

1 | Introduction

What worries me more than anything among our problems,” said Nigerian President Shehu Shagari in 1982, “is that of moral decadence in our country. There is the problem of bribery, corruption, lack of dedication to duty, dishonesty, and all such vices.”

He was right to worry. About a year later his civilian government was toppled in a military coup, which the generals justified by the need to control corruption. This topic dominated the new regime’s policies, as foretold in its first press conference in early 1984: “It is necessary to reiterate that this new Administration will not tolerate fraud, corruption, squandermania, abuse of public office for self or group, or other such vices that characterized the administration of the past four years.”¹

The Shagari regime had tried. It had proclaimed an “ethical revolution” to combat corruption. The government had included a code of conduct for public servants in the 1979 constitution, and it had established a Code of Conduct Bureau to enforce the “prescribed behaviors.” The leadership had even appointed a cabinet Minister of National Guidance to provide moral leadership against corruption. Yet according to popular accounts, Nigeria had grown even more corrupted, leaving its citizens more alienated from the government and its economy more vulnerable to official venality.

In recent years a remarkable feature of many governmental changes of command has been the promise to do something about the corruption of the previous regime. This is even so when one’s predecessor is an intimate ally. In his first speech upon assuming the leadership of the

1. *Africa Now*, November 1982, 55; *The Guardian*, 19 January 1984. I am indebted to Stephen Riley of North Staffordshire Polytechnic for these citations.

Congress Party after his mother's assassination in late 1984, Rajiv Gandhi put government officials in India on notice that the corrupt and dishonest would no longer be tolerated. His overwhelmingly successful election campaign was partially based on promises to fight corruption. In a change of command a leader may even criticize one's own regime. At the inauguration of his successor in 1982, Mexican President José López Portillo decried corruption and the lamentable fact that Mexican citizens illicitly "have taken more money out of Mexico in the past two years than imperialists ever exploited during the entire history of our country."² The new Mexican president, Miguel de la Madrid, had built his campaign on the need to combat corruption, and among his first acts in office were the promulgation of a new code of conduct for public officials and the creation of a new agency to fight corruption. This phenomenon is not confined to the developing nations. Upon assuming office, leaders ranging from the late Soviet Chairman Andropov to Massachusetts Governor Dukakis called for new measures against corruption.

But what should such measures include? If in Nigeria "ethical revolutions," bureaucratic purges, codes of conduct, and a Ministry of National Guidance were not sufficient, what should or could be done? As policy-makers speak out about the evils of corruption, how should they think about designing and implementing measures to control it?

This book is addressed to government officials, especially in developing countries, who are searching for answers to such questions. With such an intended audience, a cynic might respond, the book will not sell many copies. The prevalence and persistence of corruption are discouraging, for they imply that many policymakers and politicians do not want to control corruption. They may use illicit activities to maintain themselves in power, even at the expense of the nation's development, as has been argued in a careful study of Morocco.³ Of course, corruption has

2. For further details about allegations of corruption during the administration of President López Portillo, see my *Corruption in Mexico* (Cambridge, Mass.: Kennedy School of Government, Harvard University, 1983). According to Jack Anderson, the Central Intelligence Agency estimates that López Portillo himself took between \$1 and \$3 billion out of Mexico during his six years in office (Jack Anderson, "Mexico's Riches Were Devoured by Ex-President," *Washington Post*, 18 June 1984, p. B-12).

3. John Waterbury, "Endemic and Planned Corruption in a Monarchical System," *World Politics* (July 1973): 533-55; reprinted in *Bureaucratic Corruption in Sub-Saharan Africa: Toward a Search for Causes and Consequences*, ed. Monday U. Ekpo (Washington, D.C.: University Press of America, 1979), 355-80.

self-serving aspects to those in power, not only as a means for lining one's pockets but as a mechanism for political dealing, forging linkages, and even inducing political participation, as we shall discuss in the next chapter. There are even occasions where corrupt acts may improve economic or organizational efficiency.

That corruption benefits at least some of those in power makes it a difficult problem to tackle. Nonetheless, many leaders and public managers in developing countries want to do better at controlling fraud, bribery, extortion, embezzlement, tax evasion, kickbacks, and other forms of illicit and corrupt behavior. Some of these concerned leaders are top legislators and chief executives. Others hold responsible positions in police forces, customs agencies, tax bureaus, ministries that distribute goods and services, and regulatory agencies. These people see corruption as threatening their agency's mission and the broader goals of national development. They are not naive: they recognize that corruption can never be completely eradicated, and they do not suppose that corruption has a simple cure, as polio has a vaccine. Still these officials would like to reduce many forms of corruption, and their hope is shared by most ordinary citizens in the developing world.

What exactly is the "corruption" they wish to control? It depends. What is corrupt in one society may not be in another. When historian J. S. Furnivall examined why, according to British standards, colonial Burma was so "corrupt," he concluded that in many cases the Burmese were simply following their customary norms of correct conduct.⁴ Some of the activities most praised in capitalist economies—private investment, trading and retrading, accumulating resources—may be called "corrupt" in a communist system.⁵

What is lawful, and therefore what is unlawful, depends on the country and culture in question. While this valid insight should not be lost, it must not short-circuit our search for effective anticorruption policies. As a matter of fact, the majority of countries and cultures decry most instances of bribery, fraud, extortion, embezzlement, and most

4. J. S. Furnivall, *Colonial Policy and Practice: A Comparative Study of Burma and Netherlands India* (Cambridge, England: Cambridge University Press, 1948).

5. Several examples are cited in J. M. Montias and Susan Rose-Ackerman, "Corruption in a Soviet-type Economy: Theoretical Considerations," in *Economic Welfare and the Economics of Soviet Socialism: Essays in Honor of Abram Bergson*, ed. Steven Rosefielde (Cambridge, England: Cambridge University Press, 1981), 53–83.

forms of kickbacks on public contracts. Over a wide range of “corrupt” activities, there is little argument that they are wrong and socially harmful.

This point becomes clearer when we get down to specific cases. The following examples display some of the kinds of corruption faced by officials in developing countries. Despite the inevitable peculiarities of their specific contexts, these examples reveal general problems and—as I will try to show in later chapters—general lessons about controlling corruption:

□ *Tax departments.* Place yourself in the Philippines in 1975. Imagine that you have just been appointed to head the Bureau of Internal Revenue (BIR), which is notorious for corruption. Among your major problems is *arreglo*, the practice by which tax examiners take bribes to reduce what taxpayers owe the government.

The opportunity for collusion presents itself in the review of both income and expenditures. . . . For example, a taxpayer reports a gross income of P100,000 [pesos] but did not report P500,000 which could be gains from capital asset transactions. Extraneous income for activities not directly related to the business or regular activity of a taxpayer cannot be traced easily. However, an enterprising examiner usually has other sources of information. He can conduct investigations and research to get documentary evidence of the unreported income. He accumulates this evidence and confronts the taxpayer. The negotiations begin. If all goes well, the agent may refrain from reporting the discovery of understated income for an “*arreglo*.”⁶

You also find that positions within the BIR are being bought and sold; there is embezzlement; fraudulent tax stamps are being issued; and some tax examiners are extorting money from innocent taxpayers unwilling to complain through a costly process of litigation. Moreover, you are working in a national regime noted for its corruption and cronyism. How would you think about designing and implementing countermeasures? In Chapters 2 and 3 we discuss how one particularly able tax commissioner fought corruption in the Philippines Bureau of Internal Revenue.

□ *Police.* Put yourself in Hong Kong in the early 1970s. Corruption,

6. Leonor Magtolis-Briones, “Negative Bureaucratic Behavior and Development: The Bureau of Internal Revenue” (Paper prepared for the Seminar on Bureaucratic Behavior and Development, College of Public Administration, University of the Philippines, Manila, 3 October 1977).

especially in the police force, has grown so widespread that the new governor appoints a commission to recommend what could be done. The commission finds evidence of deeply rooted, systematic corruption.

The worst forms are what is described by the Anti-Corruption Office as “syndicated” corruption, that is to say a whole group of officers involved in the collection and distribution of money. For example, it is said that groups of police officers are involved in the collection of payments from pak pai drivers, the keepers of gambling schools and other vice establishments. Frequently the “collection” is far more than corruption in the true sense. It is plain extortion accompanied by veiled threats of violence at the hands of triad gangsters. The “collections” seldom take the form of direct payments to any numbers of the corrupt group of officers. Almost invariably there is the middleman. He is referred to euphemistically as “the caterer.” He receives the money: and in some cases, it is said that vast sums are involved.⁷

Many observers believed the Chinese culture in Hong Kong, with its tradition of using public position for private gains and its widespread practices of “gift-giving” and “commissions,” provided a fertile ground for corruption. If you were the governor of Hong Kong, what would you do to get police corruption under control? The governor’s answer and the ensuing success story of fighting corruption are the subjects of Chapter 4.

□ *Customs agencies.* In many countries customs bureaus are filled with corruption. Illegal imports are permitted in exchange for a bribe. Legal imports are taxed at lower-than-legal rates, again for a bribe. If you were in charge of a customs bureau, how would you think about reducing such activities? Chapter 5 examines Singapore’s successful policies for overcoming corruption in its Customs and Excise Department.

□ *Procurement.* Imagine you are a top official in the U.S. Army procurement agency working in Korea in the mid-1970s. You are responsible for hundreds of local procurement contracts every year. You have evidence that Korean contractors are colluding on their bids, leading to exorbitant prices. You have discovered evidence that contractors are bribing your own employees in exchange for altering your agency’s supposedly independent cost estimates. What would you do about these problems? The story of the U.S. Army’s efforts to overcome corruption in procurement is analyzed in Chapter 6.

7. Excerpt from *Second Report of the Commission of Enquiry Under Sir Alastair Blair-Kerr*, Hong Kong, 1973.

□ *Food distribution.* You have just assumed command of the regional office of the government agency for distribution of wheat and sugar in a poor province threatened by rebel forces. Your organization is full of corruption. Some officers accept kickbacks from local farmers in exchange for letting the farmers sell half of their wheat on the black market. Other officers steal wheat from your government warehouses; still others substitute bad wheat for good, selling the good for personal profit. Your officers are illicitly issuing ration cards to such an extent that there are almost twice as many cards in circulation as there are eligible citizens. How do you begin to address these problems? The true story of an officer we shall call Rafiq Shabir, in a province we shall call Ruritania, is told in Chapter 7.

The literature on international development is surprisingly silent about such problems. One seldom encounters a practically oriented examination of anticorruption policies. Yet corruption is an issue of first-order importance. Illicit practices are widespread in the developing countries. Obviously it is difficult to generalize, but corruption by public officials probably constitutes one of the three or four most harmful problems facing Third World governments. The harm is hard to measure; as we shall see, it is economic as well as political, moral as well as material. Typical is one Asian country's survey that found graft and corruption to be the major cause of "low respect" for government and the second greatest "national problem."⁸ Equally typical, if less statistically precise, are remarks like the following, which were spoken by a poor farmer in Bangladesh who had been victimized by a corrupt permit system of sugar procurement:

To most of the farmers, getting a permit in time is something like getting the moon from the sky, because of the fact that the issuance of permits in a fair way is beyond their imagination. But why? The answer is known to all. Nepotism, trickery, and bribery have become contagious diseases. Stinking, offensive, and loathesome things have become a commonplace influence at the [procurement] center.⁹

8. Harvey Averch et al., *The Matrix of Policy in the Philippines* (Princeton: Princeton University Press, 1971).

9. Reported in Bernard Schaffer, "Access: A Theory of Corruption and Bureaucracy" (Paper presented at the International Political Science Association, Research Committee on Political Finance and Political Corruption, Oxford, England, March 1984), 19.

Box 1 **Corruption Through History**

One reason why corruption is understudied as a policy issue may be the nagging sense that there is nothing to be done about it. After all, corruption is as old as government itself. Writing some 2300 years ago, the Brahman Prime Minister of Chandragupta listed “at least forty ways” of embezzling money from the government. In ancient China, officials were given an extra allowance called *Yang-lien*, meaning “nourish incorruptness.” Apparently such nourishment often failed to achieve that purpose. Writing in the fourteenth century, Abdul Rahman Ibn Khaldun said that “the root cause of corruption” was “the passion for luxurious living within the ruling group. It was to meet the expenditure on luxury that the ruling group resorted to corrupt dealing.” Plato talked about bribery in *The Laws*: “The servants of the nation are to render their services without any taking of presents. . . . To form your judgment and then abide by it is no easy task, and ‘tis a man’s surest course to give loyal obedience to the law which commands, ‘Do no service for a present.’”

Like illness, corruption will always be with us. But as this sad fact does not keep us from attempting to reduce disease, neither should it paralyze efforts to reduce corruption. Corruption involves questions of degree. Countries and agencies have more and less corruption, and various kinds of illicit behavior are more and less harmful. We can do better in controlling corruption.

India: Robert C. Tilman, “Emergence of Black-Market Bureaucracy: Administration, Development, and Corruption in The New States,” in *Bureaucratic Corruption in Sub-Saharan Africa: Toward a Search for Causes and Consequences*, ed. Monday U. Ekpo (Washington, D.C.: University Press of America, 1979), 352; China and Ibn Khaldun: Syed Hussein Alatas, *The Sociology of Corruption: The Nature, Function, Causes, and Prevention of Corruption* (Singapore: Times Books, 1980), 9, 77; Plato: Plato, *The Laws*, ed. Edith Hamilton and Huntington Cairns (New York: Pantheon, 1961), bk. 12, sec. d.

Corruption is devouring the economies and polities of many Third World nations. And yet students of development policy tend to ignore it.

That I must immediately restate that such problems are not confined to the developing countries is itself revealing. Corruption in the poor nations has often attracted the wrong sort of Western attention—at the

Box 2 **Are Some Peoples More Corrupt Than Others?**

When Europeans “discovered” the new world of Asia, Africa, and America, one of their typical reactions was to point out apparent venality and lawlessness. This was not always the case: Leibniz, for example, believed that “the barbarians surpass us . . . even so far as the soul itself is concerned. . . . A wicked European is worse than a savage. He puts the finishing touches on evil.” But even in more recent times writers have argued that non-Western cultures or peoples are more prone to the venal pursuit of private gain, even at the expense of public duty, despite what seem to be strict, traditional codes of behavior. Max Weber wrote:

The universal reign of absolute unscrupulousness in the pursuit of selfish interests by the making of money has been a specific characteristic of precisely those countries whose bourgeois-capitalistic development, measured according to Occidental standards, has remained backward. . . . Absolute and conscious ruthlessness in acquisition has often stood in the closest connection with the strict conformity to tradition.

Weber is reluctant to attribute causation, but he is “inclined to think the importance of biological heredity very great.” A distinguished contemporary author has argued that, in Latin America, corruption tends to be more prevalent in “the mulatto countries,” those with significant proportions of blacks, but he attributes this not to race per se but the lower degree of social stratification in such countries.

To other observers, racial and cultural factors are not primary causes; they note that corruption has been prevalent at various times in all cultures. We might cite histories of the selling of offices in Europe, widespread corruption in Elizabethan England, or—as mentioned in the text—the present-day corruption scandals in Europe, Japan, and the United States. The real question for policymaking purposes is what to do about various forms of corrupt behavior, wherever they occur. When searching for answers, we should take cultural and other variables into account, while steadfastly resisting the temptations of cultural fatalism or insidious racialism.

New world: P. J. Marshall and Glyndwyr Williams, *The Great Map of Mankind: Perceptions of New Worlds in the Age of Enlightenment* (Cambridge, Mass.: Harvard University Press, 1983). Leibniz: *New Essays Concerning Human Understanding*, 1:20; cited in Leon Poliakov, *The Aryan Myth: A History of Racism*

and Nationalist Ideas in Europe (New York: Basic Books, 1974), 146. Weber: Max Weber, *The Protestant Ethic and the Spirit of Capitalism* [1904–5], trans. Talcott Parsons (New York: Charles Scribner's Sons, 1958), 57, 58; the remark on heredity is from p. 31. Selling offices: K. Swart, *Sale of Public Office in the Seventeenth Century* (The Hague: Martinus Nijhoff, 1949). Elizabethan England: Joel Hurstfield, *Freedom, Corruption and Government in Elizabethan England* (Cambridge, Mass.: Harvard University Press, 1973). Mulatto countries: Samuel P. Huntington, "Modernization and Corruption," in *Bureaucratic Corruption in Sub-Saharan Africa: Toward a Search for Causes and Consequences*, ed. Monday U. Ekpo (Washington, D.C.: University Press of America, 1979), 318.

same time that for reasons approaching embarrassment, many serious students of development policy ignore corruption, or dismiss it with a cough and a rolling of the eyes. Early writers on "the backward nations" and colonies sometimes emphasized corruption as a sign of the moral weakness, even inferiority, of the "natives." These moralists included Western and colonialist authors, but they were not the only ones; the ethical condemnation of governmental corruption has a long pedigree in the Islamic world, China, India, and other civilizations. Though the West can claim no monopoly on the abhorrence of bribery, nepotism, and official venality, some Western authors did use allegations of corruption as a blunt instrument. In some cases they mistakenly classified as corrupt the manifestations of different mores and modes of socioeconomic organization; in other cases they used corruption as an excuse for colonial occupation. Later authors have condemned the parochial and self-serving perspective of such Western writers as emblematic of imperialist thinking. Therefore, partly to escape being labeled imperialists, many present-day scholars have simply avoided sensitive topics like corruption. Nobel prize-winning economist Gunnar Myrdal called this an example of "diplomacy in research." "The taboo on research on corruption is, indeed, one of the most flagrant examples of this general bias . . . [which] is basically to be explained in terms of a certain condescension on the part of Westerners."¹⁰ Corruption expert Stanislav Andreski argued that "the conspiracy of silence on the part of the great

10. Gunnar Myrdal, "Corruption as a Hindrance to Modernization in South Asia," in *Political Corruption: Readings in Comparative Analysis*, ed. Arnold J. Heidenheimer (New York: Holt, Rinehart & Winston, 1970), 230.

majority of European intellectuals, due to inverted racialism, prevents the dissemination of knowledge about this phenomenon.”¹¹

My interest is not in moral judgments about illicit activities, nor do I wish to argue that corruption is the province of particular cultures or regions. Not so many years ago, corruption flourished in the countries we now call “developed” – and, indeed, there is evidence that some forms of corrupt behavior are today on the rise in the most economically and politically “advanced” nations.¹² Corruption scandals in recent years have led to changes at the highest levels of the governments of Holland, West Germany, Great Britain, Israel, Japan, and the United States. In Massachusetts, a recent inquiry revealed that 76 percent of a sample of public buildings manifested at least one “structural defect” that could not have occurred without corrupt deals by building inspectors.¹³

But the situation is particularly worrisome in the developing countries – some of which, of course, have fewer incidents of corruption than some developed nations. As a group the developing countries are particularly vulnerable to the harms of governmental corruption. The public sector plays such a large and central role in the society, usually encompassing economic activities left to private firms in many nations of the industrialized West. Often there are few or no alternatives to the party or ruler in power. Thus, in the realms of both economics and politics the citizen afflicted by corruption may have few alternatives to which to turn. Poor countries are, of course, less able to afford a given level of corruption than richer countries; also, although data are necessarily sketchy on such questions and some experts may disagree, corrupt activities are more widespread – and more systematically embedded – in many governments of the developing world than in the West.

I will not spend much time on such issues of more or less and here or there, however, because they may lead us away from the neglected questions of policy upon which I wish to focus. As an analogy, consider a

11. Stanislav Andreski, “Kleptocracy as a System of Government in Africa,” in Ekpo, *Bureaucratic Corruption*, 276.

12. See, for example, Simcha B. Werner, “New Directions in the Study of Administrative Corruption,” *Public Administration Review* 43 (March–April 1983): 146–54, and the references therein.

13. Cited in Robert E. Richardson, “A Proactive Model for Detecting Political Corruption: As Applied to the Purchase of Goods and Services in Middlesex County, Massachusetts,” unpublished paper, Harvard Law School, May 1983.

Box 3 Bribery Is Universally Condemned

Legal scholar John T. Noonan, Jr. shows that, while bribery is as old as government itself, this longevity is not because bribery is approved in some cultures. Among his conclusions is the following:

Bribery is universally shameful. Not a country in the world which does not treat bribery as criminal on its lawbooks. There are some laws such as those on gambling that are constantly broken without any particular sense of shame attaching to the offense. Bribery law is not among them. In no country do bribetakers speak publicly of their bribes, or bribegivers announce the bribes they pay. No newspaper lists them. No one advertises that he can arrange a bribe. No one is honored precisely because he is a big briber or a big bribee. . . . Not merely the criminal law—for the transaction could have happened long ago and prosecution be barred by time—but an innate fear of being considered disgusting restrains briber and bribee from parading their exchange. Significantly, it is often the Westerner with ethnocentric prejudice who supposes that a modern Asian or African society does not regard the act of bribery as shameful in the way Westerners regard it. . . .

Shame and hypocrisy in the use of language are vice's tribute to virtue. Shame may be culturally conditioned. Shame so strong and so general is acknowledgment that there is something objectionable in the conduct that goes beyond the impolite and the merely illegal. Shame does not conclusively establish but it points to the moral nature of the matter.

John T. Noonan, Jr., *Bribes* (New York: Macmillan, 1984), 702–3.

physician treating a particular patient or a public health officer responsible for a particular state. For their purposes, it is not immediately pertinent to know the worldwide incidence of heart disease, or whether heart disease is a greater health menace in one country or continent than another.

John T. Noonan's masterful work on bribery has demonstrated that corruption is at its heart an ethical problem—and has been so for recorded history. Nonetheless, I will limit myself in this book to prescription in a different sense. I will try to avoid moral judgments of particular countries or cultures or individuals. Political scientist James Q. Wilson once wrote, "The problem with corruption is that it tends to become the Problem of Corruption. Moral issues usually obscure practical issues,

even where the moral question is a relatively small one and the practical matter is very great.”¹⁴ At least with regard to anticorruption policies in developing countries, I tend to share Wilson’s warning. And so I will leave to Noonan and others the important work of analyzing the moral, philosophical, theological, and cultural sides of corrupt behavior. I wish instead to explore illicit activities as problems that can be incompletely but helpfully analyzed with the tools of the economist and the manager.

I will therefore bracket out many important questions and focus on others, with no illusions of providing a complete account. How should government officials design and implement appropriate anticorruption policies? How should they think about the costs of various kinds of corruption? In what ways can they assess the effectiveness and costs of various countermeasures? What lessons can be drawn from successful efforts to control corruption? And what might all this mean for the field of international development itself?

14. James Q. Wilson, “Corruption Is Not Always Scandalous,” in *Theft of the City: Readings on Corruption in America*, ed. J. A. Gardiner and D. J. Olson (Bloomington: Indiana University Press, 1968), 29.