Political Machines and the Institutional Background of Economic Miracles

Mircea Popa

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Some of the world's most notable economic miracles were accompanied by corruption, rent-seeking, and clientelism, which is puzzling given the wide agreement on the importance of good institutions for growth. This article builds on the experiences of the US, Japan, Italy, South Korea, and China, to argue that these institutional maladies can be the natural outcomes of governance structures that facilitate growth. The theoretical argument revolves around the nature and strategies of dominant political organizations. Party machines can sometimes broker compensatory transfers that allow entrenched interests to profit from economic change, rather than be hurt by it, by the logic of the political Coase theorem. Transfers which are inefficient in most settings can therefore, if properly rationed and targeted, alleviate some of the key strategic impediments to growth identified by the political economy literature. Keywords: corruption, growth, political parties.

1. Introduction

The claim that good institutions are important for economic growth needs little introduction. A substantial body of work has dealt with how institutions, generally defined following North (1991) as the "humanly devised constraints that structure political, economic and social interaction" can, by shaping the incentives faced by agents, affect economic efficiency. Building on this, the applied hypothesis that institutional maladies such as corruption, rent-seeking, and clientelism, should hurt economic growth arises naturally, and substantial evidence points towards this being the case (Mauro 1995, Bardhan 1997, Keefer 2005, Aidt 2009, Stokes 2013; but also Gundlach and Paldam 2009 for evidence to the contrary). The purpose of this article is not to challenge the wide applicability of the argument connecting the institutional maladies to growth, but to point out a set of cases to which a simplistic version of the argument would be hard to apply. The puzzle I discuss is that some of the world's most notable economic miracles took place in environments in which these maladies were not only present, but often spectacularly so. In these cases, the theoretical challenge is not simply explaining why the institutional maladies were compatible with average, or good, economic performance, but the much more difficult one of explaining why they seemed to lie at the center of miraculous economic growth.

Some major puzzles we need to tackle include the growth of US cities in the 19th century, the post-war economic miracles of Japan, Italy, and South Korea, and the current Chinese experience. These are some of the most impressive examples of economic development in history. The first three took place under competitive democratic politics, while the latter two happened in authoritarian systems. Our current understanding of these cases is that they all featured substantial corruption, which, at least in a superficial analysis, rivals or surpasses that of many developing economies today. Beyond this, our current understanding of their economic systems points towards substantial rent generation and rent extraction by key actors, and our understanding of their political life often points towards substantial clientelism. This article proposes that we can understand much about these cases if we consider the nature and the strategies of the political parties overseeing the miracles. Section three will review the theoretical debate on the efficiency of rent extraction, as well as the theoretical argument for why extensive compensatory payments may facilitate economic growth. Following this, it will be argued that political parties can adopt strategies that lead to the rationalization of rent extraction, as well as to the channeling of the extractive process in a direction which allows a "political Coase theorem" to hold. The historical evidence shows our cases to be distinguished from the many examples in which the institutional maladies negatively impacted growth by the way in which institutionalized party machines both limited the extent of rent extraction, and channeled it in a way that made entrenched interests, whether economic, political, or popular, benefit from rather than being threatened by economic transformation. This is not to suggest that such transfers were not inefficient in a partial equilibrium sense---the argument for this would have to be a tortured one---but instead that in the full political-economic equilibrium, these activities came to not only be compatible with, but promote rapid economic growth. The reason why these arrangements came to be are also speculatively explored in the conclusion, and argued to be linked to the competitive environment facing political elites.

This article engages with existing literature on the five economic miracles in a number of ways. Bardhan (1997), as well as Rock and Bonnett (2004), deal briefly with the puzzle of corrupt Asian development, by arguing for the importance of the centralization and stability of corruption for avoiding inefficient predation, but do not go further in their analyses. Menes (2006) looks at American cities, and argues that the open nature of their economies put significant competitive pressures on politicians to limit extraction, but does not embed this in a more general model. Kang (2002a, 2002b, 2003) argues for the importance of the mutual-hostages situation between Korean political leaders and the *chaebol* conglomerates for rationalizing rent extraction by both parties. Additionally, Kang's work gives insights into the strategic considerations inducing the *chaebol* to expand, but does not focus on how these elements led to record-breaking growth rates. Wedeman (2012, 1997), also building on Johnson (1987), argues that in some Asian cases corruption played a functional role by allowing businesses to fund conservative politicians that enacted pro-growth policies. In an argument which is parallel to the present one, Rothstein (2015), tackles the puzzle of the effectiveness of the Chinese Communist party even as it did not develop a Weberian bureaucratic nature, without tackling the other growth-institutional maladies puzzles directly. The article also builds on the long-running debate in economics on the efficiency of rent-seeking (Tullock 1980, Becker 1983, Wittman 1990), as will be discussed in the theoretical section.

2. Five puzzling miracles

While the five cases to be tackled feature significant differences, the fundamental mixture of miraculous growth and an institutional framework featuring apparent maladies, present in all of them, justifies a common analysis. The case selection strategy is that of looking at typical cases, in the sense of Seawright and Gerring (2008), which, while helping illustrate and validate theoretical arguments, does not make for a full counterfactual analysis. The extent to which the argument may apply to other, negative, examples will therefore be further discussed in section five.

The rise of US cities such as New York, Chicago, Pittsburgh, or St Louis is a canonical example of miraculous economic growth. While their economic story is written in superlatives, successful US cities in the 19th century were also famously corrupt (Steffens 1904, Merton 1957, Menes 2006, Petrova 2011). In most of them the default mode of organization of the political and administrative life was that of the "machine". Machines were political organizations that tacked onto, or became synonymous, with the official political parties. They were generally very long lived (some dominated the politics of their respective cities for more than a century), and, while led by a "boss", had a set of institutionalized rules and traditions which were independent of the discretion of the boss. The most visible role of the machine organization was mobilizing voters, who were often poor, non-English speaking immigrants. Machines did so by offering clientelistic benefits to their supporters: public jobs, citizenship papers, social insurance services such as housing for victims of fires or emergency unemployment aid (Reid and Kurth 1992, Golway 2014), as well as social and psychological benefits such as organizing clubs and public events.

The second aspect of the machines' work was far more controversial, and therefore less visible: Machines regulated the corrupt extraction of bribes and kick-backs, the insider trading, and the other illegitimate gains of local politicians (Steffens 1904, Myers 1917, Merton 1957, Menes 2006). It is widely accepted that most, if not all, public contracts and other forms of expenditure of the cities, came with a "cut" for the local politicians involved in the process, and that the selection of contractors, or other kinds of beneficiaries of public funds was dependent, among other considerations, on the appropriate payment being made. It is also however accepted that the system was to some extent efficient, or at least not too inefficient (see especially Menes 2006). Deals with private actors were generally fulfilled by politicians, and work executed by contractors was, while probably not of optimal quality, reasonably good and generally faster than what we expect today (Engermann and Sokoloff 2006). More importantly, there is little evidence that the dynamic economic sectors which did not directly interact with city government through procurement or regulation were harassed for money---as political broker GW Plunkitt famously said, there was little reason to engage in inelegant theft when so much could be made through "honest graft" (O'Riordan 1904).

The fact that Japan's post-war economic miracle was accompanied by less-than-clean politics became apparent to Western observers in the late 1970s and 80s, and is by now widely acknowledged. Reed (1996) says that throughout the post-war period Japan had a corruption problem second only to Italy in the developed world, and Schlesinger (1999) argues that the Japanese political system was closer in nature to Tammany Hall than to the developmental state model. Samuels (2001) shows how the murky "1955 system" that helped keep the Liberal Democratic Party (LDP) in power until 1993 began with efforts by businesses and politicians to set up a centralized system for funneling money into the LDP (Pascha 1999, Woodall 2014). The money helped fund the party's massive patronage politics. Iga and Auerbach (1977), Cox and Thies (2000), Pharr (2005), Woodall (2014), and Ramseyer and Rosenbluth (2009), provide accounts of electoral politics in Japan in which candidates compete against fellow party members in multi-member districts by offering cash “gifts” to voters, and paying for clubs, trips, and get-togethers, well into the 1990s. Corruption scandals such as those involving prime minister Tanaka Kakuei (Johnson 1986) gave outside observers an insight into the murky world of party funding, but most Japanese corruption seems to have been less offensive than Tanaka’s exploits, and therefore more likely to remain unobserved. Woodall (1993, 1996), for example, presents a detailed account of the *dango* system of politician-bureaucrat-firm collusion around construction public contracts in 1970s and 80s. Projects of high quality, but often dubious utility, were a way for businesses and politicians to earn an illegitimate income in a highly institutionalized and smoothly-running system. Electoral donations and outright bribes flowed from firms to politicians. In return politicians and their subordinate bureaucrats tolerated a system of collusion between firms that ensured super-competitive prices for public contracts. Bureaucrats overseeing this jumped to cushy jobs in the very companies they were working with, at age 50 or 55, in a highly institutionalized system called *amakudari*. The inflated prices helped sustain a long tail of uncompetitive, low-tech, subcontractors that provided employment for large numbers. Somehow the quality of the work remained high and the rents extracted by everyone moderate, thus giving the whole system an uncomfortably functional flavor (see also Black 2004).

Kang (2002a, 2002b, 2003), Wedeman (2012), Kong (1996), Clifford (1998), as well as revelations during corruption trials, paint a picture of Korean development in the pre-1987 era, as well as into the first post-democratization decade, in which political leaders and the massive political organizations that supported them exchanged bribes for preferential treatment of large businesses through cheap loans and other subsidies. Revelations in the post-1987 period showed that the leaders of Park Chung Hee’s regime accumulated fortunes running into the tens of millions of dollars (Wedeman 2012). Later president Chun (1980-1988) was sentenced for taking some $275 million in bribes from companies (AP News 1996). The first democratically elected president, Roh (1988-1993), admitted to collecting $650 million from businesses, and also that he left office with $230 million in secret bank accounts (AP News 1995). In a statement cited in Kang (2002a), p 163, Hyndai founder Chung Ju-yong plainly describes cash payments worth millions of dollars he personally made to three presidents. An episode involving one of the *chaebols* shows that such payments were not optional: When, in 1984, the Kukje group decided to refuse to make a donation to a "charitable foundation" set up by president Chun, he asked the country's largest bank to stop rolling over Kukje's debt, which quickly bankrupted it, and had the constituent parts distributed to other, more pliant, *chaebols*. Aside from funding the lifestyles of the political elite, the money went into maintaining the large political organizations that mobilized electoral support for the regime before 1972, and then served as a dictatorial ruling party between 1972 and 1987. In exchange for their support for the regime, *chaebols* received an economic framework that featured a mixture of protection of entrenched interests and creative destruction. On the one hand, the *chaebols* were free from the regular financial constraints facing firms in more open regimes. Profits were not crucial for survival, as companies faced soft budget constraints due to financing via favorable loans from state-controlled banks. In addition to the easy loans, the regime provided labor suppression and lax regulation, which acted as a further subsidy. On the other hand, Kang (2002a, 2002b) argues the system generated strategic pressure for *chaebols* to grow, both in size and in diversity of activities. Larger size was advantageous because it provided increased bargaining power in relation to the government and bureaucracy, and thus ensured the survival of the firm, much like profits do in more competitive systems. As a result of the quest for size and diversification, chaebols engaged in extensive competition with each other, both internally and externally, and did achieve an impressive degree of technical innovation, even as many of the newly developed products took a long time to become profitable in the traditional sense.

Italy's spectacular growth rates in the period leading up to the 1990s were so dissonant with the country's institutional maladies that in this case it is the economic performance rather than the maladies that needs some introduction. Between 1950 and 1990, Italy had the third highest economic growth rate in the Western world (calculations from Penn World Table 2006). While in 1950 the country had half the income per capita of the UK, by 1987 it had overtaken the British level, in a much publicized feat (Rossi and Toniolo 2010). Even as corruption reached grotesque proportions in the 1980s, Italy's growth rates were higher than those of almost all Western countries. Much like in the Japanese case, the country had been led by the same political party, the Christian Democrats (DC), often in coalition with smaller players such as the Socialist Party, from 1946 to 1994. The DC's Southern and rural power base was maintained through extensive clientelism, including as its tools massive public employment, and pork-barrel projects to benefit key regions (Ginsborg 2003, Guzzini 1995). It was always known that payments towards bureaucrats and politicians at all levels of government were a matter of life, but the *clean hands* anticorruption campaign from the early 1990s laid out the details of the system with unmatched clarity. The roots of the system lied in the 1950s, when businesses started financing the DC as a counter to Soviet support of the Communist Party (della Porta and Vanucci 1999, Ginsborg 2003). Following this, Italian politics and administration gradually became dominated by payments from private actors to bureaucrats and politicians, and the funding reforms of 1974 only served to push payments underground. Bureaucrats collected bribes to help businesses navigate byzantine rules and regulations, and passed on much of the gains to the politicians overseeing them (Hine 2002). Consideration for all public contracts was contingent on similar payments (della Porta and Vanucci

1999, Rhodes 1997, Golden and Picci 2008). Judges were routinely bought either with cash or by being offered lucrative private arbitration side-jobs (della Porta 2001). A hidden network of connections, often overlapping with participation in Masonic lodges governed the entire system. The persistence of the DC in power ensured the basic stability, and reliability, of the system, but investigations revealed that all parties shared in the spoils, often through an institutionalized formula. Italy developed a dual economy in which highly competitive exporters functioned alongside firms specializing in public contracting, whose competitive advantage consisted in the skill of bribing the right actors (Rossi and Tonniolo 2010, Guzzini 1995, della Porta and Vanucci 1997).

China's combination of very high growth rates and extensive corruption is admitted by the country's leaders themselves (Pei 2016). The Chinese case differs from the three democratic ones in the obvious way that the leading party is unconstrained by elections, and from all four previous cases through the extensive involvement of the government in the economy. According to Pei (2016), and Wedeman (2012), the source of rents in the Chinese case lies not only in the ability of the state to distribute resources through procurement and to regulate economic activity, but also in the extensive ownership of assets, which are still being partially or fully privatized. Private entrepreneurs pay bribes to officials in exchange for state resources or for their extensive power to affect economic outcomes, lower level officials share the gains with their superiors, promotions inside the Communist party are traded for bribes as admitted by Xi himself, and party elites are at the same time private entrepreneurs through their family members.

3. A theory of growth under dirty politics

Two strands of literature are relevant for the theoretical discussion. The first is the long-running debate on the efficiency of rent extraction. The second is on the claim that growth-promoting policy change may require compensatory transfers, by the logic of a "political Coase theorem" (Becker 1985, Acemoglu et al 2005). The argument to be developed in the following is that political parties can acquire adaptations that allow them to both increase the efficiency of the process of rent extraction, and to channel this process towards fulfilling the logic of the political Coase theorem.

3.1 Theoretical arguments on the efficiency of rent extraction

Identifying conditions which make rent extraction be more, or less, socially destructive has been a long-running challenge in political economy (Hillman and Ursprung, 2016). This subsection summarizes some of the arguments most relevant for understanding our cases. One strand of theoretical arguments focuses on democratic settings. Tullock (1980) emphasizes sources of social inefficiency in this process, arising from wasteful rent seeking contests, and from the hidden and circuitous ways in which rents are often shared. By contrast, Becker (1983, 1985) makes an efficiency argument based on competition among pressure groups, voter feedback, and self-interest to limit inefficiency among rent-seekers. Becker's efficiency conclusions crucially rely on competitive pressures towards minimizing deadweight losses, as well as on the absence of wasteful rent seeking contests, pointing to the relevance of these two factors to understanding our cases. Wittman (1990) goes furthest in arguing for the efficiency of democratic politics and notes the key role of political parties as "franchises" whose reputation ensures the credibility of political promises.

A different strand of arguments, drawing inspiration mostly from the developing world and from historical cases, tackles the same problem but focuses on sources of efficiency arising outside the democratic process. Olson (1993) is a well-known argument for how long time horizons can improve extractive efficiency even in non-democratic settings through "stationary banditry"; North and Weingast (1989) discuss the incentives faced by authoritarian rulers to impose checks on their own extractive discretion through constitutional rules; and Shleifer and Vishny (1993) focus on the efficiency implications of centralized versus decentralized extraction. This influential line of work has been further developed in more recent articles such as Magaloni (2008), Gehlbach and Keefer (2011), and Boix and Svolik (2013).

The testable implications of these two strands of literature can be summarized as follows: First, there is a general agreement that, in both democratic and nondemocratic settings, curtailing individualized or fragmented rent extraction, which if left unchecked leads to the "overfishing" of the productive base, is key to limiting inefficiency. Second, the extent of political competition, and in particular the distinction between democracy and authoritarianism, should play a role in limiting rent extraction and determining the final distribution of the gains between elites and citizens. Third, long time horizons should favor stationary banditry and the rationalization of rent extraction, by the logic of the folk theorem of repeated games. Fourth, constraints on the discretion of those wielding political power are needed if their promises are to be credible, and therefore if relatively efficient levels of investment are to be achieved.

3.2 Theoretical arguments on efficient economic change

A different line of theoretical inquiry focuses on the political prerequisites of efficient economic change. A basic claim underlying this literature (North 1991, Barzel 2003) is that the institutional arrangements which are desirable for those currently holding political power are often not those that maximize growth. When this is the case, a Pareto-improving change would require compensatory transfers towards potential losers wielding veto power, by a logic sometimes called the "political Coase theorem"[1]. Acemoglu et al (2005) argue that the difficulty of providing such compensatory payments, arising from the lack of institutional frameworks that would ensure their credibility, is a key driver of underdevelopment. The recipients of such transfers would have to include economic and political elites that may have veto power on the output-increasing change, but also, at least in democracies, groups of voters that may perceive economic disruption as a threat to their incomes, employment, or values (Przeworski 1991). The immediate implication of these arguments is that positive economic change may require institutions guaranteeing those wielding veto power a stake in any benefits arising from the change. Another implication, which is being argued for here, is that corrupt and clientelistic transfers may, if properly channeled, come to serve the efficiency-enhancing role required by the political Coase theorem. This opens up the possibility that in some instances, rent transfers may not only be compatible with some degree of static efficiency, as suggested by the first strand of literature, but also directly facilitate economic growth.

3.3 Political parties, efficient extraction, and efficient change

Institutionalized political parties can fulfil many of the requirements listed in the previous subsections. Independent of whether they are themselves checked by voters, party organizations

[1] This is by parallel with the classical Coase theorem, in which the ability to make payments from an externality-causing party to a victim of the externality causes the efficient level of output to occur, by incentivizing the sufferer to not block the activity, and by making the offender internalize the social cost of the externality.

can control the behavior of those making up the governing class, ranging from subordinate bureaucrats up to, in the most institutionalized cases, the party leader. Authors including Wittman (1990), Magaloni (2008), Gehlbach and Keefer (2011), Boix and Svolik (2013), and Bizzaro et al. (2018) have previously argued that institutionalized political parties can achieve a degree of control of members' and subordinates' behavior, and therefore of commitment power, inaccessible to individual political actors or to organizations in which the power of the leaders is not effectively constrained. This points to institutionalized parties as likely sources of efficiency in the rent extraction process, as will be illustrated empirically in the next section.

The fact that parties can also contribute towards the political Coase theorem holding is suggested by the logic in Coase (1960). According to him, the presence of transaction costs in situations in which compensatory transfers would be desirable could stimulate the emergence of organizations that can reduce these costs, and thus help broker the transactions. In the political context, this would mean organizations that can ensure the long run credibility of arrangements in which political and economic elites share in the proceedings from growth, together perhaps with any popular groups that could also act as veto players. Entrenched, stable, institutionalized party machines are the natural candidates for this role.[2]

How would such a political arrangement look in practice? One possibility, which is supported by the historical evidence in our cases, entails the maintenance of a dual economy, in which novel, more productive sectors characterized by creative destruction, coexist with sectors in which substantial rents for entrenched economic and political actors are maintained through protection, corrupt public procurement, corrupt privatizations, and other redistributive methods,

[2] The argument that profit-motivated organizations acting as brokers can help solve basic commitment problems in political economy is also present in Cox (2016), in the context of England after the Glorious Revolution.

and in which these protected sectors help maintain the current political and economic elite in power for the long-run. Similarly, non-elite citizens can be insulated from the effects of economic disruption through protection for certain economic sectors employing them, through government employment that shields them from the vagaries of the private sector, or through various forms of clientelistic individual transfers.

A dual economy strategy requires a finely-tuned extractive and distributive approach if it is to perform its functional, compensatory, role, rather than turning into generalized rent seeking. Olson's (1982) argument that rent extraction arrangements tend to accumulate over time in stable societies, and ultimately overwhelm them, is clearly relevant to the sustainability of such a strategy. Hillman and Ursprung (2000) show how successively extending access to rents, first by allowing outsiders to compete for insider access, then by making everyone an insider, can lead to increasing inefficiency. Holcombe (2017) similarly argues that the rationing of rents is necessary to prevent their full dissipation in rent-seeking contests, and thus to make the rent-sharing process at all profitable for political leaders. These works suggest an optimal approach on the part of politicians using rent sharing to pursue a compensation strategy would entail, first, limiting access to rents to a protected group of insiders rather to the entire economy; and second, limiting the extent of wasteful rent-seeking contests among outsiders for insider access. Party machines therefore need to effectively set up political property rights over access to the extractive base in order to prevent both its over-exploitation as well as the dissipation of any gains in contests over access.

A further challenge for a compensation strategy is the difficulty of controlling excessive demands for protection in a setting of asymmetric information between recipients and decisionmakers. Speculatively, the hidden, often illegal, and personalized nature of the transfers encountered in our cases may have emerged as a response to the asymmetric information problem raised by any compensation process. A price system making use of bribes and individualized clientelistic benefits could play a role in ensuring truthful revelation in such situations. Robinson and Verdier (2013), for example, argue that a patronage job, while possibly inefficient for society, is a particularly effective method for making a political transaction, as it is a selective, reversible, and credible method for transferring income to a supporter.

The testable implication of this discussion is that when corrupt and clientelistic transfers come to meet the conditions identified here, they can play a functional role in facilitating economic growth, while otherwise their welfare effect is likely the negative one generally identified in the literature. A situation in which the strategies discussed here are employed would come closer to the functional or "helping hand" view of corruption rather than the purely destructive view. However, rather than being a tolerable residual, as in the helping hand models reviewed in Aidt (2016), or a substitute for functional institutions in very poor governance environments as in Meon and Weil (2010) and Dreher and Gassenber (2013), corruption here is a mechanism by which the conditions of a political Coase theorem come to be fulfilled, and thus a causal factor behind economic growth.

4. Application to the cases

4.1 The efficiency of rent extraction in the cases

This subsection discusses how the efficiency requirements from section 3.1 may be relevant for understanding our cases. One basic requirement is the prospect of long time horizons for interactions between agents. The credibility of the party machine's policies depends on it holding on to power, and, conversely its survival will be influenced by the effectiveness of this work. With the exception of perhaps of the Korean case, all political systems discussed here were remarkably stable. American political machines dominated their respective cities for five to ten decades at a time, even if periodically non-machine candidates were elected as mayors. The DC led Italian governments between 1946 and 1994, the LDP dominated Japanese politics between 1955 and 2009, with a 11-month hiatus, and the Chinese Communist party has been in office since 1949. In South Korea, the essential identity of Park's Democratic Republican machine was the same as Chun's Democratic Justice party, and Roh and Kim's Democratic Liberal and New Korea parties (Kang 2002a). The same conservative political group thus led Korea between at least 1961, when Park took power, and 1998.

All political groups under analysis, again with the partial exception of Korea, managed to maintain a distinct separation between the power of the organization and the identity of the leader. This served to lend further credibility to the machine's strategies, by checking the leader's individual discretion. American machines did not depend for their existence on a certain boss, even if he exercised substantial power while in office. Italian and Japanese contrasts between the dominance of the leading party and the forgettable nature of its leaders are also illustrative, as is the non-personalistic leadership of the Chinese Communist Party that emerged in the post-1979 period. Park's Korea does not fit this model to the same extent; however, in this case as well, the basic survival of the commitments made in the Park era did not depend on his holding on to power, and arguably was not even immediately affected by democratization.

Checks on individualized, over-extractive, behavior by officials are another efficiency requirement. A basic, if partial, piece of evidence for the absence of such behavior is the willful participation of businesses in corrupt interactions in all our cases. When officials fleece firms and individuals, maintaining the secrecy of the transaction will be difficult, as the actors being extorted may reveal it, may retreat from business, and may come to oppose the system. By contrast, all five cases feature long term, smooth-running, collusion between business interests and politicians, in which secrecy is maintained for decades, and in which businesses profit as much, if not more, than officials. Moreover, the output of those interactions is visible and often satisfies the public's expectations to a reasonable degree, unlike what happens in purely kleptocratic regimes. Woodall (1996) for example, notes that in spite of the unseemly practices in Japanese public construction, the quality of the projects always remained high, and overall cost not outrageous. Menes (2006) notes that the usual complaint in the US cities was over- not under-construction, echoing current complaints about Chinese practices. The point is furthered by the good performance of our contemporary cases in the World Bank's (2016) infrastructure quality index, a good, if partial, indicator of the quality of work performed in public contracting over the decades: China ranks 23/160, far above most countries at its level of wealth per capita; Italy ranks 19/160, about average for Western Europe, and South Korea and Japan do similarly well, being ranked 20th and 11th respectively.

Revelations about the workings of corrupt interactions in the five cases give an insight into the institutionalized procedures for coordinating extractive actions. Accounts from Myers (1917), and Steffens (1904) present American machines as operating on a strict hierarchical structure, in which all public employees were dependent for their livelihoods on the machine, and discipline was swiftly enforced. In Italy, the *clean hands* investigations revealed a highly regularized pattern of interactions between officials and firms, as well as between officials and their superiors. Ginsborg (2003) argues that, while the different factions of the DC came to control separate areas of government and state-owned enterprises, within each of these areas, the fusion between the DC and the state was complete, and political patrons exercised complete control over the bureaucracy.

Within this network, the flow of funds became highly regularized. Newell (2010), for example, shows that corrupt payments became so standardized that any sense of impropriety was lost, and businesspeople kept a written schedule of the regular payments that needed to be made; Hine says that "powerful and collusive parties, firmly entrenched in office, provided a low-risk environment to politicians and businessmen"; and Rhodes (1997) that "it is the routinized and institutionalized nature of corrupt political funding that is the distinguishing feature of the Italian system". Similarly, the very origins of the corrupt equilibrium in Japan lied in attempts to centralize and rationalize transactions and therefore to limit individualized action in the 1950s (Samuels 2001, Pascha 1999). Johnson (1986) emphasizes the restraint of the extractive process; while acknowledging that corrupt payments were pervasive, he also says, based on private communications, that the typical bribe was three percent of the contract value. On the same note, Ramseyer and Rosenbluth (2009) present a detailed account of the functioning of the LDP, and emphasize the role of the central party apparatus in both limiting the amount of rent creation that individual deputies could generate, and in providing credibility for the deals they may engage in. South Korea similarly featured a highly organized system of bribe extraction, in which the president or his lieutenants would collect huge sums, which were then partially distributed towards subordinates. The discipline of subordinates was ensured by, among other authoritarian means, the pervasive control of the KCIA security service (Kang 2002a).

According to Wedeman (2012), China is a challenging case because the process by which extraction is organized is not immediately obvious. Due to the absence of electoral constraints and the decentralization of the party, local bosses exercise substantial discretion, and there is no evidence of a centralized collection and downwards distribution of corrupt funds. Kahana and Liu (2010) similarly argue that the need to pay bribes to superiors for advancement in the party is a major driver of corruption in this case. Fan and Grossman (2001), as well as Wedeman (2012) offer part of the explanation for how corruption is then kept under control: Unique in our set of cases, the central party leadership openly speaks about the corruption problem in the country, and engages in anti-corruption drives itself. According to Fan and Grossman, and Wedeman, these anti-corruption efforts play the role of a disciplining mechanism in the extractive process: particularly anarchical forms are targeted in a manner that is functionally similar to the traditional machine enforcement procedures. Kahana and Liu (2010) similarly argue that top-down bureaucratic control keeps the bottom-up flow of funds from spiraling into anarchical extractive behavior. Beyond this, the central party leadership also offers positive incentives to local party heads, by conditioning promotion on economic results. Pei (2016) complements this explanation with an analysis of the dynamics inside individual local parties. Pei argues that Chinese officials and entrepreneurs have managed to develop collusive equilibria, in which effective collective action is achieved through a process of repeated interaction and community enforcement. His account describes the creative methods through which cooperation is maintained, such as participating together in compromising entertainment, in order to provide mutual blackmail material.

4.2 Economic change and compensation in the cases

This subsection discusses how the party machines we study channeled the distribution of rents in ways which allowed entrenched interests to have a stake in, rather than be hurt by, economic change. All our cases featured a highly competitive sector, which was often export-oriented, and featured innovation and creative destruction, but which was not the natural home of the leading party and its elite and popular supporters. Looking at the success of the Asian tigers, Paldam (2003) shows, using a standard quantitative indicator, that both South Korea and Japan had levels of economic freedom which were higher than those of most developing countries, and comparable with those of other capitalist Western democracies, and argues this can explain much of their miraculous growth. More generally, the empirical literature on the determinants of growth has shown that the unimpeded existence of competitive economic activity is strongly connected to economic success (Williamson and Mathers 2011, Rode and Coll 2012). The presence and extent of the competitive sector is a key distinguishing feature of our cases when compared to other cases featuring relatively organized rent extraction, for example in Latin America or post-Communist Eastern Europe.

Tonniolo and Rossi (2010), Guzzini (1995) and della Porta and Vanucci (1997) discuss the dualistic nature of the Italian economy, in which exporters, often in the form of small companies, and often specializing in high-tech or high-creativity products, are relatively free from the need to bribe, while firms specializing in public contracting earn rents in spite of poor productivity, by paying off officials. In addition to firms participating in public contracting, the massive state-owned enterprises provided further safety for managers and workers who would, most likely, not have been competitive in the private sector. Guzzini argues that Italy developed a "dualistic clientelistic" system in which in an implicit contract, the two sectors were accommodated in the same economy. According to him, "[c]lientelism managed domestic consent in a segmented society and buffered the effects of the necessary opening to the European and wider international system. [....] The key to the postwar settlement (initially DC rule) is the use of state resources to finance consensus."

Similarly, Calder (1988) sees Japanese politics in this period as dominated by a logic of compensation: rapid growth came with a sense of crisis in many sectors of society, which required compensation in order to maintain the political equilibrium. Japan therefore came to feature a striking mix of world-class innovators and low-productivity sectors such as agriculture, retail, and construction, which were protected through extensive trade barriers, “white elephant” public construction projects, regulation of entry, and regional transfers (Johnson 1986, Woodall 1996, Maclachlan 2014, DeWit 2002). The LDP, much like the DC, finds an electoral base in environments in which such uncompetitive industries prevail, especially the countryside (Krauss and Pekkanen 2010). A further form of mutual compensation was, according to Calder (1989), the *amakudari* system of regularized employment of retiring officials in private companies. It was generally the less successful companies that employed such bureaucrats, as they found them most useful in cultivating their relation with the government.

The mix of rents and competition in the South Korean case is a central feature of accounts of economic development in this country (Johnson 1987, Amsden 1992, Kang 2002a, Evans 2012). The details may differ---older literature tends to see this mix as a result of conditionality imposed by the government or by the bureaucracy, while Kang (2002a) sees competition as a byproduct of other strategic firm considerations---but the basic fact that economic transformation was made compatible with the interests of existing economic elites at each step remains. Through decades of rapid change from light industry, to heavy industry, and then to technological powerhouse, the Korean economy has been dominated by the same family-controlled *chaebol*, which manage to reinvent themselves by entering new markets. Policies such as the soft loans or subsidization of the development of new markets, as well as the prioritization of size over profits, were undoubtedly massive transfers to these economic elites, and to the political elites that awarded them, but they also ensured that both groups found economic transformation an opportunity rather than a threat at each step. At the same time, whether incidentally or by design, a balance between such rents and competition was always maintained (Amsden and Singh 1994), instead of a situation in which creative destruction would have been stifled by a permanent temptation to extend protection for cash to the marginal non-protected activity.

China is yet another example of the dual economy logic. Wedeman (2012) posits as a fundamental characteristic of Chinese corruption its focus on the capture of rents from the process of privatizing state assets. A characteristic pattern thus emerged where areas such as real estate, mining, finance, and the large formerly state-owned industrial plants are captured by the Communist Party elite, often acting through family members, and sometimes jointly with entrepreneurs that got a foothold in these fields. The rents that can be gained in these un-glamorous activities surpass those in the new, competitive, sectors that are better known abroad: Pei (2016) notes that the list of richest Chinese is dominated by individuals operating in these rather than the new sectors which form the creative engine of the economy, and in which the corruption-rents nexus is relatively less present.

While somewhat different because of historical context, and because the machines were urban rather than national-level organizations, the US case displays many of the same features. In his classic analysis of machine politics, Merton (1957) identifies the regulation of rent-provision as a key function: "Business corporations [...] want the greater security of an economic czar who controls, regulates, and organizes competition." Foreshadowing developments in the later cases, the original machines became natural political partners of the robber barons. Boss Tweed, for example, began as a supporter of Cornelius Vanderbilt, before switching to his competitor, Jay Gould, who then became a Tammany Hall regular (Golway 2014). Menes (2006) argues that the localized, rather than national, influence within the context of an open economy acted to limit the extractive practices of the machines. At the scale of the local level, however, the machines did create a corrupt and rent-generating business ecosystem around public construction projects and the new city franchises such as electricity, streetcars, or waste collection (Myer 1917, Menes 2006), which segmented the local economies into competitive and protected sectors, foreshadowing later practices.

In addition to compensating existing economic elites, the political machines also appear to have worked to compensate non-elite agents for the disruption caused by the process of growth. Indeed this aspect of their work is perhaps the best understood, and was often openly advertised. The extent to which this would be expected to happen depends on the nature of the regime: in democratic settings, political competition can play a role in limiting the corrupt gains of the political class and increasing the gains for the machine's voters; while authoritarian regimes can tightly control the information reaching citizens and directly repress them if they protest against reforms, while allowing substantial monetary gains for politicians. The parameters of the democratic Japanese case, for example, seem to have led to a remarkably frugal political class: while participating in transactions that had all the hallmarks of corruption, the personal, private consumption, gain of many politicians was low or nonexistent. One should also not wholly discount the defense of many Italian officials during *clean hands*, that the funds they collected went into the party organization rather than their private pockets. The following reviews the evidence for popular compensation in the cases.

American machines built their political power on the support of the urban poor, most often recent immigrants, who in exchange received help integrating in a new and often unwelcoming society. Tammany leader Richard Croker bluntly wrote: "Think of the hundreds of thousands of foreigners dumped into our city. [...] Tammany looks after them for the sake of their votes, grafts them upon the Republic, makes citizens of them, in short, if we go down into the gutter it is because there are men in the gutter." (cited in Menes 2006). Reid and Kurth (1992), similarly see machines as a result of the political need for redistribution, of which patronage was the most readily available form at the time. On the same note, Golway (2014) sees Tammany Hall as a primitive form of the welfare state, and notes that it and the other machines form the historical bases of American liberalism. Plunkitt's claim that patronage was necessary for preventing the urban poor from becoming socialists or anarchists (Riordan 1905) may have been self-serving, but is also plausible. Absent this, it is not clear that the political life of the rapidly transforming nation would have remained as stable as it did.

This redistributive role towards vulnerable popular interests, and many of the redistributive methods, of the original, American, machines will often be replicated in the other cases, with the exception of China, where whatever popular opposition to change there is has tended to be suppressed rather than allayed through compensatory transfers. The Italian DC built its support among disadvantaged groups and regions, such as Southerners, small-town and rural Italians, and those that could not find employment in the dynamic private sector. The Japanese LDP had power bases in rural areas (only 10 percent of its deputies came from major urban areas in 1972---Katz 2015), as well as in the noncompetitive sectors of the economy. While the South Korean case is somewhat obscured by the authoritarian nature of the regime for most of the period, much of the same pattern in which the machine builds support in vulnerable groups through patronage is present here as well. Kang (2002b) argues that Park's regime consolidated its support base in the countryside and small towns in the 1960 through clientelism, and the authoritarian regime later relied on the same power base, which was cultivated through personalistic transfers such as paying for parties, clubs, and holidays. The contrast between the social changes arising from globalization and the growth process, such as urbanization and female labor force participation (Potrafke and

Ursprung 2012) under these regimes and their concurrent promotion of the opposite social values is striking, but begins to make more sense if seen through a compensation theoretical lens.

5. Further discussion

The empirical discussion is based on selecting typical cases, so a discussion of how the argument may be applied to cases in which the institutional maladies did not coincide with rapid development is necessary. Clearly, the absence of the elements implying efficiency from the theory will tend to promote the opposite results: Political parties which may be dominant but do not effectively control the behavior of their members will not be able to limit their extractive behavior and to channel it in the appropriate directions. Such situations may be characterized by either over-predation of the private sector, or by an over-extension of protection to all firms. Competitive new entrants may be seen as a threat to the stability of the elite, and the entrants may themselves be more attracted by the safety of protection than by the uncertain profits of competitiveness. Such situations seem to characterize, to some extent, post-Communist Eastern Europe, as well as Latin America (Stokes 2005). This however, only pushes the question one step back by pointing towards the causes of the efficient choices, especially as some aspects of the rationalization of the extractive process are also present in these other cases. We can speculate on this, by focusing on the drivers towards efficient solutions identified by the literature that motivates this analysis. Barzel (2003) argues that wealth-maximizing institutions are more likely to be chosen when competitive pressures induce elites to trade off safety for increased output. Similarly, the arguments for efficiency in Becker (1983) and Wittman (1990) rely crucially on political competition, in the absence of which most of their claims would not hold. The importance of competitive pressures for our cases is well supported by the evidence. In two of the democratic examples, credible political alternatives, in the form of reformist progressives in the US, and of the Communist Party in Italy, placed continuous pressure on the dominant machines and on the elite structure surrounding them, and clearly pushed the dominant parties towards the efficient solutions. A similar argument could be made for Japan, where the Socialist and Communist parties posed a credible, though not as strong, threat to the LDP throughout most of the period. In the two autocratic cases, competitive pressures arose from the need to ensure regime survival - president Xi is publicly explicit about this in the case of China (Pei 2016), as well as from the military threat against the country in the South Korean case. These pressures appear to be weaker in many of the counterfactual cases, which often feature less institutionalized government parties, a less credible and less institutionalized opposition, and fewer threats to regime stability, suggesting that such pressures may play a key causal role.

What can the story of our five cases teach us in practical terms? All five benefited from high underlying potential for growth due to a combination of equalization of wealth (arising from war in the Japanese and Italian cases, Communism in the Chinese one, or territorial expansion in the American one), weakening or destruction of many entrenched power centers (arising from the same sources), and cheap and productive labor or land. The origins of institutionalized dominant parties, matched moreover by credible and institutionalized opposition parties in the democratic cases, are similarly varied and context-dependent. However, this does not take away from the fact that the functions performed by the machines may be more generally useful. This has two implications: First, that policy prescriptions regarding institutional reform not shy away from the highly utilitarian, even amoral, origins of institutionalist theory, which put the logic of compensation previously discussed at the center of the story. Second, that given the need for these functions, we should not be surprised when institutional forms that look more like Tammany Hall (or worse) than the idealized model of good governance come to prevail in otherwise successful developing countries. Establishing the extent to which we should tolerate, or even cultivate, such an equilibrium has more to do with the art of practical politics than with academic analysis, but this does not mean its logic should not be discussed.

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