damaging to economic growth, but if rents are a source of productive investment, then their effect can be positive.

A developmental state, which creates an institutional framework conducive to productive rent, through the use of industrial policy and measures to contain rent being dispersed to non-business groups, can achieve high economic growth rates despite the high level of corruption. The case of South Korea in the 1970s is an example. In other words, the positive outcome due to the ability to create productive rents can far outweigh the negative outcome of institutional inefficiency resulting from rent-seeking. In this same study, Mushtaq Khan shows that Thailand achieved reasonable rates of GDP growth in the 1970s but not as high as in South Korea. Thailand did not have as strong a developmental state as in South Korea but the government promoted the Thai-Chinese business groups. It managed to generate transfer and learning rents but not much of innovative rents.[2]

Mushtaq Khan's analysis is useful for broadening the scope of rent and showing the possibility of creating suitable institutional arrangements through industrial policy under the rubric of a "developmental state", which is conducive to productive rent and discouraging unproductive ones. The analysis further encourages one to think about the obstacles to creating a suitable institutional framework for inducing productive rent.[3]

But the study is historically specific to the 1960s and 1970s, when an industrial policy of the type pursued by South Korea under a developmental state was possible. Under the present WTO rules, many of those industrial policies are no longer possible. Thus the practical implications are now less relevant. Another criticism of the model is that it focuses wholly on growth and ignores other consequences of rent-seeking. For example, rent-seeking may result in worsening income distribution, slower eradication of poverty, and damage to the environment. Poverty and distribution may be affected because rent is about gate-keeping, confining the control and decision-making power among a few, and preventing others from sharing in this power (see for example, studies on Malaysia and Indonesia by Mehmet, 1986, 1994). The environment may suffer if business owners use their wealth to acquire de jure power and make use of public funds to benefit themselves at the expense of the society as a whole.

Public Choice Theory

Public Choice theory says governments cannot do anything right because everybody – politicians, bureaucrats, citizens and government – are all motivated by self-interest. They all seek rents in various forms. Citizens seek privileges from government. Politicians offer policies to get themselves elected, and then abuse their power to solicit bribes from people seeking privileges from government and use public resources to further their own power. In the end government misallocates resources and overrides individual freedom. So the theory concludes the best government is the least government – allowing various interest groups in society to compete in an open market place with least government interference.

This may be a very realistic view of politics. But it tends to ignore the fact that some interest groups are more powerful than others. An open market of political competition is unlikely to be fair.

Rent-Seeking and Politics: A Model of Corrupt Government

The first two models discussed above focus on the economic impact of rent and rent-seeking which is the core of money politics. The third model of public choice theory also makes use of the rent concept and follows the orthodox school in believing that all rents are bad for the economy. A model of corrupt government based on the analysis of O.E.G. Johnson offers a simple formula which help push the analysis further to politics.

$$V = A + B - K$$

Here V is the total rent or final net corruption revenue. It is made up of two sorts of income, A and B, less the costs incurred, K.

Of the income, A is a kind of "corruption tax", which politicians and bureaucrats collect by taking petty commission fees, padding expenditure budgets, skimming expenses, and so on. This is simple theft, and very familiar.

The second type, B, is more complex. This is the corruption or "rent" which politicians and their friends earn from businesses that are able to charge high prices through creation of a favorable political environment. Some of these are illegal businesses, like oil smuggling, prostitution, or drug trafficking. Some are businesses which have been granted monopolies, such as mining or liquor concessions. Some are just businesses which have been given privileged or favorable treatment, such as a TV news channel allowed to tear up its charter and become an entertainment channel. The businesses which benefit need not all be local; they may include transnational corporation based in the US, Japan, or Europe (Hawley 2000).

Suppose a company acquires a license to operate a mobile phone system. Suppose there are so few such licenses that the company conspire to charge monthly fees higher than almost anywhere else in the world. Then that company might make such high profits that its owner becomes a multi-billionaire in five years (Pasuk et al 1998). K represents the costs incurred from rent seeking and corruption. These have two main portions: K_1, the costs of staying in power, which include election expenses, as well as other investments in remaining a powerful and electable figure; and K_2, the costs involved in not getting found out, which can include direct payments to police and judges, but also may include the costs of manipulating the press, or suppressing academic research, or paying lawyers to write defamation suits, or whatever is needed to cover up wrongdoing.

In sum, net corruption income equals the commission fees plus monopoly profits less costs. Once in power, political parties will try to maximize their corruption revenue by increasing the amount of A and B, but will also have to incur certain costs in their efforts not to get found out. They will try to control the judiciary, undermine the work of independent bodies which are tasked to investigate the behavior of politicians and to ensure good governance. They will try to suppress sources of opposition such as the free media, opposition parties, and activists elements in civil society, as well as trying to redefine how corruption is perceived.

On the impact of rent-seeking and rent on the economy, this model follows the orthodox school in seeing these phenomena as being detrimental on growth because rent leads to misallocation of resources.

An advantage of this last model is that it allows us to look at the impact of corrupt government on politics and society. It tells us that a corrupt government is not good for democracy because a corrupt government will try to suppress information by controlling the media and undermining institutions which are designed to promote good governance, democracy, and the rule of law. The implications for policy is clear where weak law enforcement allows corruption to proliferate, a free media (Stiglitz 2002) and an active civil society are needed to push for reform.

Part 2: New Patterns of Money Politics and Its Impact

How Patterns Change

The ways politicians make money out of politics may change with the political regimes.

Under the bureaucratic polity (*amattayathippatai*) of the 1960s and 1970s when generals formed governments via a coup, the major means of making money was by type-A gate keeping and soliciting bribes from business owners who were outside formal politics. They established enterprises to get contract works from government or acted as middlemen to share out the government concessions. They plundered the state coffers through misallocation of funds (*ngoen ratchakan lap*, revenue from state lottery), commission fees on military spending, etc. Some made type-B revenues by running the illegal economy (drug, gambling, gun trafficking) or giving protection to private individuals and taking a cut on the profits. Some also abused their positions to turn public assets (land) into private ownership. At this time there was no anti-corruption institution to investigate the behavior of politicians. The media was gagged and the civil society was weak, so the costs K were quite low.

Under the semi-democratic and democratic periods of the 1980s and 1990s, most of the forms of corrupt revenue-gathering remained the same with minor changes. Ngoen ratchakan lap and the blatant involvement with drug trading continued. Gate-keeping and commission fees for licenses, government concessions and other privileges remained intact, as exemplified by the 'gift cheques' phenomenon and the term 'buffet cabinet.' So was the conversion of public lands into private ownership by powerful elected politicians, especially those provincial businessmen and local bosses among the ranks of 'Jao Pho'. Indeed this aspect of the rent seeking activities may have been very large in the high growth period because of lucrative prospects. Leakage from the annual budgets due to projects made up by businessmen and approved by bureaucrats and commission fees on procurements and purchase of equipments and supplies with ministers playing active roles was a common occurrence.

Under a democratic system the costs, however, began to rise. Politicians had to get themselves elected, and the scale of vote-buying rose very rapidly. Ambitious politicians needed a war chest to build a faction of followers in order to become a minister. Those who wanted to become prime minister might have to simulate an ATM, spilling out money at the cost of a few buttons. The costs of preventing being found out also started to become significant. The Counter Corruption Commission, established in the late 1970s, can only catch small guys among bureaucrats as the law did not cover politicians. But the media was freer and was instrumental in exposing corruption problems and issues; and the civil society, including NGOs and academics were more vocal.

The constitution of 1997, crisis of 1997, and election of 2001 have begun a new period which we might call 'state-capture by tycoon-owners period.' Business owners who survived the economic crisis of 1997 succeeded in capturing the parliament, building a strong party by M&A, and winning a re-election landslide through populist policies.

As for the ways to make money politics in this state-capture period, some old means remain, such as gate keeping, commission fees, turning state power to advantage of self and friends. But many innovative tactics have appeared.

One of the tactics which have become more pronounced is what Dr Prawes Wasi called ‘policy corruption’.[4] The government under PM Thaksin contains many big tycoons-turned-politicians or their proxies. Although the Thaksin government made a name for itself for winning its first election in 2001 on grounds of its innovative policy platform, it also pursued many policies aiming to benefit family businesses of the politicians and their friends.

I will not dwell on this as other academicians and researchers have discussed and debated on this issue a great deal already and Acharn Thanee will also touch on this aspect again in the next session.

I would like to talk about one new phenomenon which is just beginning to attract the attention of academics both locally and internationally. This is the link between policy corruption and the market valuation and market share of public companies linked to tycoon-turn politicians.

In the Thai stock market since 2001, companies with strong political links (especially those with some members of the family holding positions in the government) have seen their market valuation and market share increasing significantly more than companies which do not have such a political link. Stock markets tend to respond favorably to companies with strong political links with the ruling government. This is because they anticipate that new policies will benefit the companies in question. Thai researchers have observed that, since 2001, there were many policies which benefited listed companies linked to politicians in high government positions, especially at the ministerial level. These policies include: discretionary tax breaks; reduction of concession fee; restriction or discouragement of new entrants, as well as delaying of policies which may affect the incumbent firms, such as the delay in operational sing the anti-monopoly law, the delay to liberalize certain industries properly.

This phenomenon is not confined to Thailand, but cross-country studies have shown that Thailand has one of the highest rates of political linkages among all the stockmarkets of the world. I wonder if the Thai parliament is the only one in the world that has proposed buying a real-time display of the stockmarket prices to put in the lobby.

Although the methodology to establish the link between politics and the market valuations of shares of firms belonging to the families of tycoons-turned-politicians is still under scrutiny, we cannot deny the reality of the increased wealth of families of tycoons-turned-politicians and the possibility of this wealth being used to maintain their political and economic power further.

The Consequences

Big businessmen everywhere seek to influence politics in order to benefit their businesses. This is nothing new. But the phenomenon of tycoons-turned-politicians controlling decision making is new for Thailand and is a cause of concern. I guess the concern is greater than in the case where tycoons influence politics, but only from outside the political world itself. When businessmen and politicians are two relatively separate groups, there is some room for politicians to maintain autonomy, and there is more room for civil society to provide some checks and balances. But when the two groups are one and the same, any sense of perspective about what is public good and what is private good can become very blurred. The attention to private good may easily take precedence over the public good.

Under my model, type-B corruption seems to be increasing. What are the consequences. One could argue that in Mushtaqian terms the impact on growth would be positive because the resulting excess profits are being invested profitably. But this may not be so. Suppose political power is being used to enable certain business groups to gain an unfair share of new opportunities becoming available in expanding sectors such as telecoms, entertainment, property, hospitals, air travel, and so on. The result may be that other businessmen who might be more efficient are being crowded out, and consumers are ending up paying inflated prices because of oligopolistic or monopolistic markets. Usually one expects the forces of globalization to erode this position (liberalization opens up the markets for new competitors), but politicians in power may be able to delay liberalization, and screen out global competition.

But perhaps the most important consequences of the new era come in the area of the costs of corruption and their impact on society and politics. In more advanced societies, conflict-of-interest is a known problem, and there are legal attempts to grapple with it. There are also market mechanisms. In the US, when the Enron company was caught out in accounting fraud, the company was punished immediately by the stockmarket, which reduced the company's value to zero, and the company's executives were subsequently punished by legal process. What happens in Thailand? Well the picnic goes on….

As a result, the only controls on conflict-of-interest in Thailand at present are those exercised by the media and civil society. The costs incurred to stay in power, and to prevent getting found out, are increasing. Both reserves of power and reserves of money are being used for these purposes. And the consequences are far-reaching. If the political temperature has risen so much lately, and mercury has started going backwards, it is not because of the conflicting egos of a few prominent individuals but because of the fundamental problem of conflict of interest.

Let me just review briefly the extraordinary record of the past 4-5 years. The broadcast media have been swept clean of every program with independent political commentary. The print media have been intimidated by manipulation of advertising budgets, politically motivated takeover attempts, and now a firestorm of defamation suits. Academics and activists have also been deterred by lawsuits, and was it a coincidence that the first three of these were all in response to allegations of conflict of interest by three companies in a certain business group? The independent bodies formed under the 1997 constitution are in complete disarray. The Auditor-General's office is headless; the National Counter Corruption Commission blew itself up; the National Broadcasting Commission has become like a lost spirit, struggling desperately to be born.

Many countries, even developed ones, face problems of conflict of interests. It may be argued that as long as capital accumulation takes place and a satisfactory rate of economic growth continues, conflict of interest may be tolerated. To the extent that it creates non-level playing field, in the long term with the liberalizing forces of globalization being allowed to work, most government will be forced to control this problem and to put in place new institutions to prevent it. Even in the US it was less than 20 years ago that strict regulations to prevent conflict of interest were put in place. We can anticipate that Thailand will have to adopt similar institutions in the near future.

But the problems of media control and withholding of information is much more serious and is more difficult to address.

According to the Nobel prize winner in economics, Professor Joseph Stiglitz, asymmetry in information due to politicians deliberately trying to withhold information and gag the media is not good for the working of the market economy. It prevents people from responding to the market and it creates an agency problem in politics in the same way as in business. In public enterprises the agency problem arises because the business owners (i.e. shareholders) and the executives are two separate groups. Asymmetry in information, with the executives having access to more information than the shareholders, means that executives can run the company to benefit themselves rather than the shareholders. A government which has more information than its citizens can take advantage of the citizens without them knowing or realizing. By hiding information or feeding wrong information to the public through the control of the mass media, government can also makes things worse, by making wrong decisions but hiding them from the public. The issue that comes to mind is the situation in the South. People may believe that the government is doing the right thing and support it, whereas in fact it may be heading in the wrong direction.

Conclusion

Money politics may or may not prejudice economic growth, but they are likely to have bad consequences for such things as social equity and environmental protection, and they can have major impact on rights, democratization, and the rule of law.

Mushtaq Khan's model shows a possibility of productive rents under a strong developmental state; but it is a special case and may be less relevant under the present globalization. In Thailand since 2001 tycoons-turned-politicians are able to seek and obtain rents easily. There is no institution to promote productive rents and contain unproductive ones. In the short-term the detrimental effects may not be so obvious. In the long-term Thai society is running a high risk, not only for worsening economic development and income distribution, but also a worsening prospects for democratization as government tries to reduce the cost of corruption by controlling the media, undermining the courts, the opposition, critics and independent bodies designed to monitor the politicians' behavior. The only solution is to promote and ensure free media and support actions of civil society with democratic bent.

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1 Returns from innovation.

2 In support of Khan, Doner and Ramsay (2000) show that at the time when property rights were not properly enforced, Thai entrepreneurs were able to protect their assets by becoming clients to powerful

patrons (high military or civilian bureaucrats) who had the political means to offer specific protection in returns for bribes. But since Thai political elites were not united, rivalry among different patrons allowed new entrants to find a patron willing to give protection for their property rights. This "competitive clientelism" gave rise to a competitive market structure which ensured a relatively efficient market performance. As to the problem of collective action, such as excess capacity which arose due to proliferation of producers under competitive clientelism, Thai entrepreneurs overcame this by forming trade associations which solved these collective action problems rationally in the common interest. Doner and Ramsay also believe that Thai competitive clientelism did not become anarchic because "for historical reasons, key departments making macroeconomic decision about fiscal and monetary policy remained immune to clientelism and rent-seeking."

[3] For example, conflicts of interests and cronyism may prevent politicians wishing to create optimal institutions for economic development. An example of a country which has been beset with the intense problems of conflicts of interests and cronyism is the Philippines (Hutchcroft, 1998; Abinales and Amoroso, 2005).

4 There was the decree on the imposition of excise tax on telecommunication services and the reduction of revenue to be shared to the government by the existing companies holding concessions. Critics have pointed out that these measures have the effect of protecting the existing companies from competition of newcomers into the industry (the PM's family business AIS has the largest share in the market). Then there is the granting of loans by the EXIM Bank to Burma, which in the end benefited the company of a major politician. The delay in operationalising the fair competition act was seen to enable oliopolistic and monopolistic types of businesses of major politicians and others to continue their monopolistic behaviours and enhance their market power at the expense of consumers, with possible adverse long-term implications on economic growth. Then there was the granting of BOI tax exemption (for 8 years) to Shin Sattelite (the business of the PM's familly) in connection to its IPStar project. It is estimated that Shin Sattelit is bound to benefit up to 16,459 million baht. A critic has pointed out that this granting of BOI privileges is unsuitable on many counts. It does not have the effect of increasing investment because the investment has already been made. Besides IP-Star will have capacity far beyond any existing competitors in Thailand and in the world, ie. it will be able to operate at costs lower than anyone else. Therefore it does not need a promotional privilege.

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