Almost four decades ago, the political scientist Colin Leys asked “what is the problem about corruption?” 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.”

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, and incentives to invest, economic and political development are crippled. Even Huntington pointed out that “a society in which corruption is already pervasive, however, is unlikely to be improved by more corruption.”

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

We have progressed to a second stage of anticorruption measures, which adds systems analysis to consciousness raising. 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.

We now need to learn and do more in a third stage of anticorruption activities. 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? 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.”

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.

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 pursuits 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?
Consider an imperfect but suggestive analogy. Corruption is like a disease pandemic. It is a problem in every country, and especially prevalent and damaging in a few. The social consequences are at many levels, including economic. Finally, the contagious disease is difficult to combat, and it may adapt itself to efforts to defeat it.

What might be called the first stage of reacting to either corruption or disease is a raising of consciousness. In a number of recent 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. 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 years ago. The “line of escape,” he wrote, is “a nucleus of ‘puritans’ applying pressure for a code of ethics.”) 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 disease 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.

### Stages two and three in the fight against corruption

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### Analogy of disease

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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 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 these actors to subvert systemic corruption.

**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 our new book, *Corrupt Cities*, 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 corruption by elites 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.” 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.”

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 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.

**Reference:**