



What is Wrong with Corruption?

CORRUPTION

Peter Bowal and Christopher Bowal

I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. ... Corporations have been enthroned, an era of corruption in high places will follow . . .

— Abraham Lincoln

quoted in Jack London's *The Iron Heel*

The first sign of corruption in a society ... is that the end justifies the means.

— Georges Bernanos,

“Why Freedom?” The Last Essays of Georges Bernanos (1888-1948)

Introduction

A friend from Eastern Europe recently wrote to lament what he called “the most expensive highway in the world” being built around his city at the cost of C\$70 million per kilometer. He added, “In the Alps, where the tunnels need to be drilled through the mountains or in Florida, where the muddy land has to be drained and hardened, it costs half of that amount. In nearby Germany, where conditions are the same as here, a kilometer of highway costs only one-fifth of what it costs in my country.”

“Moreover”, he continued, “these most expensive highways need to be repaired shortly after construction because the contractors use inferior materials although they charge for the most expensive, high quality materials. Yet, the quality inspectors sign off on the road construction, confirming that the highways were built flawlessly according to specifications. Obviously, they have greasy palms.”

At the moment we are writing this article, we hear reports of an insider ticket scandal with the London Olympic Games, fraudulent voting in the hard-fought Egyptian election, dirty money in Quebec construction projects, and a deep culture of bribery implicating Wal-Mart in Mexico. We are still recovering from a global economic and financial collapse that many claim was the product of corruption.

What is corruption and what harm does it cause?

Corruption Defined

Corruption has been around for as long as mankind. It has so many faces and variations that it is hard to define completely, though not hard to detect. It is impossible to quantify because it is concealed and illegal. Politicians, government bureaucrats and law enforcement officials may participate in it.

Corruption is the immoral abuse of power by someone for unauthorized personal gain. An example is insider trading. The gain is usually economic and usually private. Political corruption involves abuse of public office.

It is useful to point out how broad the concept of corruption may be defined. Every time someone lies or cheats, the result will not always be financial and personal. For example, a police officer might fabricate evidence to obtain a conviction, which yields neither a financial nor private gain. That officer is corrupting the judicial process, not economic relations. Likewise, corrupt political power holders may infringe basic human rights which often may lead to increasing poverty. Human rights violations corrupt the political and judicial processes. Corruption includes other behaviours of those in authority, such as bribery, rule-breaking, lying and making false statements, stealing, conflict of interest, embezzlement, violating confidentiality, selective enforcement of laws or rules, cheating, fraud, nepotism and other personal favours, which usually is attended by a reciprocal exchange that returns the favour.

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Corruption is fundamentally immoral, involving deception, infringing a moral right to property, or violating the principle of impartiality. It is also usually illegal. Where it transpires in the economic sphere, there is some ultimate expectation and realization of financial gain. Where it is found in the social or political sphere, the vindication is not economic, but rather relates to status and power.

Not all immoral or illegal acts can be classified as corruption. Assaults and drunk driving, for example, are not acts of corruption although they are both immoral acts and crimes.

Public corruption takes place in the broad domain of government activity regulating private parties. *Private corruption* involves private parties abusing their power relations with other private parties, such as is visited on individuals and businesses by organized crime. We deal only with public corruption in this article.

Causes of Corruption

Corruption is facilitated by the existence of some form of monopoly power supplemented by broad exercise of discretion with no corresponding accountability. Monopolies in all forms present corrupting opportunities. Sometimes these monopolies are natural, such as exclusive possession of an important natural resource. Other times monopolies are artificially created by legislation, government practice or private conspiracies. Some 240 years ago, Adam Smith in his classic *The Wealth of Nations*, wrote: “[P]eople of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public.”

Government may mandate a registration or administrative process where only one person is authorized to grant a licence, give an approval, or conduct an investigation and impose sanctions.

With even a tiny monopoly, one can demand a premium, a kickback or bribe to confer a basic government service. Every time you are stopped by the police or a border guard or ask the government clerk at the counter for a licence or approval to do something important, the opportunity for corruption arises.

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In the first century AD, Roman historian **Tacitus** noted that, “In a state where corruption abounds, laws must be very numerous.” While this may strike one as strange, it is true in the sense that government intervention and regulation in the economy creates monopoly power and grants discretion to government officials who can be tempted to accept bribes privately in return for favourable discretion and rule-bending.

Trade restrictions, subsidies that can be appropriated by unintended industries and firms, and price and exchange rate controls all create incentives for private deals with bureaucrats whose co-operation can be bought.

Plenary discretion is present when an official or manager has sole ability to make any decision or confer any benefit. This embraces both issuing discretion, so that someone pays a bribe for permission

to be given, and processing discretion, so that someone is allowed to skip steps, expedite shipments, disregard safety regulations, etc.

Personal accountability remains one of the strongest deterrents to corruption. If it is highly likely that significant negative consequences, such as loss of one's career, criminal conviction, imprisonment and harsh social stigmatization will quickly ensue from accepting a bribe, the temptation to corrupt will be moderated. A low probability that the corruption will be discovered or prosecuted, or that there will be effective consequences, will liberate officials to corrupt at the personal level.

Several other factors assist corruption at a social or institutional level. Low wages for government officials, and especially for police and judges, contribute to the temptation for them to privately supplement their incomes on the side. In less corrupt western societies, the wages of politicians, civil servants, police and judges are generally very high, and often set and increased by processes apart from government, to minimize the perceived need to demand and accept bribes in order to support one's family.

Countries that are especially rich in high-value natural resources, such as oil, minerals and exotic timber, usually impose extra regulation on the extraction and sale of these commodities. Since the demand is high for these products, politicians and officials stand in a position to do public favours in return for private gain.

Some cultures have simply survived on a baseline of corruption for generations and it remains deeply entrenched in their psyches. To a point, corruption is the only way of life they know and it is scarcely seen as immoral at all. Societies that are divided along ethnic and linguistic lines are sometimes perceived to be more corrupt.

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People governed by totalitarian regimes may view authority as a constant force they must defeat for self-preservation. There is still a saying in Eastern Europe that, "If you are not stealing from the government, you are stealing from your family." Also in cultures where family ties are strong, officials are more likely to benefit their families at the expense of fair-handed government administration.

Impacts of Corruption

Corruption leads to *human suffering*. It injures every person who depends on the good faith and integrity of officials who have been entrusted with authority. Transparency International says that petty corruption in India's government hospitals involves counterfeit drugs, lack of medicines and physicians, unnecessary diagnostic tests, channeling patients to a certain diagnostic centres, and prescribing excess drugs – all to the tune of hundreds of millions of dollars each year.

Apart from the waste of limited public health care expenditures, the cost can also be measured in human suffering. Physicians and officials put the chance of extra income above patients' care and safety. Those in real need of medical care do not get it, drug-resistant diseases abound and counterfeit drugs kill people and hopes of effective treatment. The President of the World Bank once referred to corruption as itself a "cancer" which can take on more than one meaning.

Corruption *stifles investment and economic growth*. In 1997, the World Bank found that the higher the corruption in a country, the lower the economic development. Corruption destroys public and business trust in government. Companies view bribes as an extra expense of doing business, as well as a legal risk. This dissuades them from investing. When bribery is necessary to get things done, legitimate non-bribing companies are hurt by increasing delay in the system while bribery-enhanced requests get top priority.

Food aid donated to a famine-stricken region that falls into the hands of corrupt officials for their diversion, sale and use is another example of how corruption can kill people. If foreign donors see that their funds to developing and desperate nations are not used for their intended purpose, they may be more reluctant to give aid in the future.

Corruption distorts government decision-making by enticing officials to make decisions and spend government resources less on the public well-being than on the opportunity to harvest bribes.

Corruption can become a growth industry. If bribery is more lucrative than honest, productive work, people may forego education and skills training and choose instead to engage in corruption. At the same time, they will have to pour much time and effort into managing and collecting bribes without being detected.

Corrupt governments and societies become very *inefficient*. When corruption is related to tax-evasion, overall tax revenue is reduced. If the public treasury is denied the fruits of the nation's resources and economic outputs, essential government services like health care, transportation infrastructure, law and order, and education are not realized. Disease, famine, crime and illiteracy result.

Social injustice is another product of corruption, which upsets the concept of merit-based success. Paying a bribe means you do not have to wait your turn or win on merit. The truly meritorious will lose out for reasons unrelated to virtue because corruption hurts those who refuse or cannot engage in it. Paying money to leapfrog up the organ-transplant waiting list hurts those who wait normally. The gap between rich and poor will grow. This 'hurting the underdog' contributes to our sense of injustice and inequality in the system.

Jobs will be distributed by corruptors according to bribes and not according to merit. The most qualified individuals may remain poor and unemployed, depriving society of the best knowledge and skill of the most qualified to serve in government. Less qualified people, and decisions made on the basis of bribes and other forms of corruption will lead to mismanagement and sub-optimal administration. Buildings will collapse, poor quality products will be produced, and money will be squandered. For example, in 2008 in China, melamine, a chemical used to make plastic, was added

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to milk and infant formula to make it appear more healthy. Several babies died from the tainted milk, a thousand were hospitalized and hundreds of thousands were affected. Several local government officials and inspectors were implicated. Chinese dairy products were banned in many countries. This incident was reminiscent of a few years before when 13 babies died from malnutrition as a result of consuming diluted milk.

Measures to Reduce Corruption

Reducing government intervention may reduce corruption. It has been shown that liberal, unregulated free markets suffer less corruption. Free trade, for example, means there are fewer government hurdles and less discretion for dishonest officials to exploit.

In some ways, government regulation can reduce corruption. It can develop a system of transparency by granting easy access to records and information on projects and government spending (freedom of information legislation) and protect from retaliation those who report corruption to authorities (whistleblower protection). As [Bess Myerson](#) said, “The accomplice to the crime of corruption is frequently our own indifference.” Government can make procurement and project management processes competitive and transparent and assiduously prosecute offenders.

Enactment and enforcement of strong anti-corruption laws will also reduce corruption. Some examples:

- Canada has its *Corruption of Foreign Public Officials Act* [SC 1998, c 34] and a recently upgraded federal anti-corruption law enforcement and prosecution unit.
- The United States is known for its *Foreign Corrupt Practices Act* (1977).
- The recent British *Bribery Act 2010* specifically requires boards of all U.K. companies to take “all reasonable steps” to embed effective cultures and behaviours to mitigate bribery, corruption and fraud. Failure to do so may end in prosecutions, significant fines and imprisonment for senior managers who do not take these steps.
- At the regional and global levels, the Council of Europe has its *Criminal Law Convention on Corruption* (1999),
- the OECD has enacted its *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* (1997), and
- the United Nations has a *Convention Against Corruption* (2003).

Ultimately, anti-corruption law and its enforcement can only do so much to break the back of corruption. Culture, attitudes, human greed and poverty are powerful forces that are hard to change.

It will always be hard to detect corruption and enforce domestic laws and corporate policies on overseas economic activity. International co-operation is needed. Ultimately, anti-corruption law and its enforcement can only do so much to break the back of corruption. Culture, attitudes, human greed and poverty are powerful forces that are hard to change.

Conclusion

Several independent agencies have rated perceptions of corruption around the world and their results are consistent. Canada ranks as 'very clean', in the top ten of almost 200 countries in annual surveys, and ahead of the United States and most European countries. Somalia, North Korea and Afghanistan rank at the bottom. Culture and political systems correlate with corruption. A Russian is reported to have once observed, "Every culture has its distinctive and normal system of government. Yours is democracy, moderated by corruption. Ours is totalitarianism, moderated by assassination."

Yet this does not give reason for Canadians to crow or relax. Two class action lawsuits were filed last month on behalf of investors against Montreal-based SNC-Lavalin and its corporate directors. The RCMP continues to investigate allegations that this company's former CEO authorized some \$56 million of improper payments to obtain contracts. The company has lost 30% of its capitalization since the bad news broke.

Today, companies need to develop and implement a clear anti-corruption and compliance program that is well understood throughout the organization. Something as basic as travel and entertainment policies need to be communicated and reviewed. A strong anti-corruption program calls for adequate senior management support, resources and oversight. There must be policies, training and internal controls. The pinch-points for bribes overseas can often be predicted and companies should consider building in processes to deal with these problems. Otherwise, the news stories, market responses and legal liabilities associated with corruption might be their own.

"Corruption", [Edward Gibbon](#) said, "is the most infallible symptom of constitutional liberty." History proves that it is in our human nature and in our social and institutional nature. It cannot be eliminated but it can be managed and reduced.

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