



Corruption and Democracy

Disclosure becomes the decisive weapon

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Corruption is a word rooted in the idea of rupture, helping to explain its dangers. Privatization of the public interest, the use of public office for personal gain, has been endemic to complex societies through most of human experience. It plagued the administration of the Roman Empire, led to the economic stagnation of ancient China, weakened the city-states of the Italian Renaissance, obstructed the political development of Britain and the United States and hastened the collapse of communism in Russia and Eastern Europe. Ramsay MacMullen observed in his *Corruption and the Decline of Rome* that "the diverting of force by the servants of government from the directions in which that force was meant to be expended can change history." Since Latin American states won Independence in the 1820s, appropriation of public resources was made easy by the weakness and instability of the new governments formed after the collapse of the imperial rule of Spain and Portugal during the Napoleonic Wars. In his posthumously published *With Broadax and Firebrand*, Warren Dean, a founder of the Fernand Braudel Institute of World Economics, argued: "The exchange of state patrimony for the short-term gain of private interests is a constantly repeated theme in Brazilian history, so ingeniously and variously pursued and so ingrained as to appear the very reason for the existence of the state." Yet many signs have appeared recently that old customs are changing. New questions arise, bearing upon the future of modern democracies throughout the world:

Why, for example, has corruption suddenly become such a political issue in the 1990s? From India to Italy, from Japan and Korea to Brazil, Mexico and Venezuela, why have societies that traditionally tolerated corruption in government and the private sector suddenly lost their patience, their citizens willing to take to the streets to topple high officials accused of wrongdoing?

The recent escalation of episodes makes these questions more pressing. Six heads of state were deposed and hundreds cabinet ministers, legislators and businessmen lost their jobs and freedom in corruption scandals in many nations, leading to suicide in some cases. In South Korea, former President Roh Tae Woo recently was jailed for receiving more than \$300 million from 35 business groups during his five years in office. In Colombia, President Ernesto Samper has been pressured to resign amid disclosure that he knowingly received millions of dollars in campaign contributions from the Cali drug syndicate. Corruption scandals now erupt in every region of the world, regardless of culture or levels of income.

The impact of these scandals has been especially strong in European democracies. In France and Italy, investigations by aggressive magistrates, backed by angry public opinion, have led to ministerial resignations and criminal charges arising from collusion between political leaders and big business. As these investigations deepened, 16 former French ministers and heads of major business groups --Renault, Paribas, Alcatel, Compagnie Générale des Eaux and Groupe Bouygues-- were prosecuted, and six of them sentenced, on bribery and kickback charges. Before that, a former treasury minister committed suicide after being

accused of corruption. In Italy, with politics demoralized by endemic corruption in the postwar decades, 20 prominent politicians and businessmen committed suicide in corruption scandals. Former Prime Minister Silvio Berlusconi, elected as a political reformer, is now being prosecuted for paying a \$6.3 million bribe to the disgraced former Socialist Prime Minister, Bettino Craxi, who refuses to return from exile to face criminal charges. Meanwhile, Giulio Andreotti, a minister in 30 Italian governments since 1947 and seven times prime minister, is on trial for cooperating with the Mafia. In Spain, corruption scandals led to electoral defeat this year, ending 13 years of Socialist government. In 1995, Willy Claes resigned as NATO's secretary general after being indicted in a scandal involving kickbacks paid to his party while he was Economics Minister of Belgium. Even in Switzerland, a member of the Council of State resigned after her husband was accused of using her position to help launder Syrian drug money.

In the United States and Japan, criminal conspiracies have shaken the world's two biggest financial markets. U.S. institutions were impacted by white collar criminals in collusion with politicians, while Japanese financial markets were invaded by professional gangsters. In his book *The Greatest-Ever Bank Robbery: The Collapse of the Savings and Loan Industry* (1990), Martin Mayer, a member of the Fernand Braudel Institute of World Economics, calls the theft of government-guaranteed savings in the 1980s by crooked entrepreneurs "the worst public scandal in American history," costing the U.S. taxpayer some \$350 billion, from "the loss of collective responsibility in the great law firms, accounting firms and investment banks that permitted some of their partners and executives to conspire with criminals and even rewarded them for it, provided the income derived from the conspiracy was sufficiently great." Mayer sees in the looting of the S&Ls "an illustration of the corruption that must ultimately infect any government where the costs of running for office are greater than those than can or will be borne by the relatively small community of the public-spirited," a category that embraces the funding of politics in many countries. These scandals led to the resignation of the Speaker of the U.S. House of Representatives, Jim Wright of Texas, and the departure of many other politicians. Barely half the 4,000 S&Ls operating the early 1980s survive today. In California, Florida, Texas and Arkansas, in virtually every state where the S&L industry collapsed, roving packs of well-heeled politicians, lawyers, accountants, real estate dealers and bankers cowed or outmaneuvered federal and state regulators before they could investigate the looting. In 1986, before nearly all the state's S&Ls collapsed, Senator David Pryor of Arkansas wrote federal regulators to protest "a deliberate system of harassment against many institutions in the 9th Federal Home Loan Bank Board District." One of the smaller failed Arkansas institutions was the Madison Guaranty Savings and Loan, one of whose lawyers was Hillary Rodham Clinton, wife of the then Governor of Arkansas who now is President of the United States. Mrs. Clinton is being investigated by Congress and a special federal prosecutor for the kind of dealings conducted with impunity by thousands of lawyers involved in S&L work. While failing to implicate Mrs. Clinton in criminal activity, these Arkansas scandals reinforced the view of Vito Tanzi, the respected fiscal affairs expert of the International Monetary Fund, that "corruption may be a more common problem at the local level than at the national level, especially in developing countries. The reason is that corruption is often stimulated by contiguity, by the fact that officials and citizens live and work close to each other in local communities. They often have known each other all their lives and may even some from the same families. Contiguity brings personalism in relations and personalism tends to be the enemy of arm's-length relationships."

In many countries, what was once accepted practice of public officials now can cause disgrace and prosecution. In India, 26 senior politicians from the major parties were indicted in early 1996 with taking kickbacks after an investigation ordered by the Supreme Court. The accused include L.K. Advani, leader of BJP (Bharatiya Janata Party), the main parliamentary opposition; Devi Lal, the BJP's deputy prime minister in 1989-90; Arun Singh, leader of a rebel faction in the ruling Congress Party, and seven serving cabinet ministers. Earlier, V.P. Singh resigned as Prime Minister and quit the ruling party, claiming that corruption made governing impossible. Japanese Primer Minister Morihiro Hosokawa, who came to power pledging a cleanup, resigned in April 1994, amid charges that he had

misused political funds. Hosokawa's departure was but one episode in a long procession of resignations and prosecutions in Japan over the past two decades, beginning with the conviction of ex-Prime Minister Kakuei Tanaka for taking a bribe from Lockheed. Emerging from the Japanese financial system's gigantic mass of bad debt, variously estimated at from \$350 billion to \$1 trillion, is the latest disclosure. *Business Week* recently reported that "accusations and cross-accusations revealing a pattern of cooperation among Finance Ministry elites, politicians, banking executives and the criminal gangs", leading to the resignation in January 1996 of Socialist Prime Minister Tomiichi Murayama just after announcing a \$6.8 billion government bailout of housing banks, credit cooperatives and real estate companies, replacing loan money siphoned off by gangsters, in "perhaps the first-ever taxpayer-financed debt forgiveness of a nation's criminal underworld."

The spread of scandal makes it appear that corruption is reaching new intensity. Some argue that the erosion of moral values and the excessive, almost anarchic, freedoms that accompany the spread of democracy and capitalism are reinforcing each other, enabling corruption to flourish. Yet is not disclosure of corruption a sign that democracy and markets are working? More democratic regimes and freer markets are making government decisions more transparent. The accountability of public officials is increasing, reducing the impunity that often has accompanied corruption in high places.

Why is corruption important? Because it impairs the integrity and effectiveness of all institutions. If it burdened the Roman and Chinese empires so much, how did these great centers of power and administration last so long? A simple answer may be that robust organisms attract parasites and can feed them for a long time. However, in the absence of equilibrium, the parasites may multiply too fast and the organism may be fatally weakened. In his study of Roman corruption, MacMullen dwells on the problem of surrogates, of representation of owners by agents, a continuing concern of all large organizations, be they governments or corporations, involving institutional problems of trust and scale. Rome's empire floundered on problems of scale, so it was betrayed, invaded and destroyed. "The futile exasperation of emperor after emperor tells more about the realities of power in the empire than all of the Greek and Latin panegyrics to the throne put together," MacMullen observes. "Roman emperors further revealed their helplessness in their successive surrenders to the customary shakedowns." He describes large-scale defections from the tax rolls and public service and the parasitism that infected the courts and the military: "Troops billeted in villages and their highest commanders in the background are drawing off all surplus wealth in the form of payments to themselves while giving the villagers the courage to defy collection of legitimate rents and taxes." Attributing "the reduced scale of warfare as time went on" to growing difficulties mobilizing and supplying large numbers of troops, he cites "the manipulation of tax and quartermaster's accounts, the heavy skimming-off of illicit percentages at successive junctures along the supply line, and the withholding and private sale of army food and other articles by higher officers [that] must have led to crippling shortages" as well as the troops' "rage of impatience over the delays in the supply of their necessities of life." Just as modern was St. Augustine's warning on judicial corruption witnessed while serving as bishop and judge in the North African city of Hippo from 395 to 430: "A judge should not sell a just verdict, nor should a witness sell the truth." Beneath the judge and the litigants, "are other people belonging to the lower rank who generally get something from both sides --such as the court officials, both the man by whom some service is initiated and to whom it is referred. Whatever they have extorted by their excessive crookedness, they must usually return."

Without reliable surrogates, complex societies could not exist and institutions would be confined to families and villages. For this reason, corruption has been important to political theory since the earliest times, associated with the sharing of power and responsibility. Italian philosophers of the Renaissance like to quote Aristotle in that "the fewer things the rulers control [unrestrained by law] the longer must every government endure, for they become less despotic, they are more moderate in their ways and are less hated by their subjects." Machiavelli blamed corruption on the exclusion of the people from playing an active role in governmental affairs, equating corruption with "ineptitude for a free life"

because of "the inequality one finds in a city" when oligarchs exclude others from public affairs.

In his monumental study of *Bribes: The intellectual history of a moral idea* (1984), Judge John T. Noonan of the U.S. Court of Appeals in San Francisco stressed the notion of reciprocity: "The recipient is bound by receiving. If he does not accept what is offered he is hostile. If he does not respond after accepting he is hostile....Bribery is an act distinguished from other reciprocities only if it is socially identified and socially condemned." In this way, democracy and disclosure have done much to reduce if not to eliminate the favoritism in taxation, the rigged bidding, fraudulent contracts and job patronage that were especially conspicuous in the big cities of the United States in the early decades of this century, as well as the rakeoffs of funds and supplies that have plagued large-scale military operations since ancient times. Progress so far can continue only if political pressure and vigilance are sustained. Complex societies pose new problems as they grow in scale. New information and communications technologies bring new ways of detecting corruption, but also create new channels for theft and fraud. The struggle against corruption must pass through three phases: (1) disclosure and public outrage; (2) political action to change laws and institutions, and (3) enforcement. Each of these stages is more difficult than the previous one because of resistance from entrenched networks of mutual protection within bureaucracies and especially within more sensitive agencies such as Congress, the judiciary and the police. Nevertheless, there is such a thing as a public conscience, which can be a very powerful force.

Corruption stories proliferate now just as political and economic forces create new conditions for the *decline* of corruption. Discussion is constrained by the limited amount of reliable data by which corruption can be measured. While media reports of corruption may spread gloom over the state of ethical behavior, analysis of underlying trends enables us to be more optimistic about the chances of reducing corruption. The best defenses against corruption are an independent parliament and judiciary, a vigorous political opposition to the party in power and a free press. To survive, political and economic freedom need free flows of information, which inhibit the spread of corruption. The elimination of economic policies relying too heavily on the discretion of government officials to allocate resources and guide economic activities helps reduce the opportunities for illicit gain.

In recent years, the world has made unprecedented progress on these fronts. According to Freedom House of New York, which tracks different measures of civil and political liberties, 114 countries had a political system that could be called a democracy in 1995. This is the largest total in recorded history --more that double that of the early 1970s. The World Bank sees the same trend in the spread of free markets. Market reforms in many countries over the last decade have created the freest economic landscape in recent memory. In countries as different as Brazil, India and Russia, more freedom has meant more information. In these and other countries, free information tends to inhibit corruption.

The recent corruption scandals in Brazil remind us of how new democracies can be threatened by venality. In Cuba, the corruption of Presidents Ramón Grau San Martín (1944-48) and Carlos Prío Socarrás (1948-52) weighed heavily in the failed effort to establish democracy a half-century ago after decades of dictatorship. In his *Cuba: The Pursuit of Freedom*, the historian Hugh Thomas called the presidency of Grau "an orgy of theft, ill-disguised by emotional nationalistic speeches. He did more than any other single man to kill the hope of democratic practice in Cuba." In the 1940s, photocopiers, computers and tape recorders were not available to document corruption as abundantly as they did the spectacular peculation that involved Brazil's President Fernando Collor and the Congressional Budget Committee in the 1990s. Yet the trail left by Cuban politicians was impressive. Much money was stolen from unfinished construction projects, as in Brazil today, and still more was "borrowed" from social security and pension funds, a practice that became common in Brazil and other Latin American republics in the postwar decades. José Manuel Alemán, a minor official in 1944 who became Education Minister under Grau, landed in Miami after leaving office in 1948 carrying cash totaling US\$20 million [\$100

million in today's money] in his luggage. After Grau came Prío, who continued the thievery until ousted in 1952 by Dictator Fulgencio Batista, who was overthrown in 1959 by Fidel Castro, who rose to power on a wave of moral indignation of the middle class at the abuses of power of the previous 15 years. Upon Prío's fall, the Havana magazine *Bohemia* observed: "He fell like a rotten fruit, almost by his own weight, victim of his own intrigues, of his uneven ambitions and his contempt for public opinion...like other climbers, he recognized public office only as a ladder for his own enrichment and he recognized his closest collaborators only as helpers to make a fortune."

The Brazilian scandals of the early 1990s differed from other big corruption eruptions in postwar Latin America in key aspects. While Cuba in the 1940s and early 1950s and Venezuela and Mexico in the 1970s and 1980s reaped bonanzas from high sugar and oil prices, Brazil was suffering economic hardship under the impact of the debt crisis and escalating chronic inflation. Like Grau in Cuba, Collor won his presidency amid high hopes. He was elected in 1990 on an anti-corruption crusade, only to be impeached for corruption two years later. A inquiry by Congress on influence-peddling and kickbacks promoted by Collor's friends reported: "Brokers of public appropriations swarm shamelessly over the simplest of routine payments" as well as bigger business like unblocking frozen bank accounts, getting contracts without public bidding, appointing and removing officials, "a kind of 'merchandise' for which businessmen and others were willing to pay incredible and unjustified prices." Under Collor, the standard kickback for release of funds under public contracts rose to 20%. Construction firms, traditional financiers of election campaigns, intensified their penetration of the government bureaucracy so much that they were able to program their own public works contracts that they then would share out among themselves in collusive bidding. Brazil's landscape, like Italy's, remains littered with unfinished highways, railroads and hospitals and other abandoned construction sites used to extract political money. Paulo César Farias, Collor's business agent and treasurer, kept records of high-level corruption on computer diskettes in his office and moved funds among dummy bank accounts opened in the name of chauffeurs, secretaries and household servants. Confronted with evidence of these operations, Farias accused his accusers of hypocrisy. Everyone is guilty, he said. All this is part of the normal business of politics, surprised by the criminalization of common practice. His argument was supported by revelations in the budget scandal in Brazil's Congress in 1993, a varied and ingenious array of frauds and kickbacks entangling many leading politicians. Although Collor was impeached and several members of Congress removed from office, impunity persists in many other cases. In response to these scandals, the successor governments of Presidents Itamar Franco and Fernando Henrique Cardoso have been trying hard to raise the moral standards of politics.

Corruption always has existed and never will be completely abolished. But, if current global trends continue, a steady decline of venality can take place in many countries. This will not be easy and will not occur spontaneously. We can understand better how corruption can be reduced by examining what happened in England in its critical century of modernization between the South Sea Bubble of 1720 and the Napoleonic Wars, a process that led to a long series of administrative and election reforms. Before the South Sea Company's scandalous collapse after a decade of wild asset inflation, King George I bought £20,000 in South Sea stock and sold it for £106,400. The political system was threatened after disclosure that the King's mistresses and ministers and 138 members of the House of Commons were caught up in an orgy of bribery, fraud, illicit loans and speculation while ordinary investors who had traded their government annuities for the same stock were left with worthless paper. During this century, corruption became a central issue in British politics, although it was less pronounced there than in continental Europe because (1) the government was able to raise large sums of money by taxing and borrowing without resorting to the sale of offices, and (2) the vigilance and control by the Commons over spending and administration, creating new standards of public accountability. British governments could borrow heavily from their own citizens, mainly to wage war, because of rising levels of credibility, fostered both by building an honest and efficient tax administration and by parliamentary scrutiny. This was a gradual process. In *The Sinews of Power: War, Money and the English State, 1688-1783*, the historian John Brewer explains how reform was achieved:

This "new" administration did not replace but was added on to existing institutions. Its rules and practices were not accompanied by wholesale reform of older departments, many of which contained sinecurists, pluralists and officers whose chief source of income took the form of fees. Rather administrative innovation in Britain, as elsewhere in Europe, either worked around existing office-holders and their interests or reached an accommodation with them by combining the old and new to their mutual satisfaction....[The new government agencies] rewarded full-time employees with salaries rather than fees and offered a career ladder of graded appointments with progressively higher remuneration which culminated in a government pension. They also expected administrative loyalty and sought to encourage an ethos of public duty and private probity.

While opportunities to reduce corruption are growing, the success of such efforts requires clear ideas about the nature of corruption in the context of international trends in politics and business. Corruption, like cancer, shows itself in many ways. Just as treatments are different for various kinds of cancer, fighting corruption requires different initiatives, tools and institutions. Money-laundering for narcotics traffic is different from the corruption that often distorts government procurement for large public works. Using the same approach and institutions to deal with both cases is less effective than targeting each with strategies aimed at its special characteristics. The narcotics trade has bred corruption on a new scale. One example is the U.S. attack on money-laundering to deny narcotics traffickers the use of legitimate banking channels to send their profits back to their home countries. Blocking these channels forces drug dealers to transport huge volumes of cash, mostly in small-denomination dollar bills, across national borders by truck or airplane, demanding a much larger organization of surrogates exposed to infiltration or capture. A kilogram of cocaine with a street value of \$20,000 usually is purchased with \$5, \$10 or \$20 bills occupying more cargo space than the cocaine, forcing the drug trade into more frequent, complex and dangerous missions.

Despite varying patterns, corruption's multiple and changing manifestations share many common elements. Conflict of interest underlies all acts of official corruption. This conflict can be traditional, as when a customs agent extorts a bribe to allow entry of imports. Usually, however, the process is more subtle --perhaps a vendor's gift to the wife of a corporation's procurement manager, exchanged for his tolerance of higher prices. Corruption can exist only when agents can allocate the resources of owners. Salaried managers in a private corporation act as agents of the shareholders, and government officials in a democracy are agents for their citizens.

Every time a surrogate buys or sells on behalf of principals, he can, in exchange for personal gain, buy or sell above or below market value. With governments, in addition to buying and selling assets and goods for the public, officials can sell their decisions for personal gain. From zoning waivers for a land developer to health regulations, government officials may trade away their impartiality in public decisions. Decisions can be sold wholesale, as when government policies are distorted to benefit a specific interest group which has bribed policy makers. However, they can also be sold retail, as when public employees collect a payment for the granting of a permit or a license. To simplify, we will focus on three specific categories, which capture most of the instances of corruption more frequently denounced by the media and prosecuted by the courts: 1) competitive corporate corruption, 2) corruption instigated by organized crime, and 3) political corruption.

Competitive corporate corruption includes all the illegal activities of companies trying to remain competitive. This form of institutional corporate corruption differs from the individual corruption that occurs in corporations when employees benefit personally from their actions against the interest of the corporation. Competitive corporate corruption instead seeks to further the interests of the corporation. In some countries, it is impossible to win a

bid for big public works projects without paying off government officials. Government regulations can make corporate survival dependent on the goodwill of bureaucrats.

The core business of companies involved in competitive corporate corruption is legal; they do not depend on systematically breaking the law to be profitable. Companies involved in *organized crime*, on the other hand, are purposely created to break the law. While a legitimate private corporation occasionally may engage reluctantly in corrupt practices, as a consequence of competitive behavior, or of the extortion of government officials, organized crime exists to break the law deliberately and constantly. As the profits of organized crime -- especially the profits of narcotics trafficking-- have soared, the natural path for these companies has been to diversify by investing in legitimate business whose survival and prosperity does not require illegal activities. Yet, because immoral and unethical acts are the basic business of these groups, they do not hesitate to --and actively seek to-- corrupt government officials. Thus, the same gang that keeps Mexican drug enforcement police on its payroll will bribe a New York City official in order to keep its cement and garbage-collection cover operations in business. As organized crime increasingly operates across borders, they are becoming more important in international affairs. The narcotics trade has multiplied the scale and rewards of corruption, leaving a trail of scandals in Bolivia, Peru, Colombia and Mexico.

Both categories are closely intertwined with *political corruption*, ranging from government officials stealing outright from the national treasury, to the illegal financing of political parties. The recent upheavals involving corruption in Italy and France, for example, can be traced to this category. In many countries, such as Korea and Japan, political parties rely on the illegal payments of both private and state-owned corporations, which finance their activities and the posh lifestyles of the political elite. One form of corruption often spawns another.

In the last decade or so, some forms of corruption greatly increased in scope and intensity. Money laundering was made easier by computerized integration of world financial markets. The demand for illegal political financing swelled as the spread of democracy made elections more frequent and expensive media strategies raised the cost of political campaigns. But democracy and a free media are also increasing government accountability and lowering the impunity of corrupt politicians and businessmen. Also, market reforms are reducing the instances in which the profits of private firms depend on the signature of a government bureaucrat.

Corruption tends to occur more in government agencies with a monopoly on the supply of a specific good, service or decision than in a private corporation that sells goods and services in a competitive market. Corruption also is proportional to the degree of discretion given those in charge of making the decision. A public agency using a market-based benchmark, such as auctioning or permitting private trades of pollution rights, makes its decisions less prone to corruption than one that relies only on its officials' judgment. While competitive bidding among suppliers does not necessarily eliminate the possible impact of corruption on price and quality, it limits its scope. Accountability also inhibits corruption. From internal auditing to Congressional investigations to media scrutiny, a wide array of mechanisms can be used to boost accountability and limit corruption.

Democracy provides opportunities for corruption which are necessarily more visible than those present under authoritarian rule. In a dictatorship, corruption can be more institutionalized, controlled and predictable. A well-organized dictatorship allows for "one-stop shopping", where the right amount of money, given to the appropriate official, will take care of all of one's bribe-paying needs. The various bribe-takers, each of which has a monopoly on the service offered, work together to assure that the system continues to function, and the money continues to flow. This collusion can help assure that bribes stay both "reasonable" and out of the public view. Democracy, on the other hand, is all about competition.

If a government employee maintains his monopoly on a government service (such as, for instance, the one rubber stamp required to process a certain form), but is no longer in cooperation with his fellow bribe-takers, the bribe amount demanded can skyrocket, the employee caring little if he stifles demand for the various services, as long as he can continue to increase the amount of the graft. This sort of competition is inhibited in societies that are small, homogeneous, or controlled by a police state. However, when a society becomes more open, without eliminating the monopoly, the bribery problems becomes acute.

Elections, another crucial element of democracy, can affect corruption by increasing the need of politicians for two scarce resources: money and public affection. According to Transparency International - an international pressure group formed to fight corruption - the increased need for contributions has caused political parties to seek the support of business interests, increasing the potential for corrupt relations between the two. This problem has recently become overt in France, where the national employers' federation, the *Patronat*, has urged a suspension of all corporate campaign contributions. The problem has been blamed on French laws concerning campaign funding; these laws have undergone various changes in the past several years. As the old laws made legal fund-raising difficult, a culture of corrupt campaigning developed; the laws remain ambiguous, furthering the problem. In Italy, the same problem was at the core of the scandals that have led to a fundamental restructuring of the country's political structure.

The increasing competition for public support bred by elections encourages the revelation of corrupt acts. In a non-competitive system, the wolves travel in a pack, colluding and protecting each other. Only the insiders have the necessary evidence to convict the perpetrator. When a system is democratized, the wolves turn upon each other, offering up their knowledge in hopes of dashing their opponents and gaining a reputation as a reformer. While the accusations may be true, it need not follow that the accuser stands on higher moral ground. For the non-insider, it is frequently difficult to know whom to believe. As power shifts from discredited politicians and bureaucrats accused of corruption, to journalists specializing in exposing graft in government, the latter soon become tempted to use their new power for their own personal gain. In Venezuela, the journalists who gained public acclaim through their denunciations of government officials were later found to have been paid by bankers seeking to exert as corrupt an influence as that of the public bureaucrats exposed by the journalists themselves.

Democratization is frequently accompanied by the deliberate weakening of central state authority. In societies emerging from dictatorship, bitter memories prevail of abuses committed by absolute central authority. While decentralization can be fed by the perception of corruption at the national level, it also can give local bureaucrats freer rein to create new regulations to obtain transaction fees and other illegal rents. A key test is the allocation of block grants to state governments in Brazil and the United States to manage social programs, from which new modes of corruption could emerge. The dismantling of national institutions can lead to a regulatory and security vacuum in which corruption flourishes. While these older national institutions may need reform, decentralization often makes reform more difficult. Without institutional guarantees of political independence and integrity, watchdog agencies, like Brazil's Tribunals of Public Accounts (*Tribunais de Contas*), can employ several thousand political hacks as parasites at the federal and state levels while abdicating their supervisory functions.

Over the last decade, both the political environment and the economic policy framework have changed. Market-oriented policies are replacing government intervention and central planning. These reforms are as good for anti-corruption campaigns as they are for macroeconomic stability. As fewer economic decisions are made inside the state apparatus, the scope for corruption narrows. State-owned industries, which long enjoyed unwarranted popularity in poorer nations, often provide fertile ground for bribe extortion or the use of company resources for the private gain of their managers. While state-owned enterprises, in principle, may be owned by society at large, their "ownership" really resides with the coterie

of politicians, top managers and union leaders that control the company's decisions. In state-owned enterprises, the benefits of ownership often accrue to an even smaller elite than that found in many privately owned companies.

Privatization eliminates the years of hidden, day-to-day corruption prevalent in state-owned companies. However, because privatization of a national firm is such a high-profile and high-profit event, it easily leads to corruption of a different sort. In one notable instance, when the Spanish airline Iberia acquired the Argentine national airline, Aerolíneas Argentinas, it listed \$80 million in expenses as "costs associated with the sale." Iberia now is being forced by the European Union to sell Aerolíneas Argentinas to qualify for government subsidies to sustain its losses. Argentine privatization methods came under so much criticism that they were entirely revised with help from the World Bank in 1991. Suspicion has now fallen upon the Eastern European privatization process. In Russia, where the process of *pivatizatsia* (privatization") has been nicknamed *prikhvatizatsia* ("grabitization"), one study estimates that 61 per cent of Russia's new rich are former Soviet managers who took advantage of privatization to make the industries their own.

The privatization of a state-owned firm is sold can be plagued by corruption. But once the corporation is in private hands, the scope for corruption narrows. While corruption also may be found in a private corporation, especially those in which owners have inadequate control of information about their agents, market discipline can limit its extent, both in magnitude and in time. In publicly traded companies, investors demand greater transparency in corporate finances, with regular reports on earnings and expenditures. When executives of big French corporations were prosecuted, their stock prices fell immediately in reaction to their foreseeable instability fell fast.

While economic reforms reduce opportunities for corruption, they also decrease public tolerance for corruption. As poorer nations put a long-overdue end to command economies, and industrialized nations feel the pinch of economic slowdown, fiscal belts everywhere are being tightened. These changes do not go unnoticed by ordinary people who cast a more-watchful eye on public accounts, as their own pet benefits and entitlements are slashed. The result is more monitoring of governments officials, and more public indignation over corruption. As one commentator, writing about the Japanese Recruit scandal of 1989, remarked, "public opinion only becomes critical when politicians are seen to be too greedy and start welching on their obligation to deliver the appropriate share from Tokyo's bottomless pork barrel". The reform process breaks the existing social contract wherein everyone got their cut: labor through higher wages and protected jobs, consumers through lower prices, and politicians through whatever they could skim off the public coffers.

Increased international trade and business operations, stimulating pro-market reforms, have introduced new elements into what were once closed economies, causing old practices to be questioned. As competition among developing nations for international investment increases, companies have more options. In this context, corruption, or the lack thereof, has become one of the relevant factors in deciding where to invest. Macy's recently announced its withdrawal from the clothing industry in Myanmar, stating that it was "impossible to make money there", because corruption "makes normal operations impossible". US businessmen are forbidden by the 1977 Foreign Corrupt Practices Act from paying bribes in order to gain contracts. As a result, U.S. companies often feel at a disadvantage in a world where many of their international rivals do pay bribes and, in some cases, even declare payoffs a tax deduction. However, the ability to bribe is, at best, a costly advantage - last year the French armament industry spent approximately 60 billion Belgian francs to bribe foreign officials for contracts. Businesses operating in China spend between 3% and 5% of their operating costs on "gifts" to officials; all this frequently spent without any guarantee that results will be forthcoming. Moreover, a company which pays the big money quickly acquires a reputation as an easy mark, and, in this day of global gossip, this unwanted reputation frequently precedes its entry into new markets.

Corruption can be just as frustrating for the government concerned as it is for the corporation. For poorer nations, corruption means a crippling drain and misallocation of resources. Bribes and blackmail are said to add a 50% surtax onto Russian consumer goods. China loses each year an estimated \$50 billion from deliberate undervaluing of state assets by public employees. Moreover, countries wanting foreign aid have an interest in showing that they are not corrupt "rat holes" that swallow foreign aid, as U.S. Senator Jesse Helms has accused them of being.

The difficulties of poorer nations trying to reform are often compounded by the outdated perceptions of foreign businessmen. Many companies operating in poor countries assume that corruption is pervasive, and that payoffs are an inevitable fact of doing business there. In a survey of American business leaders, more than half of the respondents affirmed that they would, under certain circumstances, bribe a foreign official in order to obtain a contract, which is illegal under U.S. law. Their justification is the idea that business abroad could not be conducted without bribes, that cultural differences made American business ethics inapplicable, and that such payments might not be illegal under foreign law. This is a self-fulfilling prophecy, creating a vicious cycle of corruption in which foreigners continue to bribe because they think they have to, and officials continue to extort because they know they can. The imbalance of the resources involved --where the annual revenue of a large multinational can easily outweigh the GDP of a small developing nation-- makes fighting corruption a daunting task for a government greatly in need of the jobs and goods provided by foreign firms.

However, small countries are beginning to act independently to eliminate opportunities for corrupt practices. Last year, the Malaysian government declared several British firms ineligible to bid for government contracts after being found guilty of bribing officials. Ecuador requires any company, foreign or domestic, which bids on government contracts, to sign an agreement that it will not bribe officials, and to disclose all payments made to "consultants" or middlemen of any kind. By creating open-bidding systems and transparency in payments, a reforming government can make life much harder for the parasites in its own bureaucracy. A clear and transparent legal code is also necessary, as it prohibits bureaucrats from inventing their own regulations, thereby creating additional opportunities for graft, and allows the public to know when transgressions have been committed. Governments can remove some of the incentive to demand bribes by making sure that salaries are commensurate with responsibilities.

However, given the lack of international agreements concerning corruption, it is frequently difficult to enforce regulatory violations across borders. Governments are, in general, loathe to prosecute bribery when it is performed in another country, or by a foreign national. Legal jurisdiction in these cases - which are now among the most significant of bribery cases - is unclear, as laws differ among countries. International cooperation is needed to develop common standards of behavior and establish acceptable means of penalizing offenders. Unilateral action, such as the United States Foreign Corrupt Practices Act, can only go so far. The US example has failed to catch on; so far, only Sweden has instituted a similarly restrictive law. As is the case with trade liberalization, nations are understandably reluctant to act independently, since no one wants to feel that their companies are alone in operating at a disadvantage. Such a problem can best be solved by bilateral or multilateral agreements. In recognition of this fact, the OECD met in June 1994 to ratify the Recommendation on Bribery International Business Transactions, the first multinational agreement to attack bribery in international trade. A follow-up symposium was held in March 1995. Among the OECD's recommendations for its twenty-five member countries are: 1) to cease considering bribes as legitimate, deductible business expenses; 2) to extend national criminal law to acts committed by citizens in foreign countries where such acts are also illegal; 3) to treat payments made to foreign officials in the same way that payments to national officials are treated, at the request of the country involved; and 4) to extradite offenders to be prosecuted in the country involved. The recommendations will be reviewed within three years and mandatory sanctions for noncompliance are being considered. The trend is catching on in

the Western hemisphere as well; corruption was a major agenda item at the Summit of the Americas held in Miami in December 1994.

The push is not limited to political leaders. Business leaders are also working on the problem. The World Economic Forum made corruption a major agenda item at its annual meeting last January, bringing together CEOs, politicians, social scientists, and law enforcement officials to discuss the topic. Out of the talks was born the Davos Group -- named for the city in Switzerland where the meeting was held-- which is working on an agenda to catalyze the adoption of international standards for business ethics and regulation.

The globalization of legitimate business practices, making it easier to transfer money between nations, also aided the growth of international criminal groups. Organized crime has become global and cannot be attacked from one country alone. The FBI has 25 branch offices overseas, including a new one in Moscow. As authoritarian states disappear and market economies flourish, crime groups are colonizing weak states that lack the institutions for a market economy to function. A new surge in investment by the Cosa Nostra in the Italian manufacturing sector is attributed to its ties with the Russian mafia. The Italians export goods to Russian gangsters, who enforce their distribution monopoly with an iron fist. Changes in the international financial system make it harder to trace the source of this money. Every day, trillions of dollars are transferred electronically. British intelligence estimates that \$500 billion may have been laundered through legal financial channels in 1994. Mini-states such as the Seychelles, Monserrat, Aruba, Cayman Islands, Madagascar and the Bahamas, as well as more substantial polities such as Switzerland, Austria, Thailand, Bulgaria and Turkey, offer their sovereignty as pirates' dens for burying and transforming ill-gotten gains. The Cayman Islands, for example, has as many registered companies as inhabitants, including 560 banks with combined assets of \$470 billion. A Financial Action Task Force, established in 1987 by a group of leading industrialized nations, issued 40 recommendations, including making money-laundering a criminal offense, requiring banks to disclose information, and extending some current regulations to cover firms other than banks; however, few member countries actually passed these directives into law. Even this, though, would be less than adequate. If regulations are not international, dirty money will simply shift to safer havens, as it did when Switzerland tightened its regulations and money flowed into Luxembourg and the Netherlands Antilles. Continuous official pressure on bank clearing houses is needed to control cash transfers. When the United States ordered banks to report all cash transactions above \$3,000, the movement of criminal profits became more difficult.

Just as money flows across borders, political trends now spread from one nation to another. Coverage of the Italian magistrates often appears in Latin American newspapers. We may be seeing an international trend, but other considerations sometimes interfere. When U.S. Attorney Robert Morgenthau was investigating the looting of funds from the Bank of Credit and Commerce International (BCCI), the State Department unsuccessfully tried to persuade the Bank of England to refuse cooperation because it feared damage to U.S. relations with the Sultan of Abu Dhabi, who owned BCCI.

Over the last few years, news has spread faster and farther than ever before. Political changes are hastened by a more varied and independent press and by technical advances embodied in satellite broadcasts and CNN. Political journalism also changed with what Adam Gopnik calls the professional shift from an "access" culture into an "aggression" culture. Formerly, "in exchange for access, the reporter would show discretion." A newly opened society creates stiff competition among journalists, as the worldwide importance of television news intensifies. Aggressive investigative reporting, especially involving scandal, sells papers and keeps newspapers solvent. But we should remember that journalistic power, like any other power, can be bought and sold. Nevertheless, the new culture of aggressive reporting means that no one, be they politician, journalist or businessman, can be assured secrecy of action.

The United States has come a long way from the political climate of the 1920s and 1930s, when the *Encyclopaedia of the Social Sciences* complained of its state and local governments: "Favoritism and discrimination in the use of the taxing power, misuse of funds, contract frauds and job patronage are common evils attendant upon the administrative wilderness which is America....More than 3,000 counties, raising and spending millions of dollars for roads, schools, public health, law enforcement and general welfare, constitute a paradise for speculation." The reduction of political corruption in the United States in recent decades, mainly as a result of press disclosures, has opened a window of opportunity to fight corruption in many countries. At the same time, as in all dynamic societies, new forms of corruption are continuously appearing.

As the ideological battles of the Cold War end and democracy takes hold, corruption is becoming a more important issue in political life, shaping the future of democracy. Money is pouring in and out of countries at a rate never before seen, while the globalization of business and communications systems has created a complex web of global interactions, making it increasingly difficult to detect or even define criminal behavior. Corruption always has existed, yet it is often dismissed as either an inconvenience or a cultural imperative. Globalization destroys Old World patrimonialism. Indignation at years of governmental waste and political pressure from an increasingly informed public made the old system of doing business untenable in today's world, leading to an eruption in the seams of political life. Democracy needs some minimal amount of trust in government. The survival of democracy in many countries is at stake. Driving the resurgence of different kinds of archaic fundamentalism --Islamic, Christian, Jewish and Hindu, nationalist and communist-- are accusations of corruption amid hardship in societies undergoing rapid change. In this sense, moral power is political power and economic power as well. Democratic institutions will be severely tested by the need to preserve their moral integrity.

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