

Introduction: Subverting Corruption

Robert Klitgaard

The process of corruption—both physical and moral—is a dominant theme in this work on “Criminal-States and Criminal-Soldiers” edited by Robert J. Bunker. Concerns over states and corruption have a long legacy. Four decades ago, the political scientist Colin Leys asked “what is the problem about corruption?”¹ Following a line that might remind one of the sociologist Robert Merton, or the political philosopher Niccolò Machiavelli, Leys argued that corruption has its functions, even its benefits. Under awful conditions, bribery and its close relatives may be socially and not just privately beneficial. The political scientist Samuel Huntington chimed in: “In terms of economic growth the only thing worse than a society with a rigid, overcentralized, dishonest bureaucracy is one with a rigid, overcentralized, honest bureaucracy.”²

These scholars had a point. But nowadays, it is easier for us, sensitized by both passionate denunciations and econometric estimates, to reel off some of the costs. Systemic corruption distorts incentives, undermines institutions, and redistributes wealth and power to the undeserving. When corruption undermines property rights, the rule of law, incentives to invest, then economic and political development are crippled. In extreme cases, state institutions may become vulnerable to criminalization or capture by illegitimate groups seeking to expand their influence

Robert Klitgaard is the President of Claremont Graduate University, where he is also a University Professor. He formerly was a professor at Harvard, Yale, the University of Natal, and the University of Karachi, and has been on the faculty of the World Economic Forum and the World Bank Institute. His eight books include *High-Performance Government: Structure, Leadership, Incentives* (edited with Paul Light, RAND, 2005) and *Corrupt Cities* (with Ronald MacLean-Abaroa and H. Lindsey Parris, ICS Press and World Bank Institute, 2000).

1. Leys, C. (1965) ‘What is the Problem about Corruption?’, *The Journal of Modern African Studies*, vol. 3, no. 2, pp. 215-230.
2. Huntington, S. P. (1968) *Political Order in Changing Societies*, Yale University Press, New Haven.

and power. Even Huntington pointed out that “a society in which corruption is already pervasive, however, is unlikely to be improved by more corruption.”³

Since Huntington wrote those words in 1968, the fight against corruption has progressed. In the 1990s we experienced a first stage of anticorruption efforts, where consciousness is raised about the existence and harms of corruption. In many countries, such as Indonesia, India, and Colombia, there seems to be a sea change in public opinion, as elections are increasingly fought in terms of what to do about corruption.

The second stage considers anticorruption measures, in effect adding systems analysis to consciousness raising. Many civil service reforms are moving beyond “capacity building” to emphasize information, incentives, and competition. Research is moving beyond perceptions of corruption to studies of where in government and markets the vulnerabilities to corruption lie.

I believe the next phase, a third stage in the fight against corruption, will address what to do when corruption has become systematic. What can be done if consciousness raising and prevention have failed, if corruption has become the norm, and if political will cannot be counted on? In other words, how can systemic corruption be subverted?

“Normal” to Systemic Corruption

Consider a real example, stripped down and renamed to protect its identity. PHS is the part of a country’s health ministry that distributes pharmaceuticals and health services to the poor. There are eligibility cards and subsidies, supply chains and special health posts, and lots of contracting and procurement. Corruption has always existed in PHS. But suddenly, things get worse.

The country’s president is involved in a scandal unrelated to PHS. He may be impeached. Parliament forms a committee to investigate. The president and his party try to influence the committee. A relative of the committee chairman is named the director of PHS. Other new appointments in PHS are from the same region as the committee chairman.

Procurement becomes deeply corrupted. Competitive bidding, once the norm in 90 percent of procurement contracts, is used in less than half. The other half are declared “emergencies” and are let without competition through PHS’s regional offices. In the words of one official, “Many of these people decide which firms will get the contract and then both manage the project and are responsible for auditing it.”⁴

Even when procurement is competitive, abuses spread. Contract specifications are tailored to enhance the chances of favored suppliers. Cost overruns are approved in exchange for bribes.

3. Huntington, *op. cit.*

4. Citation not provided because of the sensitivity of this real world example.

Politicization undercuts external controls. The president's party installs a compliant individual as the new director of the supreme audit agency. The attorney general, the president's old friend, is unwilling to pursue sensitive cases.

As the corruption in PHS grows, organizational chaos ensues. The manual of procedures is abandoned. Eligibility cards are allocated through extortion and fraud. Theft becomes widespread, and medicines disappear. Some files disappear, then many more, so that, even if investigations or audits are started, there are often no records. No one is sure if contracts have been let or if funds are available. As a result, some contractors are not paid. Delays and further rounds of corruption follow. Eventually, suppliers charge higher prices or retire from this market, leading to less competition and further opportunities for corruption and inefficiency. An honest auditor finds a PHS warehouse full of televisions, champagne glasses, and so forth.

PHS free-falls into financial collapse. Health care for the poor disintegrates.

Action in Normal Circumstances

What can be done? At the second stage of fighting corruption, a variety of measures can be taken to prevent corruption.

- *Agents* (that is, public officials) are selected on the basis of competence and honesty.
- *Incentives* are structured to reward projects and purchases with excellent results. Penalties are exacted from those who give or receive bribes.
- A variety of mechanisms are used to *gather information* about the possibilities of corrupt behavior at each stage of its development—information ranging from bidding patterns to comparative costs to the lifestyles of the individuals involved.
- *Competition* is encouraged.
- Official *discretion* is circumscribed—for example, by conducting objective studies of, and specifying clear criteria for, government procurement and other administrative practices.
- The *moral* costs of corrupt behavior are sometimes emphasized through codes of conduct, publicity campaigns, and the encouragement of reputations for probity by the firms involved.

But because corruption has become systemic, PHS has suffered breakdowns in all these areas.

- Suddenly, key *agents* are selected through a political process whose purpose is to give them access to public wealth. Their *incentives* are to make money for their political masters, and these agents are protected by those masters and by the president. Less dramatically, for most officials in PHS, pay has fallen far below the private sector, leading to a loss of qualified personnel. Careers in PHS are not advanced through a record of economical purchases and successful projects. Contracting firms are not punished for poor results.

There are few official incentives to discover and prosecute corruption and, increasingly, there are strong political pressures not to do so. The penalties for corruption are weak—ranging from black marks in the personal record to suspension—and are applied only rarely.

- The many possible mechanisms used to *gather information* about performance and about possible corruption are now underemployed or abandoned. Administrative chaos has gutted record keeping and accounting, so that information useful for investigating and controlling corruption is often missing.
- *Competition* has been undercut in many ways. Instead of using a well-organized process for contracting based on technical criteria to judge bids and firms, it is decentralized and is subject to monopoly power *plus* discretion *minus* accountability.
- Some political appointees have the *discretion* to let contracts without competition or technical reviews.
- The social sanction on being corrupt diminishes as systemic corruption takes hold. Honest firms find it harder to do honest business. Reputation matters less and less, and, indeed, phantom firms are created for corrupt purposes.

When systems are so thoroughly corrupted, there may be little, if any, political will to reform them. Calling for better agents, improved incentives, better information, more competition, less official discretion, and higher economic and social costs is well and good. But who is going to listen? Who is going to act? The usual anticorruption remedies may not work. Now what?

Analogy of Disease

Consider an imperfect but suggestive analogy. Corruption is like HIV/AIDS. It is a problem in every country, and especially prevalent and damaging in a few—the interested reader need only consult the bottom of the list of corrupt countries created every year by Transparency International. The social consequences are at many levels, including economic. Finally, the contagious disease is difficult to combat, and it may adapt itself, much like an insurgent group or narco-cartel, to efforts to defeat it.

What might be called the first stage of reacting to either corruption or HIV/AIDS is a raising of consciousness. In a number of books—such as *Los Fabricantes de Miseria* by Plinio Apuleyo Mendoza, Carlos Alberto Montaner, and Alvaro Vargas Llosa—corruption is attributed to bad attitudes regarding authority and probity.⁵ The political culture is a pernicious sort of “privatization of the State,” the informal and illicit private use of government by the political class and its allies.

The cure for corruption? Moral renovation, cultural change, an elevation of consciousness. (Incidentally, this is where Colin Leys sought a remedy forty

5. Barcelona: Plaza, 1999.

years ago. The “line of escape,” he wrote, is “a nucleus of ‘puritans’ applying pressure for a code of ethics.”⁶ The problem with this advice is practical. We know little about how to engineer a moral renovation so we must also work at other levels.

A second stage of reacting to HIV/AIDS or corruption emphasizes prevention: keep healthy bodies free of contagion. The anticorruption measures described above, from selecting better agents to raising the economic and social costs of corruption, are derived from this approach.

Analyzing and Attacking Corrupt Systems

But what if corruption has already become embedded? When prevention has failed, a third stage of fighting corruption is also needed, one that goes after the disease. New questions arise, as Table 1 suggests.

In addition to strengthening government institutions, the task is now to weaken corrupt institutions. This is difficult but not impossible. “To engage in corruption,” law professor Philip Heymann notes, “a government official and a private party have to identify each other as potential corrupt partners, and find a way to reach an agreement, and then deliver what each has promised without being detected. Each of these steps can be extremely difficult, for in each there are vulnerabilities to detection.”⁷

The corrupt system itself should be analyzed from beginning to end. For example, how are corrupt buyers and sellers found and matched? How do they make and enforce their implicit contracts? What footprints do their illicit transaction create, and what steps do they take to cover them up?

Then, countermeasures should be designed. For example, how might undercover agents be introduced to the system in order to disrupt it? Who are the disaffected in the corrupt system, and how may they be induced to defect? How might corrupt contracts be exposed, undercut, or destabilized? How might disinformation be injected into the corrupt system to create false impressions, schisms, distrust, and risk?

With these questions in mind, let us return to the case of PHS. How might the corrupt coalition of the president, the congressional committee, the contractors, the political appointees, and PHS be subverted? Here are a few ideas.

- Disseminate information that the corrupt system would like to keep hidden. For example, our research in PHS easily documented the switch from 90 percent competitive bidding to 50 percent. The “emergency” contracts had been recorded, and it could readily be shown that most had been awarded to cronies of political appointees. Inserting this information into the public

6. Leys, *op. cit.*

7. Heymann, P. (1995) ‘Dealing with Corruption: The United States as an Example’, unpublished paper, Harvard Law School, Cambridge.

Table 1 Stages two and three in the fight against corruption

	<i>Stage two: fighting "ordinary" corruption</i>	<i>Stage three: fighting systemic corruption</i>
Key metaphor	Controlling corruption	Subverting corruption
Medical analogy	Strengthen the body to prevent the disease from taking hold. Examples: exercise, nutrition, lifestyle	Attack the disease itself. Examples: antibiotics, chemotherapy, surgery
Use analysis to find out	Where healthy systems are vulnerable and how to strengthen them	Where organized corruption is itself vulnerable and how to weaken it
Some key analytical questions	How are agents selected? How is the principal-agent-client relationship structured? What are the incentives? How can discretion be clarified and circumscribed? How can accountability be enhanced? How can the moral costs of corruption be increased?	How are corrupt deals made and kept secret? How are corrupt goods and services delivered? How are members recruited and disciplined? What "foot-prints" are there from corrupt activities? How can risks and penalties be created or enhanced? How can corrupt activities be carried out with impunity, and where are they vulnerable?
Draw inspiration from	Best practices in business management; public health programs	Best practices in fighting organized crime, pathology and medicine
Key functions in the fight against corruption	Audit, systems design, incentive and personnel systems, control, citizen oversight	All of these, <i>plus</i> undercover agents, infiltrators, turncoats and key witnesses, "dirty tricks"
Key actors in the fight against corruption	People who run the system. The "principal" (metaphorically, the people in practice, the people in charge)	People who can influence and, if necessary, subvert the corrupt system. Citizens, professional associations, the press, business groups, some government agencies or levels of government

dialogue will not automatically lead to change. But exposure creates new tensions for the corrupt system and may generate antibodies.

- Some corrupt appointees have grown rich. Purchases of houses and cars and other forms of conspicuous consumption can be documented and then shared with the press. In the 1970s, for example, a courageous leader of the Philippines' Bureau of Internal Revenue used such measures to subvert a virulent form of organized corruption.
- The prices of various goods and services can be compared with prices before the erosion of PHS, with prices in the private sector, and with prices in neighboring countries. All these comparisons reveal PHS's current corruption. They can provide a focal point for public outrage and the monitoring of improvements. A similar idea—the benchmarking of the prices of rural works—was successfully applied during the 1980s to combat corruption in Bolivia's Social Emergency Fund; and Argentina recently undermined corruption through national dissemination of local prices of school lunches and of hospital supplies.
- One can give information to, and then work with, the firms that could potentially compete for PHS's business, as well as with associations of industry leaders, auditors, and lawyers. Pressure points can thereby be found and exploited to push for change.
- Organized extortion for PHS eligibility cards can be undermined by using undercover agents, confidential exit interviews, and video cameras.
- In both Italy and New York, successful efforts against organized crime have subverted the Mafia's culture of secrecy. Crucial have been such measures as using undercover agents, planting electronic surveillance devices, and inducing key insiders to become state witnesses. Also, misinformation and "dirty tricks" have been used to create distrust among the *Mafiosi*—for example, planting false rumors that someone was a turncoat or catalyzing animosity among various factions. Could similar steps be imagined in PHS or, more broadly, in the national government?

These are interesting possibilities—but who might undertake them? The list of potential actors is long: citizens' groups, including Transparency International; the press; religious groups; business groups, which realize that, viewed as a whole, business loses from systemic corruption; and international organizations. Sometimes a congressional committee can be the catalyst, at other times a supreme audit authority or a ministry of justice or a police department. Even within a corrupted agency, the infection is never complete, and given the opportunity, people ranging from secretaries to technicians to long-term civil servants may be valuable sources of information about exactly how the corrupt system functions.

Ideally, third-stage anticorruption efforts will bring together all of these actors in informal and formal networks to subvert systemic corruption and aid in the suppression of the criminalization of public and private institutions.

Where is Systemic Corruption Most Severe?

Systemic corruption can worsen as various forms of central government control break down or recede. One example is when a state collapses in the face of unrest or postcommunist trauma, being replaced in part by organized crime and corruption. Another example—less dramatic but perhaps more widespread—is what happens when federal functions devolve upon localities and municipalities. In extreme cases, the result can be post-modern form of feudalism/warlordism and state failure.

In our book, *Corrupt Cities*,⁸ Ronald MacLean-Abaroa, Lindsey Parris, and I note that around the world, local governments are susceptible to systemic corruption. Compared with national governments, municipal administrative systems are usually weaker. Pay scales for professionals are lower, leading on average to lower-quality personnel. The risks of co-optation by élites or populists are higher. In the hands of unscrupulous opportunists or idealists unable to manage, city governments can easily become the sites of petty tyrannies, systemic corruption, or both.

Even in rich countries, the threats are real. The substance and style of city management are changing in ways that promise better governance but simultaneously offer more opportunities for corruption. “Many of the recent changes in local government,” the Audit Commission of the United Kingdom asserts, “have been away from centralized controls and tight financial regimes and have increased the risks of fraud and corruption occurring.”⁹ According to one estimate, provincial governments in Japan have 3 times more officials than the national government but produce 15 times the reported number of corruption cases and 4 times the number of arrested officials. In New York City, the cost of past corruption in school construction alone is measured in the hundreds of millions of dollars. Public-private partnerships, correctly considered the wave of the future, can mutate into systemic corruption.

No wonder local corruption is a topic of increasing concern. The Chilean policy analyst Claudio Orrego points out that “all the objectives that have been established for the reform of the municipal sector (increasing their legitimacy and democratization, increasing the efficiency and effectiveness of their services, and increasing citizen participation), can be summarized as part of this broader goal: strengthening accountability.”¹⁰

When corruption does become systemic, as it did in PHS, the usual anticorruption measures are insufficient. Not obsolete, to be sure: there will always be a need to

8. Klitgaard, R., MacLean-Abaroa, R. & Lindsey Parris, Jr., H. (2000) *Corrupt Cities: A Practical Guide to Cure and Prevention*, ICS Press and World Bank Institute, Oakland.

9. Audit Commission (1993) *Protecting the Public Purse, Probity in the Public Sector: Combating Fraud and Corruption in Local Government*, HMSO, London, p. 3.

10. Orrego, C. (1995) ‘Citizen Participation and the Strengthening of Accountability in Chile’s Municipal Governments’, Unpublished manuscript, April, p. 5.

raise consciousness about corruption's costs and to make the institutions of state and market less vulnerable to corruption. But we also need new thinking about new modes of action by new sorts of actors that can facilitate joint efforts to subvert corruption. This will allow us to counter one of the processes that is resulting in the criminalization of private and public institutions of states on a global level.