

# A Holistic Approach to the Fight against Corruption

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Thank you very much for inviting me to the Second Session of the Conference of State Parties to the United Nations Convention against Anti-Corruption. I thought today I would bring some good news about a bad subject, namely corruption. My big message is that we can do a lot to reduce and prevent corruption through a holistic, strategic approach, one as rational and calculating as with any other major issue of public policy and management.

President Susilo Bambang Yudhoyono describes corruption as a cancer. The analogy is popular. Corruption has been called a cancer by the President of China, the Prime Minister of Vietnam, and the President of the World Bank. The Prime Minister of Albania, Dr. Sali Berisha, said "Corruption is a cancer every moment. It works to weaken efforts against it, so it can take over." The Eritrean Ministry of Information remarked: "Corruption is a dangerous cancer that will destroy a healthy culture, pollute the moral and accepted values of the society, undermine the rule of law, decimate the social and economic rights of the majority and retard the production capacity of the people and government. It ... is the greatest threat to national security as well as to the reconstruction efforts." The same metaphor was used here in the United States in a feature on the Public Broadcasting System in 2006: "Congressional Corruption Cancer."

Corruption is a grave problem around the world, perhaps one of the three major political or policy contributors to poverty and injustice. In two areas of crisis, Afghanistan and Iraq, experts believe that corruption could be a key to the success or failure of the new governments. The *Daily Times* of Pakistan has written, "In Afghanistan, analysts and officials agree that widespread government corruption is a root cause of disillusion among people and lack of development. A worrying upsurge of Taliban-linked violence in southern Afghanistan is being fuelled by government corruption and lack of development, analysts say." In Iraq, investigations are underway into corruption related to reconstruction funds. The Iraqi government's success may depend on its ability to contain corruption.

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The American chapter of the international NGO Transparency International says that “corrupt government officials, acting in concert with unscrupulous businesses, take in excess of \$1 trillion in bribes annually. Corruption taints another \$1.5 trillion in procurement projects. Embezzlement, fraud and other corrupt acts raise the costs even higher.”<sup>2</sup> Need I say that the victims of corruption are the poor and the powerless, the beneficiaries the rich and powerful?

Do you know what was the number one item on the Democratic Party’s 6-Point Plan for 2006? “Honest leadership and open government.” The first phrase in the first sentence of this first point is this: “We will end the Republican culture of corruption...”<sup>3</sup>

One sees such sad stories as Republican Congressman Randy "Duke" Cunningham, who resigned after confessing to taking \$2.4 million in bribes, including a Rolls-Royce. Of course it’s not just Republicans. Federal prosecutors found a \$90,000 payoff in the freezer of Rep. William Jefferson, a Democrat from Louisiana.

And of course the problem of corruption is not just with government. From mid-2002 to May 2006, the U.S. President’s Corporate Fraud Task Force garnered more than 1,000 guilty pleas and convictions, including those of 167 chief executives and corporate presidents.

Corruption can also be found in non-government organizations, in churches, and I’m afraid to say in universities. I will spare you the details, and pose the operational question. If corruption is so widespread, what can be done about it?

### ***What Is Corruption?***

To begin, we have to understand what sort of thing corruption is, and what conditions are conducive to it.

Corruption can be defined as the misuse of office for personal gain. The office can be a public office, or it can be any position of power, including the private sector, nonprofit organizations, even university professors. Corruption encompasses bribery, extortion, and many kinds of fraud. Corruption is not a synonym for any sort of crime or economic crime, nor is it the same as waste, inefficiency, or laziness on the job—although these are sometimes the companions of corruption.

Let me make three points about corruption, before we think about what we can do to prevent it.

First, **corruption occurs more readily in certain institutional, political, and cultural settings.** We may hypothesize that there will be *less* corruption when:

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<sup>2</sup> <http://www.transparency-usa.org/intro.html>

<sup>3</sup> <http://www.democrats.org/agenda.html>

- Citizens agree on the value of democracy, a free press, and good governance.
- Government's role is limited to well-agreed areas, especially those for which government has a comparative advantage.
- There are not emergencies ranging from war to civil disorder to financial collapse to natural disasters, all of which may require dramatic and rapid actions.
- Civil servants are well paid and well qualified.
- The private sector is broad and competitive, with clear rules of the game and openness to foreign competition.

The levels of corruption will tend to be higher in countries and institutions that do not enjoy these conditions. There will be *more* corruption where democracy and good government are *not* widely valued, where the press is *not* free, where governments' role in the economy is large, where there are wars and emergencies, where civil servants are poorly paid and poorly qualified, where the private sector is thin and monopolistic, and where the rules of the economic game are unclear.

Whatever these conditions are like, my second point is that **corruption is a crime of calculation**, not one of passion. Corruption is an economic crime. Morality matters, of course, but given the level of public morality the amount of corruption depends on economic calculations by the parties involved in the corrupt activity. What are the benefits of the activity? What is the probability of being caught, and if one is caught, what is the expected penalty? The corrupt individual will proceed if the benefit minus the moral cost minus the probability of being caught times the expected penalty is greater than zero.

Third, these calculations of benefits and costs have systemic correlates. **There is a formula for corrupt systems:  $C = M + D - A$ .** Corruption equals monopoly plus discretion minus accountability. If a system gives an official monopoly power over a good or service, the discretion to decide how much a particular client receives, and is not accountable, then the system will be prone to extortion or bribery.

### ***How to Prevent Corruption***

Let us agree, at least for a moment, that it is difficult in the short run to change the basic institutional, political, and cultural setting. Let us also agree that we do not have a ready way to change people's morality, again at least in the short run. Can we nonetheless prevent corruption?

The answer is yes, in the sense that we can reduce corruption but never eliminate it. The good news is that around the world courageous leaders have made impressive progress against corruption. Each case is different. But some themes emerge that might be helpful for other leaders who wish to fight corruption.

- They need to change a corrupt institutional culture.
- They need to mobilize and coordinate a variety of resources inside and outside the government.
- And they have to think in terms of corrupt systems instead of corrupt individuals.

### ***Change the Institutional Culture***

When corruption is systemic, the institutional culture grows 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 improved the institutional culture. What did the leaders do?

First, they send a strong signal of change. In corrupt societies, words count for little. 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, not just words.

One step is to fry some big fish. Thirty years ago, Hong Kong's Independent Commission against Corruption was launched. A key step was to capture and punish a former police commissioner, who symbolized impunity. Just after he assumed power in Colombia in 1998, President Andrés Pastrana's 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. The President'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. In 2001-2002, 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.

A second principle is to change the institutional culture by “picking low-hanging fruit.” Successful reformers create short-term successes that are highly visible and change expectations: “Maybe things can change...maybe they will change.”

Third, even though they must work with people within existing institutions, successful leaders bring in new blood. For example, Mayor Ronald MacLean-Abaroa in La Paz, Bolivia, invites in young people to be “eyes and ears.” More than two decades ago Efren Plana cleaned up the Philippines' Bureau of Internal Revenue. One of his early tricks was to pair young accountants to partner with “senior heroes” and investigate cases in depth.

### ***Mobilize Allies***

The fight against corruption requires allies. The business community and civil society can provide information about where corruption is occurring and how corrupt systems work.

Mayor MacLean-Abaroa invited citizens' groups to help build and monitor local public works, which enabled new kinds of accountability. So did Mayor Jesse Robredo in Naga City, the 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.

Some leaders have invited business groups and lawyers and accountants to describe how corrupt systems work and to suggest remedial measures.

Efforts in e-government are proliferating around the world, with the promise of reducing corruption. President Pastrana's team used the Internet to publicize all contracts and budgets—and also to enable citizens to denounce cases of inefficiency and possible corruption. Similar efforts in Mexico and Korea, among many others, have led to documented reductions in corruption.

In the Philippines, Bureau of Internal Revenue head Plana used investigators from the Defense Ministry, where he used to work, to document the lifestyles of the top 125 employees of the BIR. He invited the Commission on Audit to supplement the BIR's internal audits. He used the press to publicize cases of BIR corruption, which created a highly effective form of non-judicial punishment.

### ***Reform Systems***

In the longer term, reducing corruption requires better systems. Corruption fighters must reduce monopoly, clarify discretion, and increase transparency in many ways.

Reducing monopoly power means enabling competition, as in government contracts in La Paz and in Colombia. 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. Argentina reduced corruption in hospitals by publishing prices of all purchases throughout the hospital system. Corrupt deals that had resulted in higher prices were quickly made evident.

Limiting discretion means clarifying the rules of the game and making them available to the common man and woman. Mayor MacLean-Abaroa created a "Manual for the Pacheño," which described simply and in three languages what was required to get a permit, build a house, start a business, and so forth. President Pastrana used the Internet to limit discretion: it became harder for a government official to trick a citizen because the rules of the game were 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 systems for measuring the performance of agencies and offices—and then link rewards to results.

President Pastrana's *Colombiemos* campaign linked up the *veedurías* around Colombia, enabling these nongovernment organizations to provide even better oversight of public programs and leaders.

Accountability is also increased by inviting outside agencies to audit, monitor, and evaluate. 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.

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, "moral initiatives" are not the crux of long term reforms. The keys are better 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. One cannot openly recruit new members. 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 and 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 involved 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 we have to focus on corrupted systems, rather than corrupt 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. And we have to find ways to involve citizens, journalists, non government organizations, businesses, and government officials in the diagnosis and remediation of corrupt systems. Experience around the world shows that corruption *can* be reduced, even where it seems to be endemic.

### **Conclusion**

The resignations in 2007 of World Bank President Paul Wolfowitz and USAID Administrator Randall Tobias may have discouraged world-wide efforts to reduce corruption. One could imagine this cynical response around the world. "How can we be expected to fight corruption when the anti-corruption crusaders are themselves tainted? What can possibly be done to reduce corruption?"

Fortunately, as we have seen, the answer is "a lot." We now have many cases of cities, ministries, and countries making impressive progress against corruption. Cases differ, but lessons emerge. If we wish to reduce systemic corruption, we need to change a corrupt institutional culture. We need to mobilize allies and resources inside and outside the government. And we have to take a holistic approach and think in terms of corrupt systems instead of corrupt individuals.