



CORRUPTION AND GOVERNMENT

Second Edition

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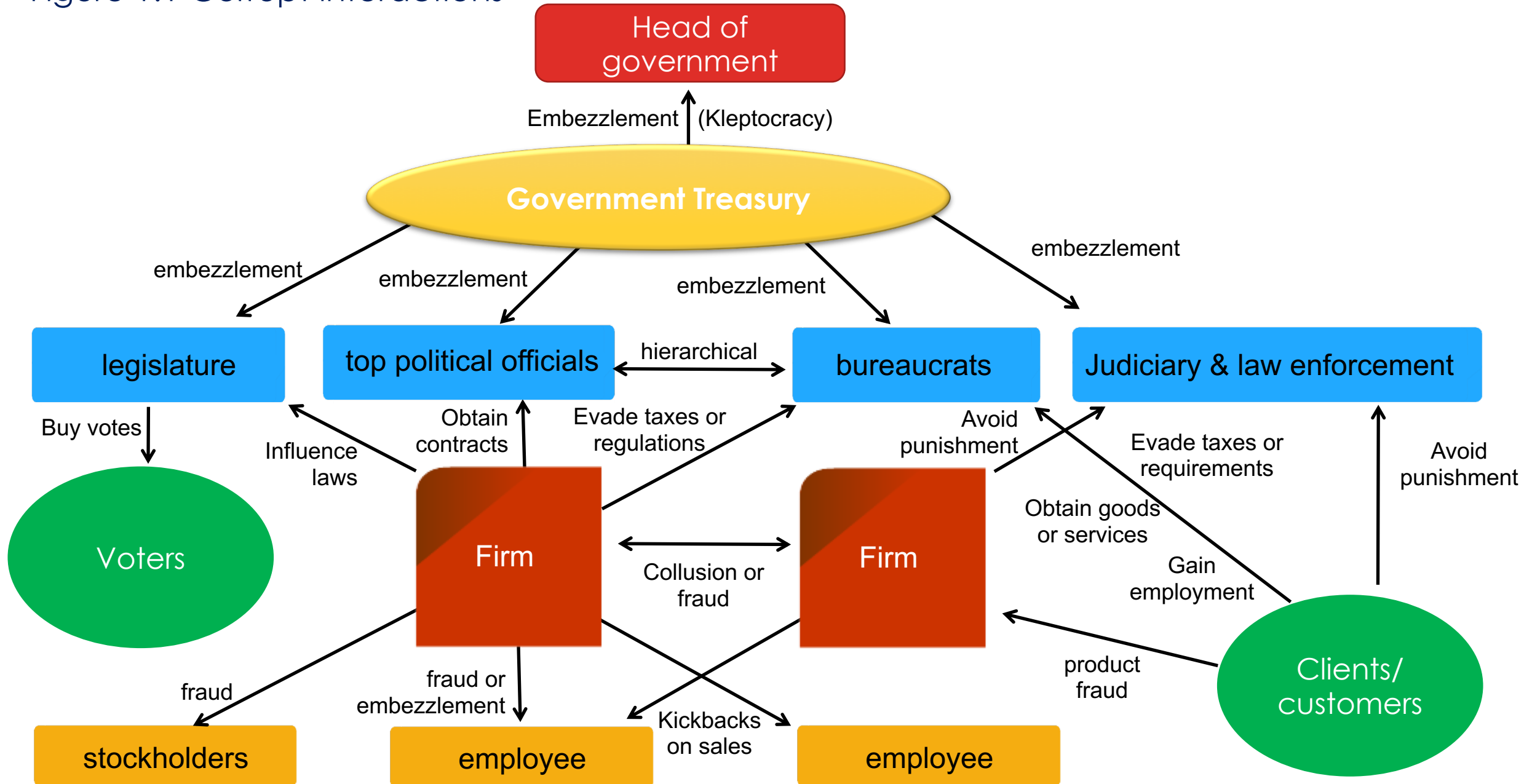
I. WHAT IS CORRUPTION?

The **abuse**
of an **entrusted power**
for **private gain.**

**But these terms need to be
defined.**

**One response: “The system made
me do it.”**

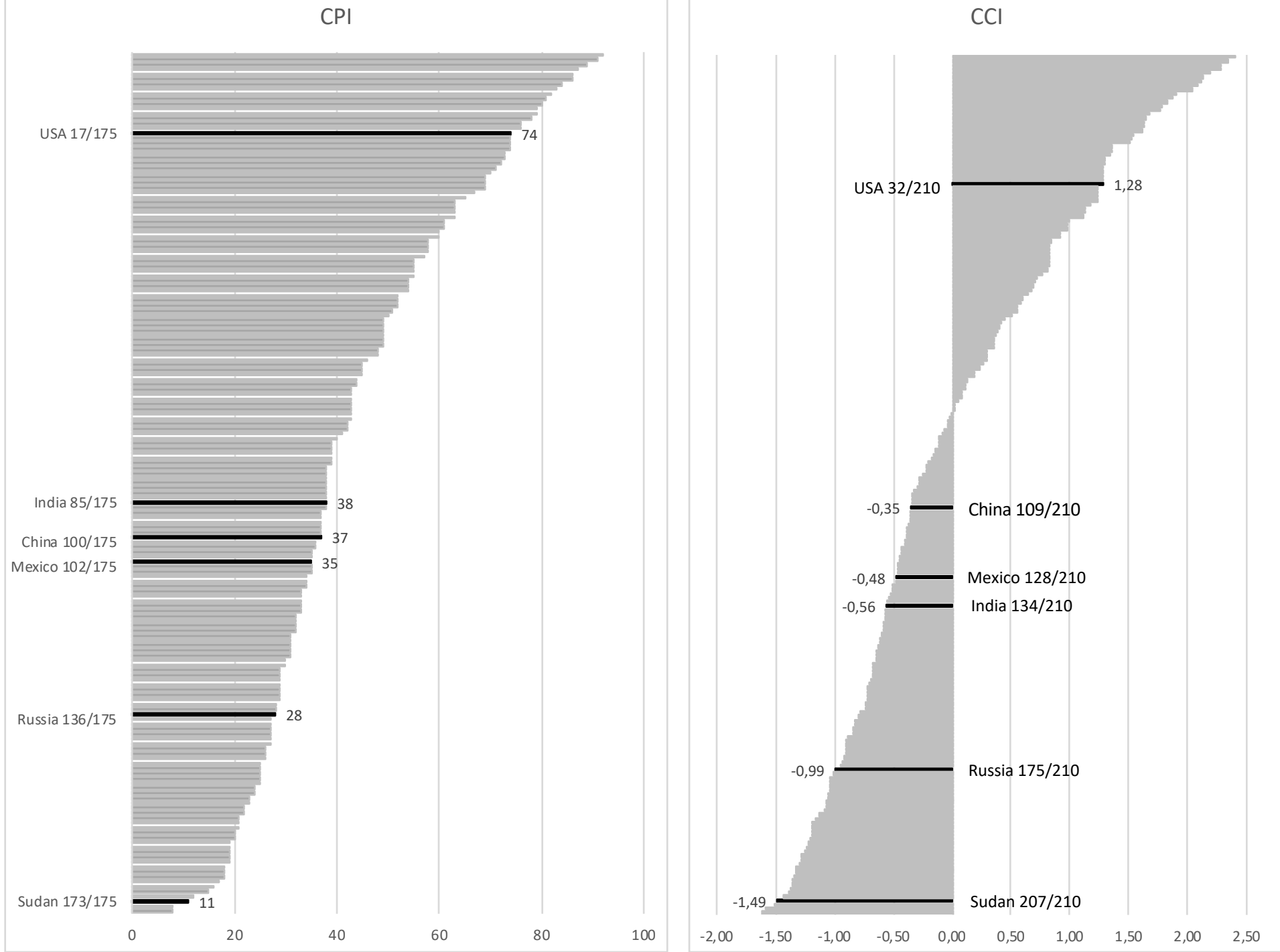
Figure 1.1 Corrupt interactions



III. CROSS-COUNTRY CORRUPTION MEASURES—PERCEPTIONS AND SURVEYS

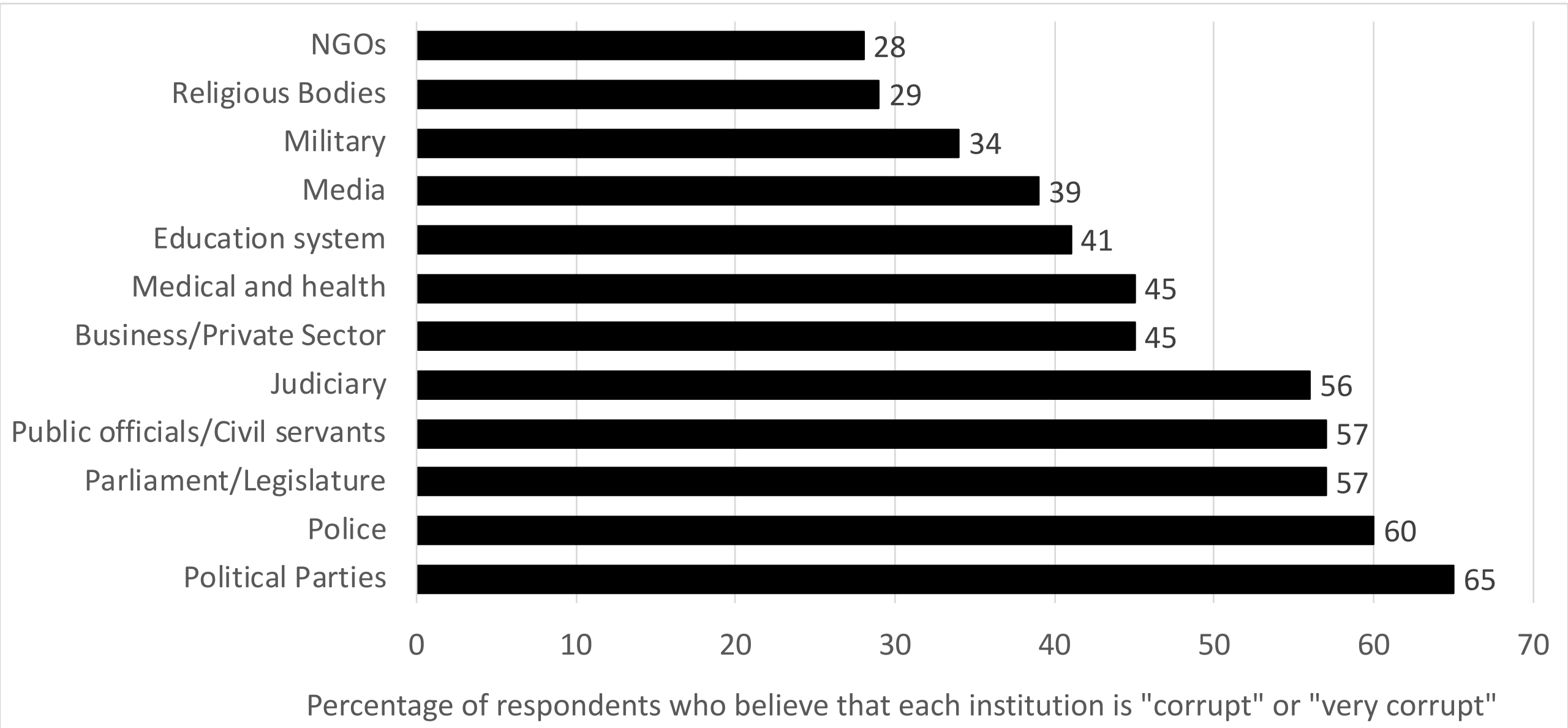
- Cross-country measures of corruption
- Perception indices
- Incidence: Global Corruption Barometer
- Perceptions vs. incidence

Figure 1.2. Corruption Indices for 2013: The Corruption Perceptions Index (CPI) and the Control of Corruption Indicator (CCI)



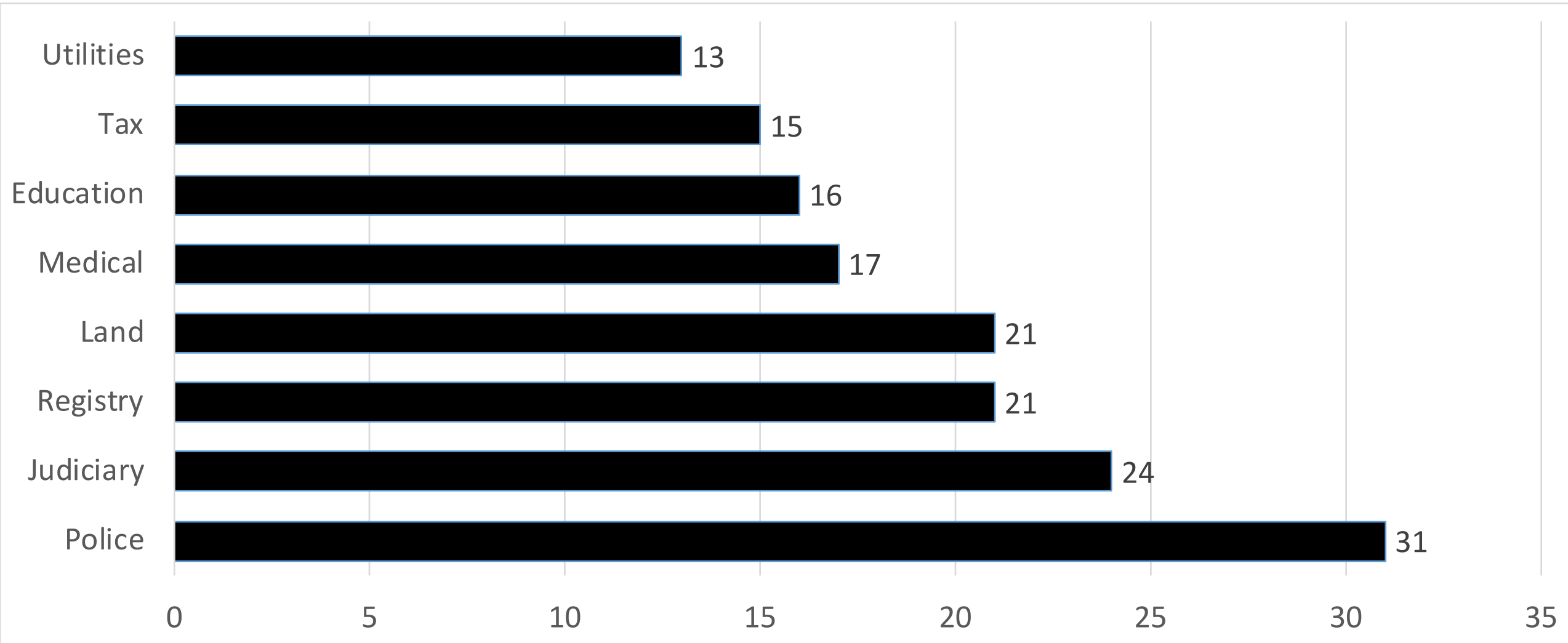
Sources: : Based on data from Transparency International, *Corruption Perceptions Index 2014*, http://www.transparency.org/cpi2014/in_detail and World Bank, *World Governance Indicators 2013*, <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=worldwide-governance-indicators>. Note that the CPI is listed by TI as for 2014, but the underlying data are actually from 2013.

Figure 1.3. Sector-specific results from the 2013 Global Corruption Barometer



Source: Elaborated with data from Transparency International, *Global Corruption Barometer 2013*, http://www.transparency.org/gcb2013/in_detail
Results are based on 114,000 respondents in 107 countries in 2013.

Figure 1.4. Global Corruption Barometer: Incidence of bribery in sub-sectors



Source: Based on data from Transparency International, Global Corruption Barometer 2013 Report, <http://www.transparency.org/gcb2013/report>, page 11. Results are based on 114,000 respondents in 107 countries.

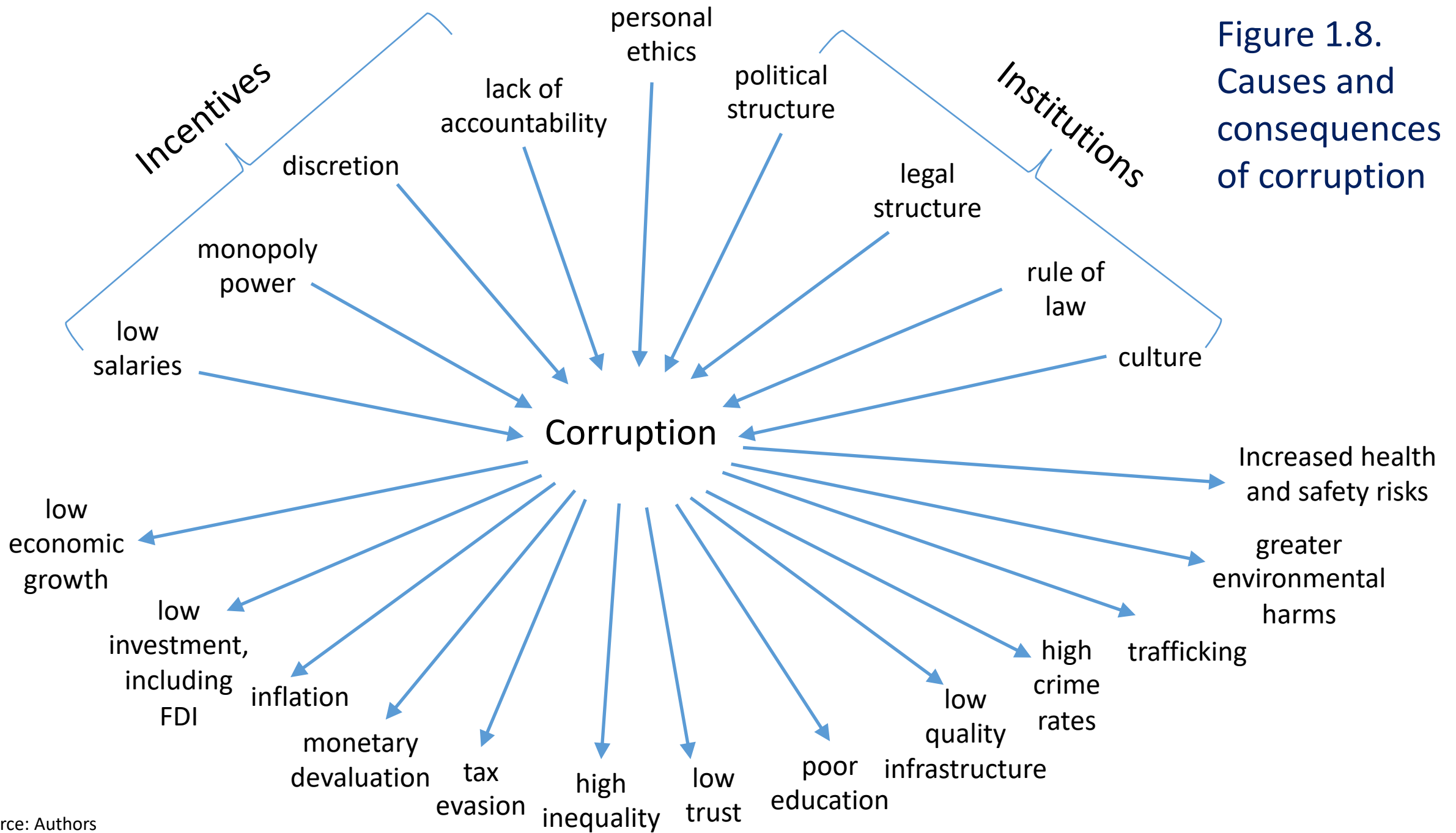
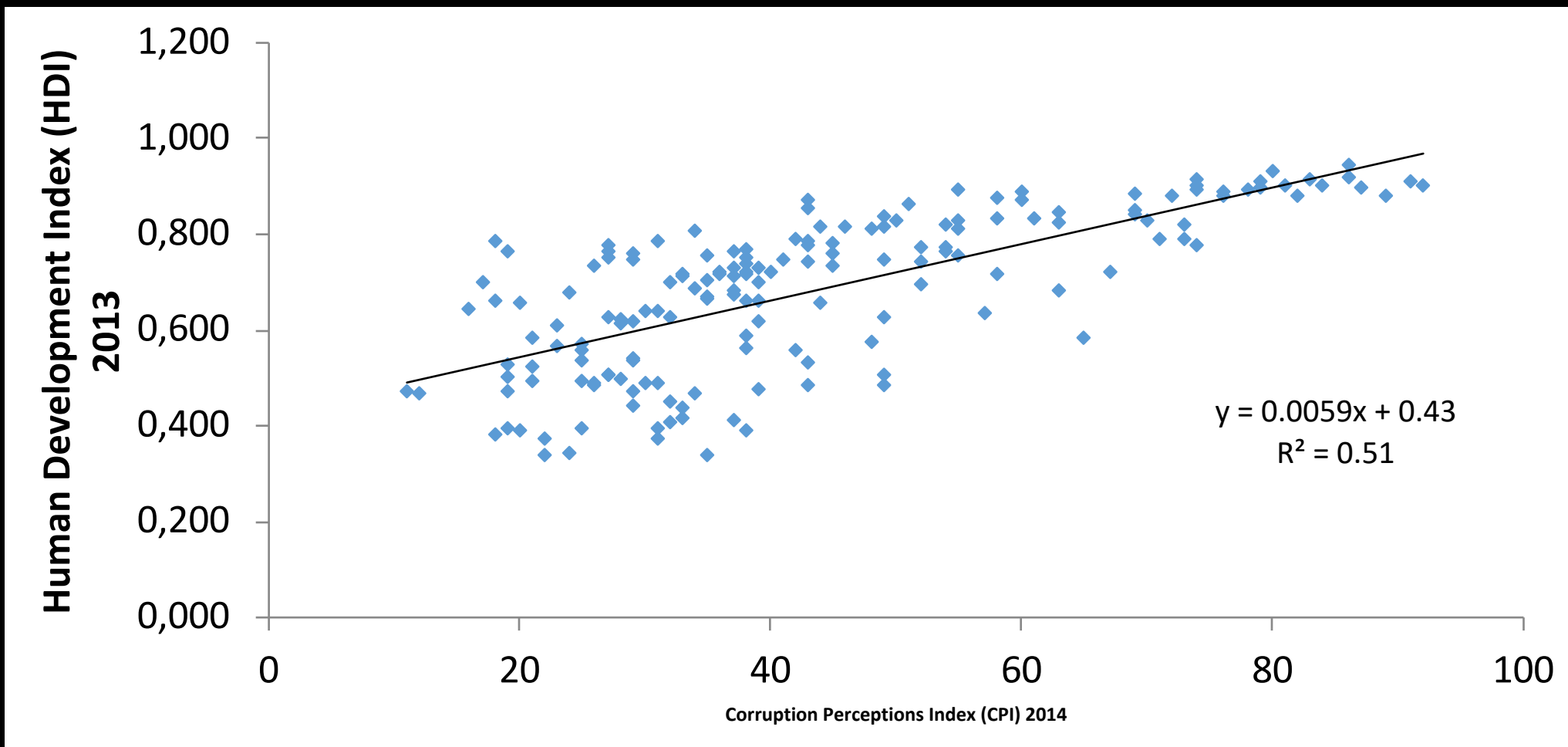


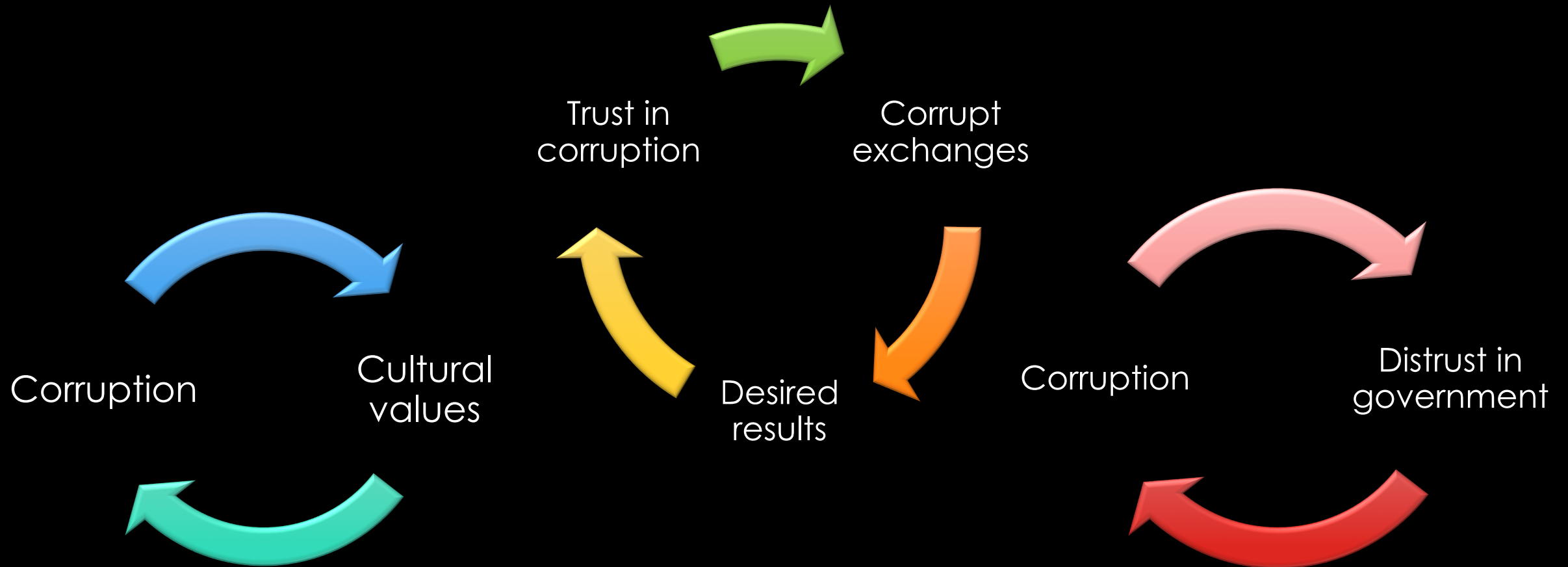
Figure 1.8.
Causes and
consequences
of corruption

Figure 1.9. Corruption and Development

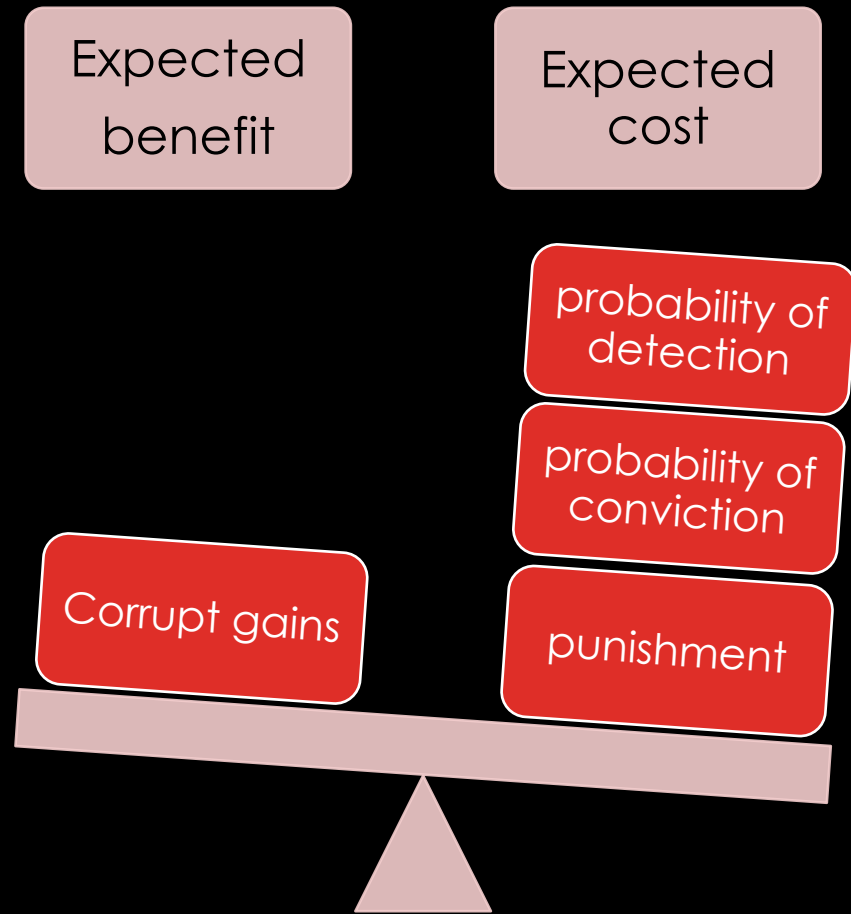


Sources: Based on data from "Human Development Index and Its Components," United Nations Development Programme, downloaded from http://hdr.undp.org/sites/default/files/hdr14_statisticaltables.xls and "Corruption Perceptions Index 2014," Transparency International, available at http://cpi.transparency.org/cpi2013/in_detail. Note: the t-statistic for the coefficient is 13.2580; p-value 0.0000.

VICIOUS AND VIRTUOUS CYCLES: CORRUPTION'S IMPACT ON CULTURE



USING THE CRIMINAL LAW TO DETER BRIBERY AND EXTORTION



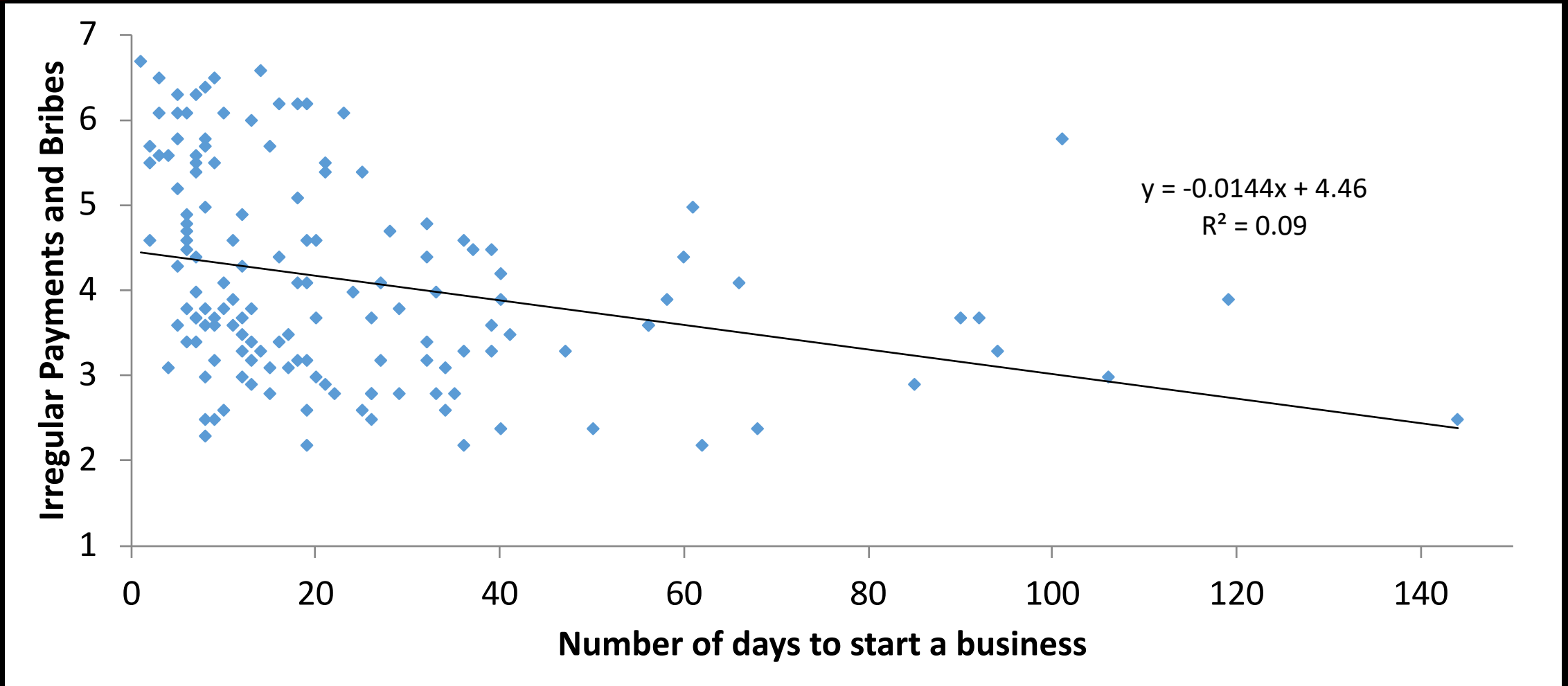
The criminal law—
and its
enforcement—
should change
incentives to
increase the
expected cost of
corruption.

BUT
THE CRIMINAL LAW IS NOT SUFFICIENT:
NEED TO ASK WHAT INDIVIDUALS AND
FIRMS GAIN FROM MAKING PAYOFFS—
THAT IS, 'WHAT ARE THEY BUYING?'

BUREAUCRATIC CORRUPTION

- I. Payments that equate supply and demand
 - A. Fixed supply
 - B. Variable Quantity and Quality
 - C. Choosing Those Who Qualify
- II. Bribes to Incentivize Officials
 - E. g. issuing permit: Cross-country relationship between days to start a business and the frequency of bribery by firms

Figure 2.1. Cross-country relationship between days to start a business and the frequency of bribery by firms [7 is best]



Source: Elaborated with data from Klaus Schwab, ed. *The Global Competitiveness Report 2013-2014*, World Economic Forum, <http://www.weforum.org/reports/global-competitiveness-report-2013-2014>. Note: Suriname was excluded from the graph as an extreme outlier.

BUREAUCRATIC CORRUPTION

- III. Bribes to Reduce Costs

regulations

taxes

duties

utilities

I. ELIMINATION OR LEGALIZATION

- Eliminate programs that mainly create corrupt incentives
- Legalize bribes by using legal fees for good service
- But avoid
 - Reducing budgets without reducing workload
 - Increasing corrupt incentives elsewhere
- Anti-corruption must be consider the structure of public programs, not just the size of government .

II. REFORM OF PUBLIC PROGRAMS TO LIMIT RENTS

- A. Simplify revenue collection: Fewer steps; Lower rates
- B. Regulation and the allocation of services
 - Efficient regulation implies a concern for both costs and benefits; it does not necessarily imply less regulation
- Reform of social benefit programs
 - Direct deposit; Proxy shoppers
- E-Governance
 - Making information available, simplifying applications and requests, and improving accountability

CORRUPTION IN PROCUREMENT AND PRIVATIZATION

- Introduction
 - TI estimates corruption increases costs of procurement by as much as 50%

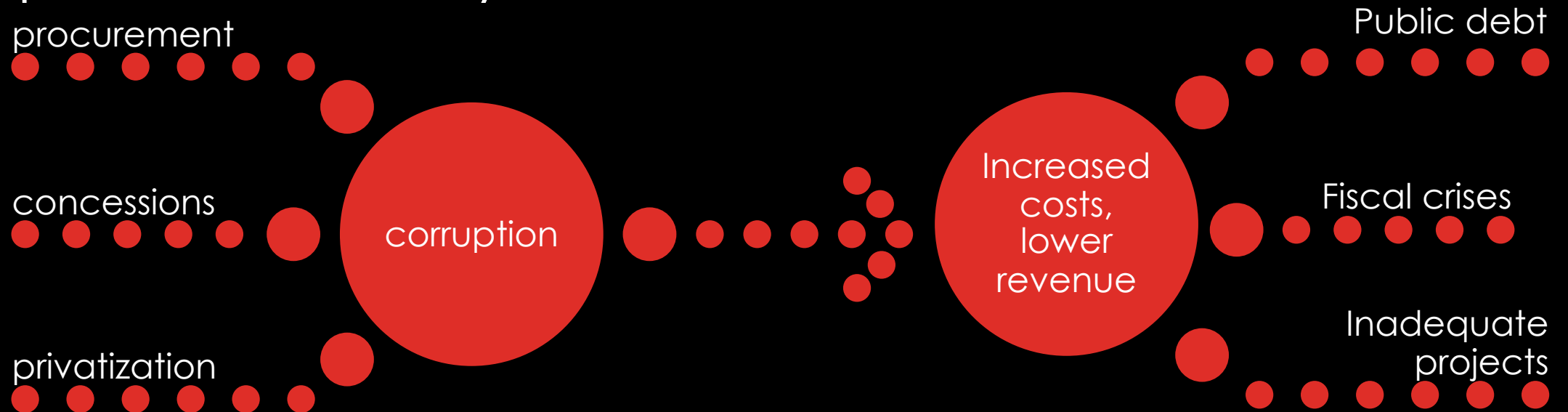
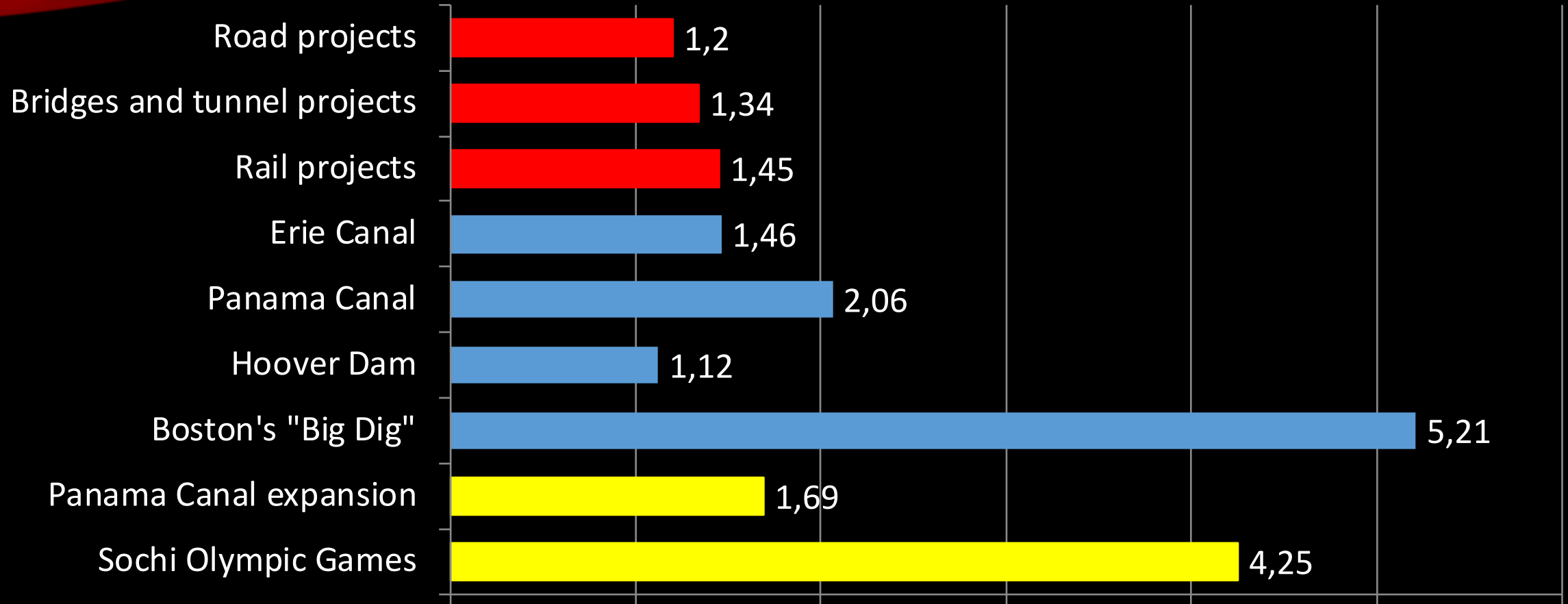
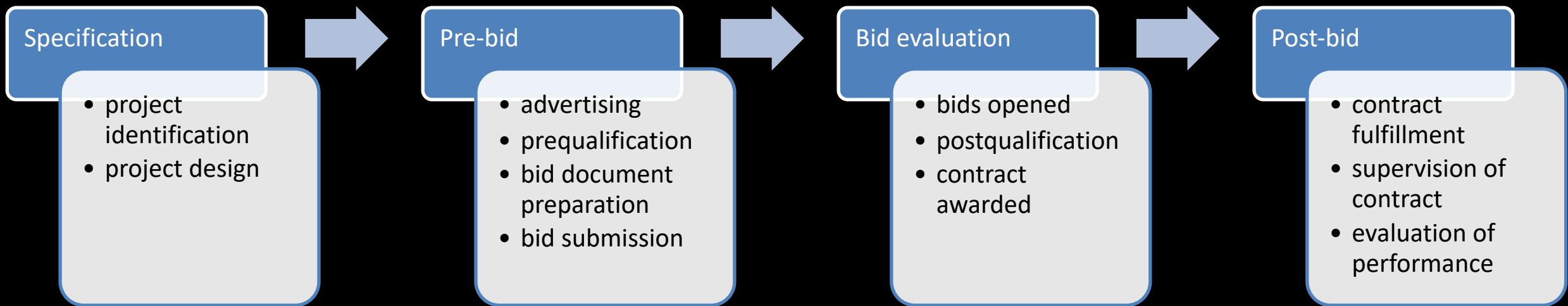


Figure 3.1. Selected Cost Overruns



Sources: Red bars: Flyvbjerg (2007), cited in Flyvbjerg and Molloy (2011: 83); blue bars: Engerman and Sokoloff (2006: 105); Yellow bars: calculations based on "Dispute Over Costs Halts Panama Canal Expansion," New York Times, (Reuters), Feb. 7, 2014. <http://www.nytimes.com/2014/02/08/business/international/dispute-over-costs-halts-panama-canal-expansion.html>; and Transparency International, "Major Games: Let Sport Triumph, Not Corruption," posted Feb. 5, 2014, accessed February 13, 2014 at http://www.transparency.org/news/feature/major_games_let_sport_triumph_not_corruption.

Procurement process



Source: Authors, based on Ware et al. (2007: 308).

PROCUREMENT REFORM

Elements of reform

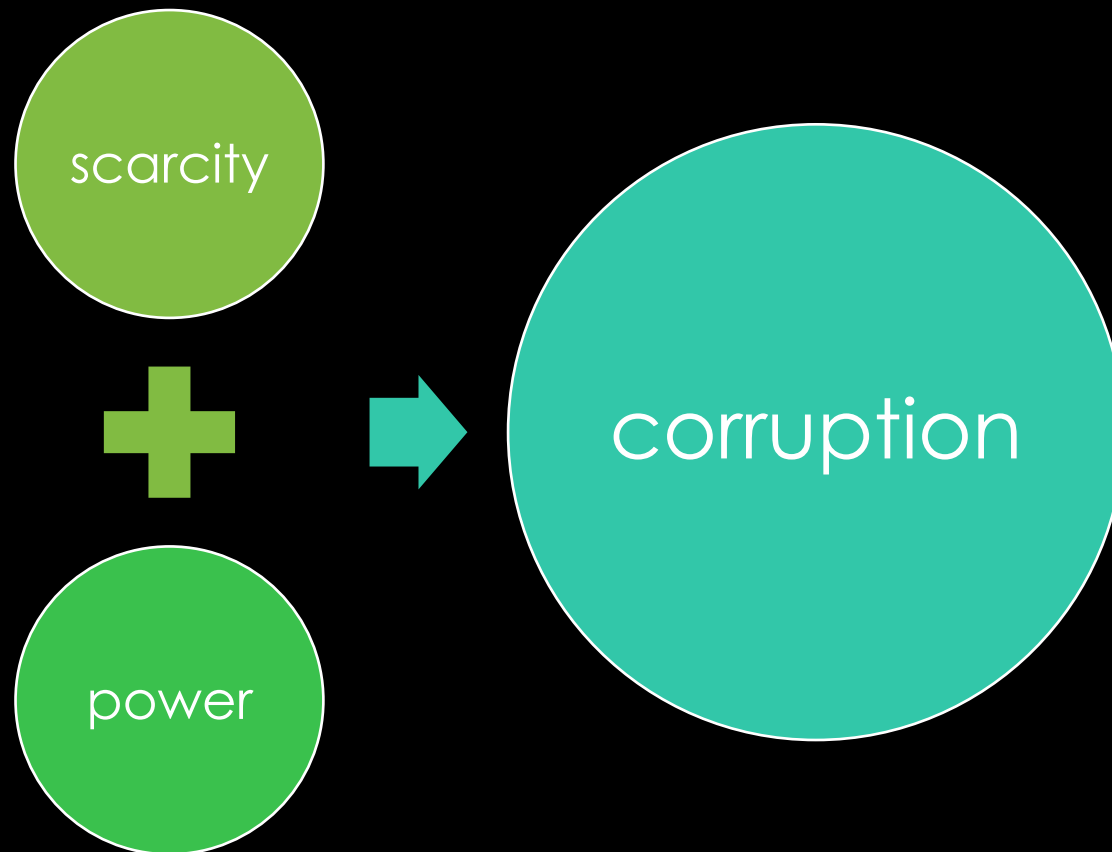
Discretion

Professionalization

Monitoring

Transparency

Firm performance



Reforms:

- Program elimination or legalization of payments
- Reform of public programs
- Reform of procurement systems
- Privatization as anticorruption

CIVIL SERVICE REFORM AND BUREAUCRATIC REORGANIZATION

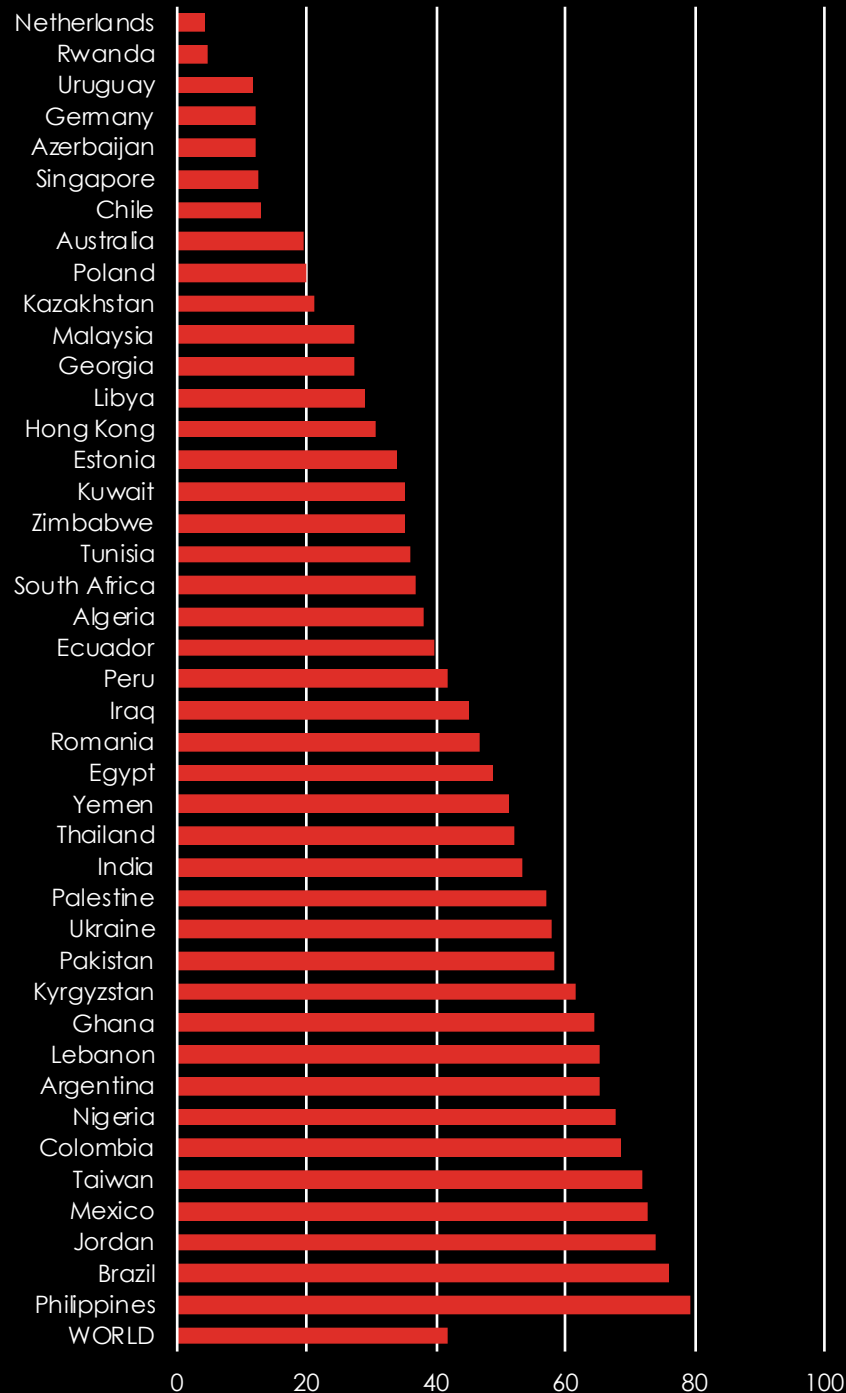
- Requirements:
 - Separate public and private roles
 - Professional norms
 - Technical expertise
 - Adequate pay
 - Clear, straightforward rules
 - Strong rule of law
 - Budget audits

CONCLUSIONS



Political Corruption: Buying Political Influence and Buying Votes

- ***Financing Political Campaigns***
- ***Conflicts of Interest***
- ***Lobbying and Political Connections***
- ***Buying Votes and Election Fraud***
- ***Figure 11.1.*** Percent of Survey Respondents Who Believe That Voters Are Bribed “Fairly Often” or “Very Often”
- ***Reform***



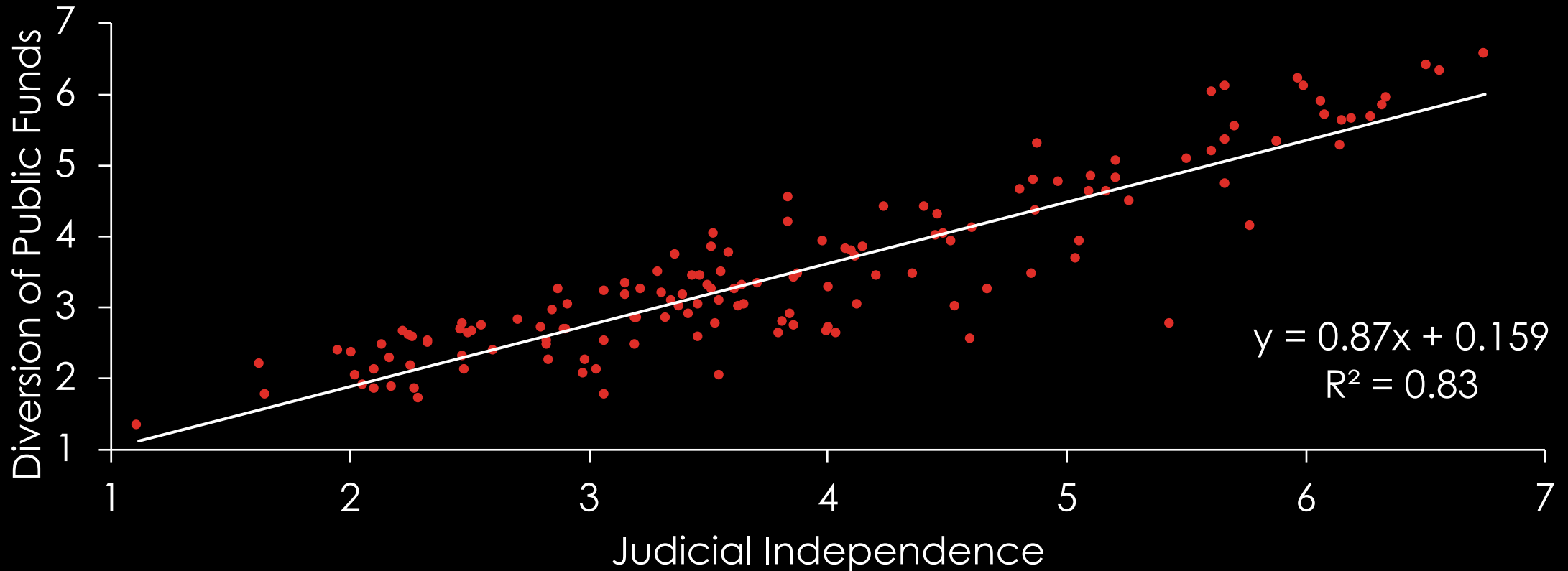
Percent of Survey Respondents Who Believe That Voters Are Bribed “Fairly Often” or “Very Often”

Source: Authors' calculations from the *World Values Survey Wave 6: 2010-2014*, downloaded from <http://www.worldvaluessurvey.org/WVSOnline.jsp> on June 15, on June 15, 2015. Response available for only 42 countries.

BEYOND THE BALLOT BOX: INDEPENDENT JUDICIAL INSTITUTIONS AND ANTICORRUPTION AGENCIES

- The Judiciary
 - **Independence and Competence**
 - Prosecutors
 - Alternative Dispute Resolution
- Independent Anticorruption Agencies

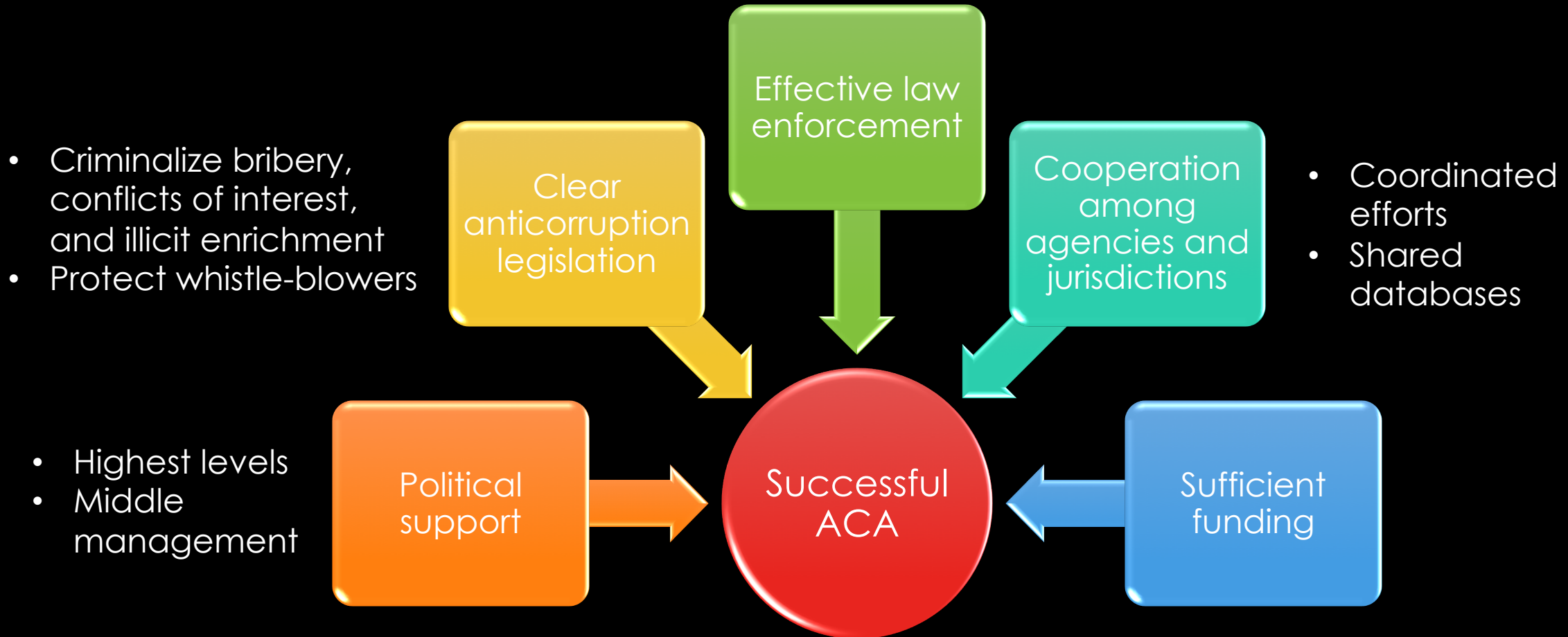
Figure 12.1. The cross-country relationship between judicial independence and diversion of public funds



Notes : Includes 144 countries. Each variable represents respondents' perception, measured on a scale from 1 (very poor) to 7 (very good). This graph does not prove causality: there may be other variables that lead a country toward both greater judicial independence and lower (better) levels of public embezzlement. A more sophisticated multivariate study would be necessary to explore the marginal effect of an independent judiciary.

Source : Generated by authors using World Economic Forum, *Global Competitiveness Report 2014-2015* dataset,

ANTI-CORRUPTION AGENCIES



OPENNESS AND ACCOUNTABILITY

- Information and Auditing
- The Media and Public Opinion
- Private Associations and Nonprofit Organizations as Agents of Change
- Avenues for Individual Complaints
- Grassroots Oversight of Government Programs

CORRUPTION IN INTERNATIONAL BUSINESS & FINANCE

I. The Obligations of Multinational Firms

A. The Corporation as a Moral Person

- **Furthering Market Efficiency**
- **Maintaining Political Legitimacy**

B. Role and Responsibility

C. Can Anticorruption Policies Do without Corporate Ethics?

II. Financial Institutions: Controlling Money Laundering & International Criminal Enterprise

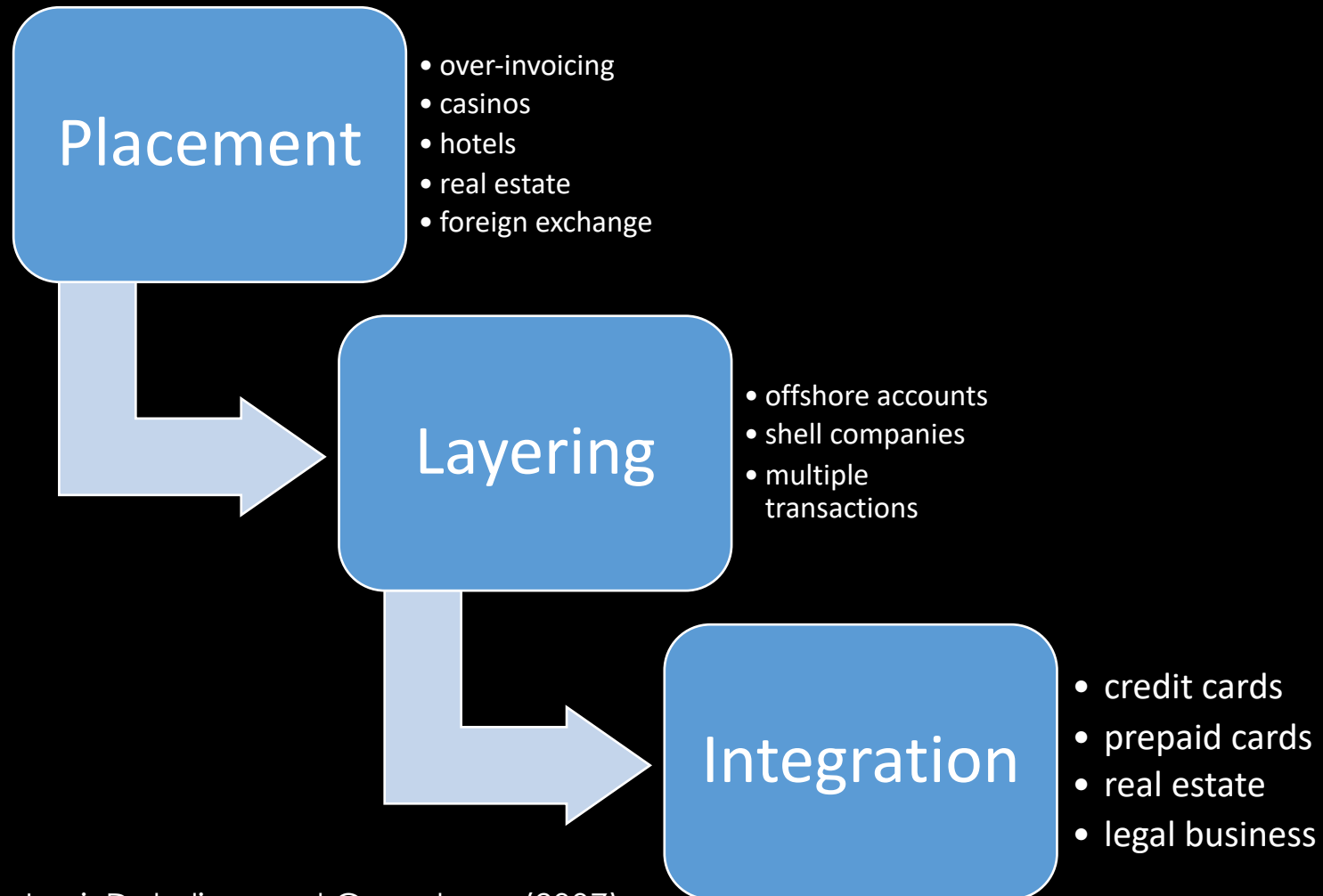
III. Transparency of Beneficial Ownership of Shell Companies and Fixed Assets such as Real Estate

Table 15.1. The twenty largest corporations in the world by sales

Company	Country	Sales (U.S. \$Billions)	Approximate to the 2013 GDP of
Wal-Mart Stores	United States	485.7	Venezuela
Sinopec	China	427.6	Austria
Royal Dutch Shell	Netherlands	420.4	United Arab Emirates
Exxon Mobil	United States	376.2	Colombia
BP	United Kingdom	352.8	South Africa
PetroChina	China	333.4	Denmark
Volkswagen Group	Germany	268.5	Finland
Toyota Motor	Japan	252.2	Greece
Glencore International	Switzerland	220.9	Portugal
Total	France	211.4	Algeria
Apple	United States	199.4	Peru
Samsung Electronics	South Korea	195.9	Romania
Berkshire Hathaway	United States	194.7	Romania
Chevron	United States	191.8	Romania
McKesson	United States	174	Kuwait
Daimler	Germany	172.3	Vietnam
ICBC	China	166.8	Bangladesh
EXOR	Italy	158.3	Bangladesh
Gazprom	Russia	158	Bangladesh
General Motors	United States	155.9	Bangladesh

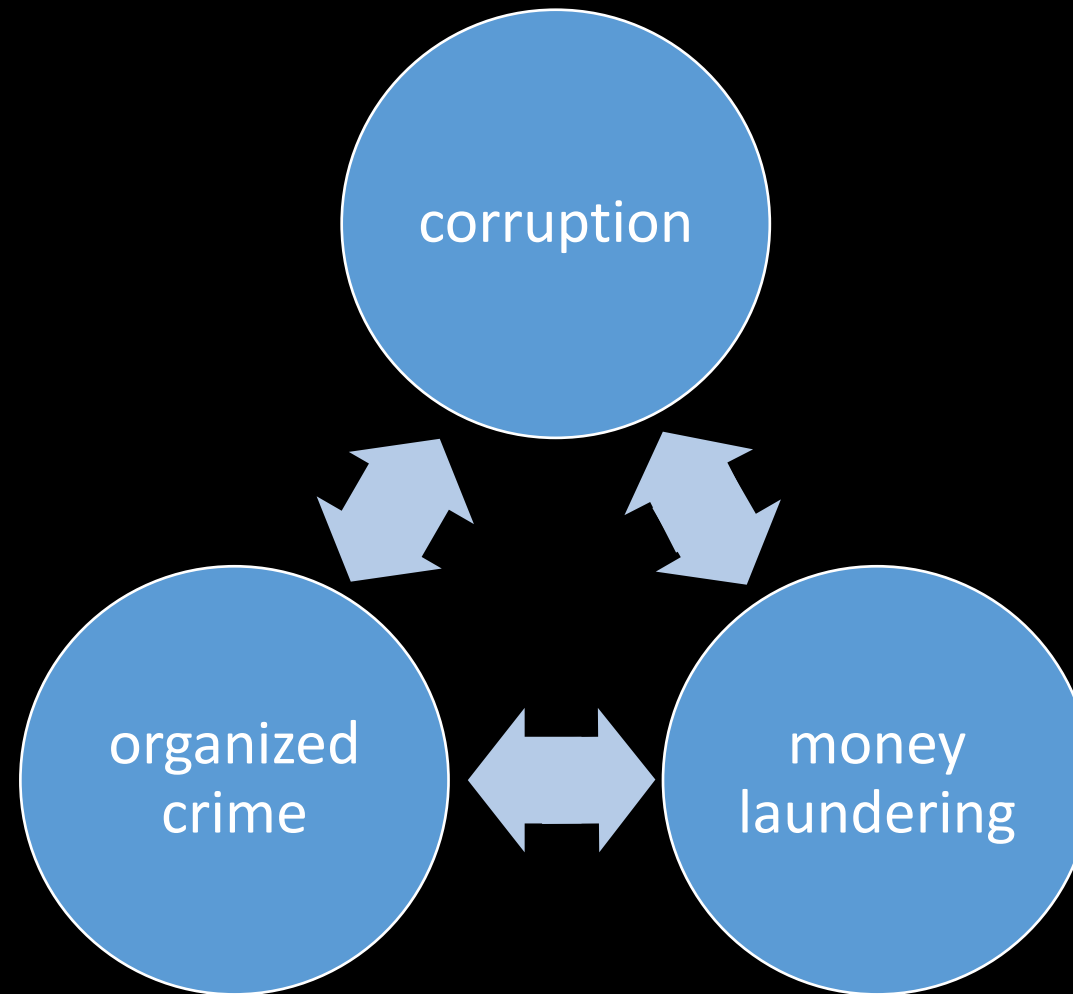
Sources: Forbes, "The World's Biggest Public Companies," <http://www.forbes.com/global2000/list/> and World Bank, "Table 4.2 Structure of Output," *World Development Indicators* 2015, <http://wdi.worldbank.org/table/4.2#>, accessed June 21, 2015.

Figure 9.2. Money laundering flows



Source: Authors, based on Levi, Dakolias, and Greenberg (2007).

Figure 9.3. Corruption, organized crime, and money laundering



THE ROLE OF THE INTERNATIONAL COMMUNITY

- I. Information Provision: Social Science Information, Cross-Country Data, Investigative Reporting
- II. Anticorruption Projects and Programs
- III. International Institutions
 - A. Conventions
 - B. Soft Law and Voluntary Agreements
 - C. International Arbitration and Tribunals
 - D. Who Guards the Guardians? :Internal mechanisms, External mechanisms, Civil society

BASIC CONCLUSIONS

- Corruption is a crime of opportunity and calculation.
- Its incidence can be influenced by cultural differences,
- But fundamentally it depends upon the institutions in which public officials, firms and citizens operate.
- It can also occur between entirely private bodies—FIFA, purchasing agents who take payoffs, etc.
- But its most damaging effects are on government functioning and citizens' trust in the state.