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Article

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CESifo DICE Report

Provided in Cooperation with:
Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Klitgaard, Robert (2011) : Fighting Corruption, CESifo DICE Report, ISSN 1613-6373, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 09, Iss. 2, pp. 31-35

This Version is available at:
https://hdl.handle.net/10419/167035

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Fighting Corruption

Robert Klitgaard*

Introduction

Around the world, citizens are crying out against corruption. As demonstrated recently in northern Africa, the Middle East and India, corruption foments distrust, anger and instability. New leaders like Petr Nečas in the Czech Republic and Mauricio Funes in El Salvador have prioritized the fight against corruption. President Benigno Aquino of the Philippines was elected last year with the campaign slogan "If there is no corruption, there will be no poverty."

At the end of his 1985 book *Bribes*, the American law professor and Judge John T. Noonan made a remarkable prediction: "As slavery was once a way of life and now…has become obsolete and is incomprehensible, so the practice of bribery in the central form of the exchange of payment for official action will become obsolete" (706).

Noonan demonstrated that bribery is not culturally relative. Anywhere one goes, bribery is considered shameful, a sell-out to the rich and a betrayal of the trust that he called "a precious necessity of every social enterprise" (704). Bribery, he concluded, violates a divine paradigm. According to Noonan, these moral forces, coupled with increased information, communication and competition, will result in the demise of systemic corruption.

Noonan's book was published 26 years ago. And while his prediction came true for Singapore and a few other countries, the trend for the world as a whole is flat, if one judges from Transparency International's Corruption Perceptions Index. In a recent book about Asia, the economist John Malcolm Dowling noted that rising incomes have not necessarily yielded lower corruption. Instead, he wrote, "a large group of poor countries are caught in a low level corruption trap at the same time that others at high levels of income are becoming more and more honest" (2008, 273).

Even rich countries exhibit worrying signs. A government review of police corruption in New South Wales revealed a correlation between the availability of illegal drugs and corrupt activities such as protecting vice and taking payoffs (Committee on the Office of the Ombudsman and the Police Integrity Commission 2002). Cost overruns – often a telltale sign of corruption – have risen sharply over the past 50 years in US public works projects (Engerman and Sokoloff 2006). And daily news reports provide examples of private-sector fraud and conflicts of interest, from Goldman Sachs to Tenaris, even FIFA.

Even where corruption has been successfully reduced, there are also examples of "re-corruption" (Dininio 2005). The case of the cleaned-up Philippine Bureau of Internal Revenue (Klitgaard 1988, chs. 2–3) has been studied all over the world. But when I visited Manila a few years ago, the head of the BIR confided to me that it was once again rife with corruption.

Was Noonan simply wrong, then? Is fighting corruption a lost cause? It is remarkable how often we express outrage over corruption and then quickly move to cynicism. Remarkable, too, how reluctant we are to consider corruption with the same cool, analytical powers we apply to other cases of policy and management.

Where cynicism reigns, complacency follows. It is easier for us to accept that nothing can be done about an issue if we can persuade ourselves it does not matter. "Corruption? So what? It is grease in the wheels of commerce and glue in fractured polities. Corruption has its functions, even its benefits, especially where neither states nor markets work well."

But corruption turns out to slow economic growth, cripple social services and defraud justice, as other papers in this issue demonstrate (see also Klitgaard, Fedderke and Arkamov 2005). Former World Bank President Paul Wolfowitz called corruption "the sin-

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gle most important obstacle to development"; today, the Bank's website says, "The Bank has identified corruption as among the greatest obstacles to economic and social development."[1]

Fortunately, we can learn from a number of examples of impressive progress against corruption in cities, ministries and countries, from Mozambique to Colombia, from Indonesia to Qatar, as well as epic successes such as Singapore. Though contexts differ, lessons emerge. Leaders who wish to fight systemic corruption need to change a corrupt institutional culture. They need to mobilize and coordinate a variety of resources inside and outside the government. They have to think in terms of corrupt systems instead of corrupt individuals. In some cases, they need to deal with corruption as a form of organized crime.

Change the institutional culture

"Institutional culture" refers to a set of norms and expectations. When corruption is systemic, the institutional culture has grown sick. The norm is corruption; expectations are that corruption will continue. Cynicism and despair are widespread. Change seems impossible.

And yet there are cases where leaders have made substantial progress in changing the institutional culture. They begin by sending a strong signal of change. They publicize their intent to attack corruption. But in corrupt societies, words have little impact. The culture of corruption contains the idea that big fish will swim free, that the powerful enjoy impunity. Successful leaders change this idea through impressive action.

An important initial step is to fry big fish. Just after President Andrés Pastrana assumed power in Colombia in 1998, his anti-corruption team flew to several regions and held hearings about supposedly corrupt mayors and governors. The team had the power to suspend people from these offices – something that leaders in other countries may not have – and the team used this power to send a signal not only to the local leaders but to the whole country. Pastrana's anti-corruption team also went after a specific case of corruption in the Congress – choosing as the big fish people from the president's own party. President Enrique Bolaños of Nicaragua went one step further. He locked up the former president, Arturo Alemán, under whom Bolaños had served as vice-president, on charges of corruption. Under President Susilo Bambang Yudhoyono, Indonesia's Corruption Eradication Commission has won global praise for its performance. It has successfully prosecuted scores of public servants, some of them extremely senior, as well as business people giving bribes.

A second lesson: pick low-hanging fruit. Effective reforms do not tackle the most difficult domain of corruption first. Instead, they create near-term successes that are highly visible and change expectations. Momentum is created, enabling longer-term reforms on harder problems. This emphasis on early wins is a theme in the new World Development Report (World Bank 2011).

Finally, successful leaders bring in new blood. Even though they work with people within existing institutions, they also invite in young people to be "eyes and ears" (Mayor Ronald MacLean-Abaroa in La Paz, Bolivia), business people to take important public positions (the anti-corruption czar under President Pastrana), and young accountants to partner with "senior heroes" and investigate cases in depth (Judge Efren Plana in the Philippines' Bureau of Internal Revenue).

Mobilize and coordinate

A successful fight against systemic corruption must involve more than one agency of government. For example, success requires the help of the supreme audit authority, the police, the prosecutors, the courts, the financial functions of government and others. What's more, the fight against corruption requires the help of the business community and civil society. They can provide unique information about where corruption is occurring and how corrupt systems work.

This suggests an apparent paradox. The fight against systemic corruption requires a strong leader – someone strategic and brave and politically astute. But the leadership trait that is most important is the ability to mobilize other actors and to coordinate their efforts productively. The task is not command and control, but mobilization and coordination.

For example, in Colombia the anti-corruption czars of Presidents Pastrana and Álvaro Uribe created mechanisms for coordination across major minis-

[1] http://web.worldbank.org/WBSITE/EXTERNAL/EXTSITETOOLS/0,,contentMDK:20147620~menuPK:344192~pagePK:98400~piPK:98424~theSitePK:95474,00.html

tries and agencies of government (auditing, investigation, prosecution and so forth). Hong Kong's Independent Commission against Corruption works in three areas – prosecution, prevention and public relations. In each area, the ICAC works closely with and through other government agencies.

Successful reformers do something good for their public sector employees. For example, new systems of performance measurement are linked with better pay, promotion policies and "bonuses" such as overseas trips and courses.

Those who successfully fight systemic corruption involve the people. Mayor MacLean-Abaroa invited citizens' groups to become involved in local public works, which enabled new kinds of accountability. So did Mayor Jesse Robredo in Naga City, Philippines, and Mayor Elba Soto in Campo Elias, Venezuela. Mayor Soto created an Office for Development and Citizen Participation, using citizens as eyes and ears to insure successful implementation of public works.

Citizens know where corruption is and how corrupt systems work. Lawyers understand the workings of corruption in legal systems. Accountants know the illicit games played with audits. Business people understand how corrupt systems of procurement and contracting work. Citizens know where bribery shapes the services they receive (or don't receive). This knowledge can be culled in many ways.

In surveys, people can be asked *where* they perceive corruption to be occurring. In confidential interviews, insiders can be asked *how* a corrupt system works. For example, a study of a procurement system may lay out the various steps: prequalification of bidders, technical criteria and their weights, the judging of the various bids, the process for post-award changes, and the payment of the contract. Each of these may be subject to corruption. Interviewees are asked, in effect, "Here is how things are supposed to work in prequalification. In your experience, what problems tend to emerge? How prevalent do you guess these problems are? What distortions are created?" The results of many such interviews (perhaps 15 or more) can be the basis for a diagnostic assessment of a procurement system and then of remedial actions.

The Internet can be used to publicize all contracts and budgets – and also to enable citizens to denounce cases of inefficiency and possible corruption, as President Benigno Aquino is now doing in the Philippines.

The press can play a leading role. Following the tsunami in Aceh, Indonesia, a team of local journalists produced a daily one-hour radio program dedicated to the rehabilitation and reconstruction effort. These journalists acted as watchdogs, often drawing attention to cases of corruption.

Reform systems

In the long term, curing systemic corruption requires better systems. Successful leaders understand that better systems go well beyond better laws and new codes of conduct. They implicitly or in MacLean-Abaroa's case explicitly apply the formula

$$Corruption = Monopoly + Discretion - Accountability$$

to guide their systemic reforms. Corruption flourishes when someone has monopoly power over a good or service and has the discretion to decide how much you receive and where accountability and transparency are weak. So, to fight corruption we must reduce monopoly power, reduce discretion and increase accountability in many ways.

Reducing monopoly power means enabling competition, as in government contracts in Korea, Colombia, and many other countries. Mayor MacLean-Abaroa got the city of La Paz out of the construction business, meaning that public works could be carried out by any of a number of private companies. Mexico puts online all government contracts and procurement plans before and after the decisions are made, so prices and winners are public knowledge. Argentina reduced corruption in hospitals by publishing prices of all purchases throughout the hospital system.

Limiting discretion means clarifying the rules of the game and making them available to everyone. Mayor MacLean Abaroa created a citizens' manual, which described simply and in three languages what was required to obtain a permit, build a house, start a business and so forth. President Pastrana limited discretion by making the rules of the game available online. Judge Plana simplified the tax code, making it simpler to understand and reducing thereby the effective discretion of BIR employees.

Enhancing accountability means many things, and creative leaders use a remarkable variety of methods. One way to improve accountability is to improve the measurement of performance. Leaders can work with their employees and clients to create new sys-

tems for measuring the performance of agencies and offices – and then link rewards to results. Exemplars include the Public Affairs Centre in Bangalore, India (Paul 2002) and Ciudadanos al Día in Peru.

Another method is listening and learning from businesses and from citizens. This includes mechanisms for public complaints, but it goes beyond the reporting of individual instances of abuse to the diagnosis of corrupt systems. President Pastrana's *Colombiemos* campaign linked up the *veedurías* around Colombia, enabling these non-government organizations to provide better oversight of public programs and leaders.

Accountability is also increased by inviting outside agencies to audit, monitor and evaluate, for example Peru's Ciudadanos al Día. Finally, the press can be an important source of accountability if they are invited to be partners in reform instead of treated as potential political enemies.

Successful reformers recognize that corruption is an economic crime, not a crime of passion. Reformers work hard to change the risk-reward calculations of those who might give bribes and those who might receive them. Raising pay is good, especially for ministers and other government leaders. Salaries should be somewhat competitive with the private sector – perhaps 80 percent is a good norm. But note that beyond some reasonable minimum that enables leaders to live well, the level of pay does not have much of an effect on corrupt calculations. "Should I take this bribe or not?" The answer depends on the size of the bribe (which is a function of my monopoly power and my discretion), the chance I'll be caught (a function of accountability) and the penalty I'll pay if I'm caught. It only depends a little on my level of income, at least once I have enough to live on. Therefore, once salaries for top officials are "reasonable", leaders should emphasize improving information about performance and the incentives attending good and bad performance.

What about ethics and morality? Successful leaders set a good example. They sometimes create training programs for employees and citizens. Nonetheless, in the success stories I have studied, what might be called "moral initiatives" are not the key feature of the long-term reforms. The keys are systems that provide better incentives for imperfect human beings to perform in the public interest – and to avoid corruption.

Subverting corruption

What if the people on top are themselves corrupt? When corruption has become systemic, it resembles organized crime. It has its own parallel system of recruitment and hierarchy, of rewards and punishments, of contracts and enforcement. This parallel system has some inherent weaknesses. For example, in no country of the world are bribery and extortion legal. Therefore, they must be kept (somewhat) secret. The money gained must be hidden. New members cannot be openly recruited. The mechanisms for enforcement are illicit.

How can these corrupt systems be subverted? Obviously we cannot count on members of organized crime to clean themselves. Instead, we must analyze the corrupt systems and ask, "How might they be destabilized?" Who is "we"? It can be a new president and his or her team, or a new mayor or head of a public enterprise. But it can also be you and me as members of civil society. Around the world we see new examples of citizen activism, of business groups entering into "integrity pacts", of intellectuals, journalists and religious leaders going beyond lectures and sermons to analyze corrupt systems and work together to subvert them.

For example, one corrupt system of road building (in a country I am not free to mention) involved senators, government executives and key business people. The system included many "emergency works" that were let on a noncompetitive basis – at a price 30 percent higher than works bid competitively. The surcharge was shared corruptly. This system did not involve all senators, all government officials or all businesses. With the help of a team of analysts, the corrupt systems were analyzed. The lifestyles of some corrupt senators and officials were documented. Finally, the results were publicized in the press and internationally. The corrupt system could not withstand the light, and soon the key figures were in jail.

Those wishing to fight systemic corruption will mobilize people in the same way. Together, they can analyze corrupt systems and document lifestyles far out of proportion to official pay. And together, they can subvert organized crime and corruption.

All of these points mean that the fight against systemic corruption should focus on systems rather than individuals. Corruption is a crime of calculation, and regarding this sensitive subject, we have to be at

our coolest and most cerebral to make progress. We have to analyze ways to shock corrupt administrative cultures into seeing that change is possible. We have to reduce monopoly, clarify official discretion and enhance accountability. We must improve information and incentives. In some cases, we may have to subvert corrupt systems that resemble organized crime. In all these steps, we must go beyond government to involve citizens, journalists, non-government organizations, businesses and government officials in the diagnosis and remediation of corrupt systems.

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