

CORRUPTION AND GLOBAL PUBLIC GOODS

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Attitudes toward corruption changed dramatically in the 1990s, shifting from broad acceptance—and even a perception that corruption can promote economic growth by “greasing the wheels of commerce”—to almost universal abhorrence. A growing body of literature suggests that high levels of corruption are associated with poverty, inequality, reduced investment, low foreign direct investment, and weak economic performance (Lambsdorff 1999). Moreover, many who once thought that corruption could not be controlled now believe that it can be attenuated and that it deserves urgent attention.

This chapter explores the intersection between corruption and public goods. Corruption is an important part of public goods analysis, and the public goods framework helps in understanding some of the difficulties in controlling corruption. The relationship between corruption and public goods arises directly from the definition of corruption as “the misuse of entrusted power for private benefit” (Transparency International 2000, p. 2). The provision of public goods generally requires the exercise of entrusted power by the state, creating the potential for corruption.

The standard methods used to provide public goods at the national level do not apply in the international arena. Governments use coercion to raise the resources needed to provide chosen public goods and eliminate free riding. But at the international level there is little supranational authority that can effectively translate preferences into the provision of global public goods. Instead, global public goods are typically provided as a result of negotiated voluntary contributions by a group of nations sharing an encompassing interest.¹

Martin (1999, p. 52) emphasizes that theories of international cooperation rely heavily on the assumption that nation-states primarily act in their self-interest, casting many interactions as prisoner’s dilemmas. Cooperation among states will last only if it is somewhat self-enforcing—through repeated games, for example. Overcoming the prisoner’s dilemma and limiting free riding is even more difficult in the international arena than in the national context, and the likelihood of underprovision that much greater. Moreover, as Kaul, Grunberg, and Stern (1999, p. 8) note, “public goods often face a double jeopardy: market failure com-

pounded by government failure.” Corruption is a major source of government failure.

Although corruption control is insufficient for the effective provision of global public goods, it is crucial—affecting both the political economy of global public goods and their production and delivery. The reason is that corruption distorts decisionmaking on which global public goods to produce and at what level, raising the cost of providing them. Thus corruption control is an important input into the production of other critical public goods, including sound economic management, well-functioning markets, and reliable human security. But corruption control is itself a public good, because its benefits—lowering transaction costs and facilitating more effective decisionmaking by economic agents—are largely nonrival and nonexcludable. The chapter explores the difficult incentives surrounding the production of the global public good of corruption control. It also provides a case study showing how an international civil society organization, Transparency International, has helped build coalitions between governments and private corporations to control corruption in the international arena.

CORRUPTION AS A HINDRANCE TO THE PROVISION OF GLOBAL PUBLIC GOODS

The production of global public goods involves local, national, regional, and international inputs and participation by governments, civil society, and private actors. The consumption of public goods is to varying degrees nonrival and nonexcludable at the national, regional, and global levels (Kaul, Grunberg, and Stern 1999; Sandler 1999). Despite this wide range of inputs, actors, and consumption attributes, the provision of global public goods generally involves the following steps:

- Recognizing a need.
- Identifying stakeholders.
- Negotiating levels of provision and burden sharing.
- Taking action.
- Monitoring activity.

This process obtains whether the global public good is provided by a private individual, a firm, a civil society organization, a government, a group of governments through a multilateral agreement, or an international organization.

Each of these steps is vulnerable to corruption. For example, in international organizations and national governments, where most global public goods are produced, corruption gums the mechanism for aggregating individual preferences into collective action. If policymakers have managed to identify both the appropriate type and amount of public goods to be provided, corruption raises the cost of provision and undermines delivery. If policymakers have made an error in

judgment, corruption offers incentives to continue along the same path rather than make adjustments. And if policymakers are pursuing their private interests at the expense of the public interest, corruption again induces bad policies and leads to bad outcomes.

Thus controlling corruption is essential for the effective provision of global public goods of the right sort at the right level. Closer examination of corruption in international organizations and national governments shows how it undermines the provision of global public goods.

The impact of corruption in international organizations

Global public goods are often organized or provided through international organizations. This approach is used because when national governments are acting alone in their self-interest, they often cannot internalize the full benefits—nor share the costs—of contributing to the goods' provision. But while corruption appears to be a bigger problem in national governments, it has also been discovered in international organizations—directly impairing their ability to provide and deliver global public goods.

A widely publicized case of apparent corruption in setting an international agenda and shaping global public goods involves the International Whaling Commission. Established to provide the global public good of sustainable management and conservation of whales (and other cetaceans), the commission is responsible for generating data on whale stocks and population trends and for coordinating national whaling policies. On 19 July 2001, in an article titled “Bribery on Whaling Admitted by Japan,” the *Daily Telegraph* (London) reported that:

Japan has admitted for the first time that it bribed poor nations to support its pro-whaling stance. Anti-whalers have alleged for years that Japan uses its aid budget to persuade other nations to vote for a return to commercial whaling. In an interview with the Australian Broadcasting Corporation, Maseyuki Komatsu, the head of Japan's fishery agency, confirmed the suspicions. “Japan does not have military powers. Our means are diplomatic communication and overseas development aid,” he said. “To get appreciation of Japan's position it is natural we resort to those two major tools. I think there is nothing wrong with that.”

At the 2000 International Whaling Commission conference in Adelaide, Australia, six Caribbean nations voted with Japan on almost every issue, including blocking an Australian proposal for a whale sanctuary in the South Pacific. Dominica's environment minister, Atherton Martin, subsequently resigned “in protest of what he called Japan's ‘extortion’ of his country's support for whaling, with threats to withdraw aid” (*Daily Telegraph*, 19 July 2001). On 23 July 2001, in

an article titled “Japan Loses Face with Whales-for-Aid Stance,” the *Evening Post* (Wellington, New Zealand) reported that:

Client nations such as St. Kitts and Nevis, Grenada and the Grenadines...were wooed to IWC [International Whaling Commission] membership at Japan's behest. All are recipients of Japanese aid; to suggest they've any genuine interest in whales, whaling and the Southern Ocean sanctuary promoted by New Zealand and Australia stretches credulity.

This pressure on the International Whaling Commission's policymaking undermines the provision of global public goods by increasing the likelihood that a global commons—the world's whale population—will be overexploited, possibly to the point of extinction. More broadly, this example illustrates that the process of establishing property rights is vulnerable to corruption as actors jockey for advantage during the movement of a good along the private-public continuum. In this case institutional and technological innovations, combined with greater scarcity of whales, encourage the good (whales) to move from being an open access resource to one for which actors obtain limited rights of use. Many other global commons are also reaching critical levels of overexploitation, and corruption threatens to undermine a determined and impartial international response.

Efforts to garner undue influence through corruption are also evident in other international organizations. One is the International Olympic Committee, an international nongovernmental, nonprofit organization responsible for organizing perhaps the world's most important and internationally unifying sporting event. The Olympics are meant to set an example of peaceful competition among nations—and by doing so, to foster important global public goods such as international peace, security, and understanding.

Because of the political prestige and economic activity that the Olympics bring, the selection of host countries and cities is one of the most closely watched aspects of the International Olympic Committee's work. (The Olympics occur every two years, alternating between summer and winter games.) Thus the Olympics are a good with mixed properties: besides the global public goods mentioned, they also generate important private benefits for host countries and cities—increased tourism, international visibility, and possibly greater attractiveness to investors. As a result national governments and local organizing committees go to great lengths to have their sites selected for the games—and attempt to sway the International Olympic Committee in their favor.

The selection of Salt Lake City, Utah (United States), for the most recent Winter Olympics generated enormous corruption-related controversy. On 28 January 1999, in an article titled “City of Latter-Day Scandal,” *The Economist* reported that:

The Salt Lake City boosters handed out cash and benefits worth about \$780,000 to secure the 2002 Winter Olympics for their city. The gifts included scholarships, free medical care, expensive firearms, [and] help with a lucrative property deal.

Corruption might have impaired the International Olympic Committee's ability to provide a global public good, because other cities might have contributed more to the Olympics' stated objectives than did Salt Lake City.

Another example of corruption in an international organization involves the World Bank, the world's largest development institution. The Bank contributes to global public goods through its efforts to promote development, reduce poverty, fight disease, eliminate hunger, attenuate global inequality, and protect the environment. In December 2000 an internal investigation revealed that three "staff members were paid or agreed to receive kickbacks by two separate groups of Swedish companies in exchange for steering certain Bank contracts to those firms" (World Bank 2000a). The contracts affected by the kickbacks, which included contracts for activities deemed ineligible for Bank support, were worth less than \$900,000.²

Moderate levels of corruption—or even perceptions of it—would compromise the World Bank's ability to help provide global public goods. Moreover, if just one international organization were found wanting in proper business practices, general support for international cooperation could suffer, undermining the provision of global public goods across the board.

The impact of corruption in national governments

Most corruption appears to occur in national governments, probably because they enjoy coercive powers as well as monopolies over various services and administrative functions. International organizations do not enjoy such powers: if a government is unhappy with an international organization's efforts, it can in principle withdraw its membership. Such exit is more difficult for individuals dissatisfied with a national government's provision of public goods.

Corruption at the national level undermines global public goods by perverting governments' participation in their provision. For example, in an environment of pervasive corruption a government will be unable to make the credible commitments required for international agreements to work. Reaching an accord on, say, managing ocean fisheries or limiting carbon dioxide emissions will be more difficult if some signatories are suspected of accepting bribes to allow additional fishing or to avoid the cost of installing scrubbers on the smokestacks of coal-burning plants. And even if an agreement is reached on the appropriate size of the fish catch, bribes made in exchange for treaty-busting fishing will cause fishery protection to fall below the agreed level—causing global public goods to suffer.

Corruption may also affect the types of global public goods provided, by distorting the decisionmaking process in which individual preferences are aggregated and translated into collective action. Because national governments contribute voluntarily to the provision of global public goods, corruption at this level again directly impairs many such goods.

Money laundering shows how weak governance at the national level directly hinders the provision of global public goods. Money laundering is linked to many global public bads, including international terrorism and drug trafficking. To combat it, the Financial Action Task Force on Money Laundering—established by the Organisation for Economic Co-operation and Development (OECD)—requires financial institutions in its 29 member countries to report suspect transactions (FATF 1996). In October 2001 the task force suggested additional measures to staunch the flow of financing for terrorism, including a requirement that financial institutions inform regulators if there are reasonable grounds to suspect that funds will be used for that purpose. The measures also strengthened government powers to freeze assets, require more extensive reporting of suspect transactions, and created a blacklist of countries that handle terrorists' money (FATF 2001).

Corruption hampers the implementation of such international agreements because it encourages the establishment of tax havens and undermines the enforcement of anti-money laundering measures. As Transparency International (2001, p. 206) notes: "Unfortunately, laundering only needs to be good enough to defeat the capacity of financial investigation skills and the burden of proof in any of the jurisdictions along its economic path." Legal and regulatory shortcomings in countries providing tax havens as well as in other countries allow criminals to misuse trusts, foundations, and professional partnerships to bypass regulatory measures.

Moreover, while the Financial Action Task Force on Money Laundering has blacklisted 19 "noncooperative countries and territories"—including Egypt, Hungary, Israel, and the Russian Federation—it also acknowledges that almost two-thirds of its 29 member nations fail to fully comply with its anti-money laundering recommendations.³ Differences in national legislation allow corruption to flourish in international banking, enabling illegal funds to be transferred wherever there are easily abused loopholes. Thus corruption in national governments directly undermines international efforts to provide the important global public good of preventing money laundering.

Controlling the flow of diamonds out of conflict areas is another example of how corruption at the national level directly impedes the provision of a global public good, in this case international peace and security. In recent years the scramble for "blood diamonds" has fueled conflicts in the Democratic Republic of Congo and Liberia, while rebel armies in Angola and Sierra Leone have used such diamonds to buy arms and enrich elites. Foreign armies, including

Zimbabwe's, have provided military support in exchange for diamond mining concessions, while international companies have sent dealers to war zones to buy illegal stones.

But action by civil society has had a big impact on the international diamond industry, largely through the work of Global Witness (<http://www.globalwitness.org/indexhome.html>). Global Witness (2000) proposes an international certification system that could be applied to the trade in conflict diamonds in Angola and elsewhere. When De Beers announced in February 2000 that it would no longer sell African gems originating in zones controlled by forces rebelling against legitimate governments, an attempt was born to forge a new regulatory architecture for the international diamond trade. South Africa's government took the lead in launching the Kimberley Process, a global tracking system of export certification and import verification. Controls using a "chain of warranties" are intended to close the loopholes opened when national laws make no distinction between the country of origin and the country from which diamonds are shipped.

But until a critical mass of countries signs up—Angola, Belgium, the Democratic Republic of Congo, and Sierra Leone were among the first—national indifference to the corruption behind blood diamonds will continue to distort international trade and impede effective sanctions against regimes with little respect for human rights. For example, senior government officials of Burkina Faso, Liberia, and Togo have benefited from illicit diamonds by providing cover for exports from troubled areas (Transparency International 2001, pp. 215–16).

An extensive literature sheds light on the high costs of corruption at the national level—and its global ramifications. Kaufmann, Kraay, and Zoido-Lobaton (1999) find a strong causal link between governance and development outcomes, including GDP per capita, infant mortality, and adult literacy. Gupta, Davoodi, and Tiongson (2000) show that widespread corruption adversely affects key social indicators such as child mortality rates, income inequality, education levels, and poverty rates. Mauro (1995) and Knack and Keefer (1995), among others, confirm the importance of sound institutions and good governance for strong GDP growth and show that corruption inhibits the emergence of strong institutions. Wei (1997) finds that corruption discourages foreign direct investment and plays a big part in "aid fatigue," undermining donor contributions to development assistance. And all these effects of corruption fall disproportionately on poor people, because wealthier groups are better able to find suitable substitutes when public goods are underprovided.⁴

Corruption prevents markets from functioning properly, reduces private investment, attracts talented people to unproductive activities, and distorts optimal management of natural resources. Corruption also undermines national efforts to control disease, confront the drug trade, and protect rain forests. The global implications of all this include denuded forests; fewer trading opportuni-

ties; increased disease, drug trafficking, and political instability; and contagion from financial crises such as the one in East Asia in the late 1990s.

CORRUPTION CONTROL AS A GLOBAL PUBLIC GOOD

The previous section suggests that corruption control is an important intermediate input into the production of public goods because of its central role in the effective functioning of government. This section argues that corruption control is itself a public good that is often nationally and internationally nonexcludable and nonrival. Corruption control is nonexcludable because in many cases those contributing to the effort will be unable to exclude noncontributors from enjoying some of the benefits. It is nonrival because one actor's benefiting from good governance does not impinge on another's ability to do so.

As with other global public goods, the international nature of the corruption problem complicates effective intervention because there is little supranational authority. Moreover, not only would beneficiaries prefer not to contribute to the provision of good governance if others are contributing, but the incentive to defect and engage in corrupt practices is stronger when other actors curb their own illicit activities. These difficulties are well described by the classic prisoner's dilemma, where all would be better off if the cooperative solution obtained but individual players face a strong incentive to defect, undermining cooperation.

In general, each company or country would prefer to see corruption controlled by others without having to constrain its own behavior and shoulder monitoring and enforcement costs. But some parties who want to contribute to controlling corruption may be unable to participate. For example, a trader or entrepreneur in a highly corrupt developing country may want to reduce corruption to attract credit or foreign direct investment, but confronting a corrupt autocrat or entrenched interests (possibly with external allies) may entail extremely high costs.

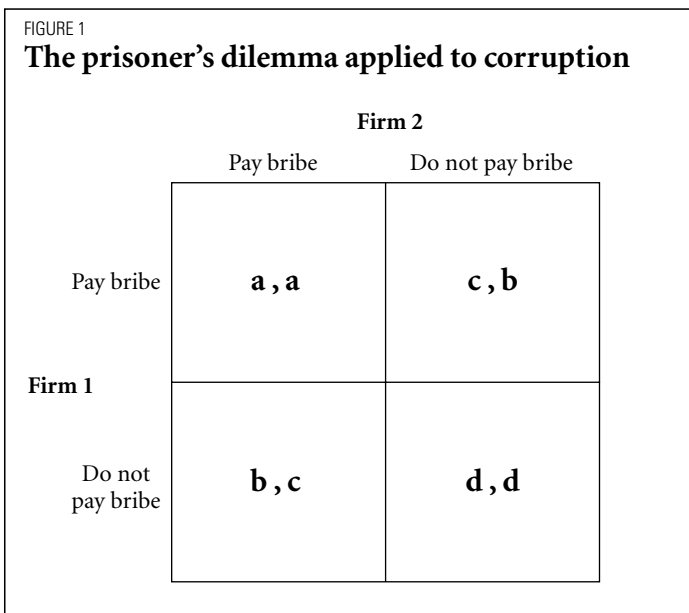
How might governance in such a country be improved? Domestic pressures might grow until the regime collapses under the burden of corruption, or the outside world might become increasingly intolerant of corruption. International organizations, such as the World Bank or International Monetary Fund, and civil society organizations, such as Transparency International, could support the domestic elements working to improve governance. In addition, outside organizations seeking to avoid the negative externalities of political and economic instability might have an encompassing interest in providing the public good regardless of the contributions of other beneficiaries. Nonetheless, the global public good of good governance is likely to be underprovided.

Another feature of corruption control that makes its provision difficult is a problem akin to the tragedy of the commons: the absence of corruption provides an additional incentive for corruption. The issue is similar to efforts to provide

the public good of fisheries protection. If fishing fleets avoid an area to protect fisheries, for example, the returns from fishing that area will rise, increasing incentives to fish the area. If a corruption-free playing field is the commons, nations will have a greater incentive to permit their commercial interests to (over)exploit the commons and engage in corruption, especially if detection is unlikely. Similarly, in the absence of corruption, a bribe-paying firm faces less competition along this margin, raising the returns from corrupt practices.

These incentive problems are quite similar to the classic prisoner’s dilemma scenario. The game is presented at the level of the firm in figure 1, but it is equally applicable at the level of the nation (to undertake or not to undertake an effort to prevent international corruption). The payoffs from a course of action—to pay a bribe or not to pay a bribe—are shown in the figure, with the first variable accruing to firm 1 and the second to firm 2. If a is greater than b and c is greater than d , the symmetric game yields a dominant strategy in which both firms pay a bribe, regardless of whether the other firm pays a bribe or not. Given the payoff structure, if firm 2 pays a bribe, firm 1 will be better off also paying a bribe ($a > b$). If firm 2 does not pay a bribe, firm 1 will again be better off paying a bribe ($c > d$). Thus the result will be the top left quadrant, with each receiving a payoff of a .

If d is greater than a , the cooperative solution—in which neither firm pays a bribe—offers a greater benefit to both firms. The higher payoffs from cooperating are the inducement to cooperate and defeat corruption. However, since the benefit from bribing by any one firm is still higher ($c > d$) if the other firm does



not bribe, the incentive to defect from the cooperative solution remains strong. Hence, the conditions for a prisoner's dilemma scenario obtain ($c > d > a$).

The bribery game is not as cozy as it may appear. In a globalizing world—with market integration, transnationalization of production, and greater trade and foreign investment—corrupt practices increasingly constitute an incalculable risk that market players do not like. Corruption involves a range of behaviors that undermine business and complicate monitoring. In addition, the payoffs are not fixed. With globalization and integration, the benefits of being able to operate in a corruption-free environment increase (because of lower transaction costs), and corruption is more likely to have transnational ramifications (Eigen-Zucchi 2001).

Moreover, the costs of moving from the noncooperative top left quadrant, where both players receive a payoff of a , to the cooperative bottom right quadrant, where both players receive a reward of d , may be falling as better commitment technologies emerge. These technologies include freer information flows and stronger accounting standards. Third-party monitoring by civil society is another technology for strengthening commitment to corruption control. As elaborated below, facilitating such monitoring is an important part of the global public good of corruption control provided by civil society.

Some of these aspects of corruption control are apparent in the U.S. Foreign Corrupt Practices Act of 1977, which prohibited the payment of bribes by U.S. citizens and U.S. companies and their subsidiaries. To the extent that U.S. firms were competing with one another on the basis of bribery, they were in a noncooperative equilibrium.

The main driver behind the Foreign Corrupt Practices Act was the Watergate scandal and the subsequent Congressional hearings into questionable corporate donations to U.S. President Richard Nixon's reelection campaign (Geo-Jaja and Mangsum 1999). These hearings led to revelations of corporate donations to regimes abroad, such as Lockheed's payments to the Tanaka government in Japan. The drive for anticorruption legislation began under Gerald Ford's administration as firms disclosed more bribery to the Securities and Exchange Commission and the cost of corruption was perceived to be growing. As the U.S. House of Representatives (1977, p. 2) conference report on the Foreign Corrupt Practices Act noted:

The payment of bribes to influence the acts or decisions of foreign officials, foreign political parties or candidates for foreign political office is unethical. It is counter to the moral expectations and values of the American public. But not only is it unethical, it is bad business as well. It erodes public confidence in the integrity of the free market system. It short-circuits the marketplace by directing business to those companies too inefficient to compete in terms of price, quality or service, or too lazy to engage in honest sales-

manship, or too intent upon unloading marginal products. In short, it rewards corruption instead of efficiency and puts pressure on ethical enterprises to lower their standards or risk losing business.

Bribery of foreign officials by some American companies casts a shadow on all U.S. companies. The exposure of such activity can damage a company's image, lead to costly lawsuits, cause the cancellation of contracts, and result in the appropriation of valuable assets overseas.

Thus lawmakers perceived corruption control as in the interests of the United States regardless of the contributions of other countries. That suggests that in the wake of the Watergate scandal, the costs of corruption within the United States were large. Indeed, by the early 1980s the bribery scandal involved 450 firms and more than \$1 billion (Clinard 1990, p. 121). The shadow cast on all U.S. companies, regardless of whether they participated in bribery or not, indicates that some companies were in the bottom left or top right quadrants of the prisoner's dilemma game. These considerations prompted the move to the government-enforced cooperative solution.

The experience with the Foreign Corrupt Practices Act points to another prisoner's dilemma game—this one in international competition in trade and investments. Remarkably, when the act went into force in the United States, no other nation followed suit with similar legislation. Other nations did not want to incur the cost of providing the global public good of corruption control, including the costs of monitoring and enforcement. Indeed, in many industrial countries bribes remained tax deductible as legitimate business expenses. Moreover, corporate interests in other countries benefited from the constrained behavior of U.S. firms. Although figures remain disputed, the U.S. Department of Commerce estimates that U.S. companies lost out on 100 contracts worth about \$45 billion in 1994 and 1995 because of their inability to pay bribes, and the U.S. Treasury estimates lost business at about \$30 billion a year (cited in Galtung 2000).

Lambsdorff (1998) argues that this effect is also evident in his study of trade patterns and bribery. Controlling for a variety of factors, Lambsdorff shows that firms in Malaysia and Sweden are at a disadvantage relative to corrupt counterparts, while the export performance of firms in such countries as Belgium, Italy, and the Republic of Korea is positively related to corruption in importing countries. From this, Lambsdorff concludes that the differences stem from exporters' varying propensities to pay bribes.

Still, some authors have questioned the size of the losses to U.S. business interests. Much of the competition that U.S. firms face is from other U.S. firms and is determined by the technological uniqueness and quality of the goods and services offered (Parker 1976 and Romeneski 1982, cited in Geo-JaJa and Magnum 1999). Some U.S. firms surely lost business as a result of the Foreign

Corrupt Practices Act, both to other U.S. firms and to international competition that was not encumbered by the restrictions on bribery that an international accord would bring. Still, the cost of corruption within the United States was acutely perceived and had risen to a point compelling unilateral action.

In sum, when some firms refrain from paying bribes, other firms have a greater incentive to win business through such corrupt practices. Similarly, when some nations constrain their exporters, other nations face a stronger incentive to allow their companies to use corruption to their competitive advantage. As Richardson (2001, p. 101) notes, “assuming that increased business integrity and corporate unwillingness to bribe are a public good, those businesses that continue to offer bribes (and find takers) become free riders with an advantage over their competitors.” If others are controlling corruption, payoffs from defection (bribery) are likely to be even higher than gains from cooperation. It is also plausible that if others are not controlling corruption, it still pays to engage in bribery. In the prisoner’s dilemma that emerges, each nation or company perceives a dominant strategy to defect and not contribute to the control of corruption.

Thus providing the global public good of corruption control is difficult. But globalization and heightened publicity are contributing to increasing awareness among the public and policymakers of the costs of corruption, spurring efforts to reduce it. In addition, a new commitment technology has arisen in the form of participation by civil society organizations, lowering the costs of controlling corruption and facilitating such steps as the signing in 1997 of the OECD convention against bribery.

THE ROLE OF TRANSPARENCY INTERNATIONAL IN FIGHTING CORRUPTION

Many civil society organizations have played an important role in controlling corruption. Among the leaders is Transparency International, which was founded in 1993 by 10 people from industrial and developing countries who were deeply concerned about corruption and believed that the end of the cold war offered an opportunity to combat it. Transparency International has increased understanding of corruption and nurtured growing consensus about its harm, raising public awareness. Together with lobbying organizations in a position to confront powerful and concentrated interests, Transparency International has also facilitated an exit from the prisoner’s dilemma by forging coalitions, mobilizing domestic support through a network of national chapters, and monitoring agreements so that signatories feel assured that others are in compliance.

In the early 1990s, before Transparency International was founded, little progress had been made against corruption. In 1977 the International Chamber of Commerce developed Rules of Conduct to Combat Extortion and Bribery, but these were widely regarded as unenforceable and so proved ineffective. As noted,

the United States was alone in criminalizing bribery of foreign officials, and in many OECD countries bribes were tax deductible, treated as legitimate business expenses.

In the research literature social scientists equivocated about the effects of corruption. Some drew distinctions between good and bad corruption, arguing that bribes paid to reduce bureaucratic delays and remove other obstacles, for example, might be good corruption because they promote economic efficiency (Galtung 2000, p. 20).

In the development community there was little enthusiasm for addressing corruption, mainly because of concerns about maintaining development assistance levels and worries about overreaching legal mandates on an issue still largely regarded as a domestic political problem. For example, many experienced development professionals in the World Bank were well aware of the deleterious effect of corruption on development efforts. But the Bank's legal department maintained that involvement in this issue would run counter to its charter requiring that loan decisions be made without regard for political considerations (Galtung 2000, p. 23).

But with the end of the cold war, international priorities shifted, and aid effectiveness became a central focus of domestic political debates on foreign aid budgets. As a growing body of research pointed to corruption as a major factor undermining development, Transparency International found support among governments, international organizations, and multinational corporations.

Transparency International's basic approach centers on a nonconfrontational effort to build "national, regional, and global coalitions that embrace the state, civil society, and the private sector to fight domestic and international corruption" (Galtung 2000, p. 26). It pursues this objective by building public awareness, lobbying governments, and facilitating agreements to reduce corruption. One of its most important and enduring contributions has been to help place corruption firmly on the agenda in national politics, academic research, and policies of international financial institutions. It has done so by emphasizing the adverse effects of corruption (which fall disproportionately on poor people) and by generating publicity.

Transparency International's most effective tool in raising public awareness has been the Corruption Perceptions Index, published annually since 1995. The 2001 index is based on 14 surveys, at least 3 of which are required for a country to be included in the index.⁵ Among the 91 countries included in the 2001 index, Finland is perceived to be the least corrupt and Bangladesh the most.

Transparency International's approach is exemplified by its development of "integrity pacts" and by its role in the adoption of the OECD antibribery convention. And it is based on the evolving research literature about the nature of corruption and the key components of successful anticorruption initiatives.

Some features of corruption and components of effective control

Transparency International's efforts have been greatly aided by in-depth analyses of corruption's characteristics. Applying a transaction costs approach, Lambsdorff (2002) studies specific instances of corruption found in the general media. He identifies three main actions that participants in a corrupt transaction must take:

- They must find counterparts and specify a contract.
- They must develop some mechanism to enforce the contract and prevent opportunism, since the exchange typically is not simultaneous.
- They must find ways of dealing with an ongoing relationship after the transaction, because each now holds incriminating information about the other (Lambsdorff 2002, pp. 3–4).

Lambsdorff suggests that an effective strategy for combating corruption is to find ways of disrupting these actions.

Richardson (2001) lists several criteria for an effective anticorruption campaign. Although many sophisticated programs have been developed, at their most basic level they must “(1) reduce the incentives and opportunities to extort and bribe; (2) greatly increase the risks of detection to future bribers and bribe-takers; and (3) increase the likelihood and severity of penalties when bribery is detected” (p. 91). As elaborated below, anticorruption efforts, including those of Transparency International, have operated on all these levels and have also sought to address the prisoner's dilemma.

Integrity pacts

The latest edition of Transparency International's *Source Book* (2000) describes global best practice in confronting corruption and provides case studies on the laws, institutions, and procedures that seem effective. Developed to root out corruption in large government projects, integrity pacts between governments and companies bidding for projects are agreements that authorities will not demand or accept, and firms will not offer “—directly or through intermediaries—any bribe gift, favor or other advantage ... in exchange for an advantage in the bidding, bid evaluation, contracting and implementation process related to the contract” (Transparency International 2001b, p. 2). These pacts are forging coalitions among bidders, government agencies, and civil society organizations in about 50 competitive situations around the world.

Integrity pacts address the prisoner's dilemma by generating a credible commitment so that participants do not fear being disadvantaged by competitors continuing to pay bribes. The pacts provide independent third-party oversight by credible civil society organizations and transparency in the bidding and implementation of projects. In addition, participants commit to disclosing the family assets of all senior personnel at the level of project manager and above. This

approach raises the transaction costs of finding counterparts and specifying a contract and increases the risk of detection.

Integrity pacts also specify sanctions for noncompliance, including cancellation of the contract, liability for damages to both the government and other parties, forfeiture of any deposit, and disqualification from future government contracts for some time. The procedural rules increase the likelihood of detection, and the sanctions, especially the liability for damages and future disbarment, increase the penalty. This raises the stakes considerably, complicating the post-bribery relationship.

By developing the integrity pact, Transparency International has identified concrete steps that stakeholders can take in reducing corruption. Through the pact, Transparency International helps build coalitions that provide an exit strategy from a prisoner's dilemma game, where each bidding company fears that refraining from bribery would place it at a competitive disadvantage. Such commitments are credible only if the procedures are transparent and monitored. So, Transparency International has outlined measures to make the procedures transparent and involved civil society organizations to provide third-party oversight. These build credibility where government and business working alone would probably fail. Finally, ex ante agreements on substantial sanctions raise the risk and cost of engaging in bribery.

The OECD antibribery convention

Integrity pacts operate mainly at the national level, involving governments, national civil society organizations, and domestic and international businesses. Transparency International has also sought to confront the "supply side" of bribery through international agreements, most significantly the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The aim in these international agreements is to help national governments make a coordinated escape from the corruption trap.

When Transparency International began advocating reforms to control the systematic, large-scale corruption of decisionmakers—mainly officials and politicians in developing countries—most OECD countries had legal systems that tolerated foreign bribery by their exporters. Not only were bribes treated as tax-deductible business expenses, but government subsidies, through export financing and insurance, accommodated foreign bribery as an unpleasant but necessary part of doing business in emerging markets.

Efforts to change this state of affairs were met with pronouncements from cabinet members and high officials of OECD countries about their exporters' need to bribe abroad. In Germany, for example, the governing coalition of Helmut Kohl defeated several attempts by opposition parties to introduce reforms outlawing foreign bribes by German export companies, arguing that they would destroy German jobs. Lord Young, a former minister of trade and industry in the

United Kingdom, said of bribery abroad that if “you want to be in business, you have to do [it]” (cited in Galtung 2000, p. 20).

Until 1993 the tax deductibility of bribes paid by French firms in international business transactions was facilitated by an office in the Ministry of Finance called the “confessional” (Pujas 2000, p. 11). Even after this office was closed, a prepayment declaration continued to allow tax deductibility of bribes paid abroad. Moreover, the French government supported a version of enabling legislation for the 1997 OECD antibribery convention that would have prevented the prosecution of bribery of foreign public officials if the corrupt agreements were concluded before the passage of the new law. That would have allowed corrupt practices reflected in long-term contracts to be sustained even after the new restrictions on foreign bribery were implemented. The measure, however, was defeated in parliament (Pujas 2000, p. 11).

Corruption in the international arena seemed so widespread, so much the norm, that it appeared impossible to stop without inflicting irreparable harm on national commercial interests. A classic prisoner’s dilemma: widespread disgust with the bribery of foreign officials, increasing fear about the risks and devastation caused by corruption, but no exit route without losing business. In a competitive environment where governments seek to promote the commercial interests of national corporations and where monitoring and enforcement are more difficult, making a coordinated escape seemed an insurmountable challenge.

Yet the tide was beginning to turn. In 1994 a U.S.-led diplomatic initiative resulted in the adoption of the first OECD recommendation on corruption (Galtung 2000, p. 32). In confidential meetings of business leaders arranged by Transparency International at the Aspen Institute in Berlin and in other communications, it became apparent that many firms opposed corruption. Typically, firms that do not bribe perceive a competitive disadvantage, while those that do:

often have to hire dishonest agents; keep two sets of books to preserve secrecy; bypass corporate controls; incur the unpredictable risks of discovery, unenforceable performance, and blackmail; and condone dishonest behavior or the tolerance of it by their own executives. (Richardson 2001, p. 84)

Transparency International, through its network of chapters in OECD countries, lobbied for an anticorruption agreement at the OECD, promoting a coordinated and simultaneous termination of corrupt practices. A breakthrough came when some of the largest European multinational corporations—including all the participants in the meetings at the Aspen Institute—signed an open letter to their government ministries urging them to support the OECD convention.

Signed at the end of 1997, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions entered into force in February 1999, when it had been ratified by 12 of the signatories. By the end of

2001 the convention had been ratified by 34 of 35 signatory states, including several non-OECD members.⁶

The convention defines bribery and foreign official broadly and stipulates that the bribery of a foreign public official shall be punishable by effective, proportionate and dissuasive criminal penalties. The range of penalties shall be comparable to that applicable to the bribery of the Party's own public officials. (Article 3)

This wording commits signatories to prosecuting corruption committed abroad and, like the integrity pacts, raises the transaction costs of engaging in corrupt practices and increases the risk of detection. Although the convention has no formal mechanism for punishing signatories who fail to enforce antibribery laws, publicity and national and international condemnation are expected to ensure good faith efforts.

The convention does, however, stipulate an elaborate system “to monitor and promote the full implementation of this Convention . . . [through] the framework of the OECD Working Group on Bribery in International Business Transactions” (Article 12). The working group prepares detailed reports on the domestic legislation of participating countries and engages in extensive consultations where civil society organizations such as Transparency International are able to make their views known. To further reassure signatories that other participants are complying with the convention, Transparency International has created its own working group to monitor compliance and a checklist that its national chapters can use to review national enabling legislation.⁷

The global public good and prisoner's dilemma features of international corruption control are evident in the text of the convention. The preamble states that “all countries share a responsibility to combat bribery in international business transactions,” a call on national governments not to free ride in the provision of this global public good. The preamble also calls for “the prompt criminalization of such bribery in an effective and coordinated manner,” suggesting the need for a coordinated and simultaneous escape from a prisoner's dilemma. Finally, Article 5 stipulates that enforcement “shall not be influenced by considerations of national economic interest, the potential effect upon relations with another State or the identity of the natural or legal persons involved,” again emphasizing the need for signatories to look beyond immediate national interest and commit to strict enforcement.

As a result of the convention, legal systems have become dramatically more inhospitable to global corruption and international financial institutions have integrated governance issues into the core of their operations. Transparency International played a substantial role in facilitating this coordinated exit from the corruption trap.

CONCLUSION

Providing global public goods is a major challenge, and controlling the international scourge of corruption is no exception. Two features of corruption increase its importance from a global public goods perspective and make confronting the problem especially difficult. First, controlling corruption is an intermediate input into the production of other public goods, including global public goods. Corruption distorts decisions about which public goods to provide and at what level, and can undermine international agreements to prevent global public bads such as money laundering or fisheries depletion.

Second, controlling corruption is itself a global public good, being largely nonrival and nonexcludable. If one nation or corporation desists from corrupt practices, benefits accrue to both those who contribute to this global public good and those who do not, strengthening the incentive to defect. Thus efforts to control international corruption are well described by the classic prisoner's dilemma: each nation or company would prefer that bribery stop but would face high costs of doing so if others continued to engage in corrupt practices. A coordinated exit from the corruption trap involves substantial commitment, monitoring, and enforcement problems.

Ultimately, the global public good of corruption control will be provided and durable only if the public demands it and is vigilant and empowered. Central to the process are attractive measures that are difficult to reverse, such as improving education, deepening democracy, and increasing transparency and access to information. Civil society has emerged as an effective partner of government and private actors in helping to overcome commitment problems and channeling dispersed interests. Through the commitment and support of members, governments, and institutions, Transparency International has contributed strongly to the global public good of corruption control—generating information about the deleterious effects of corruption, raising public awareness, and helping to place the issue firmly on domestic and international agendas.

Successfully confronting corruption requires both national and international initiatives, because in some countries national efforts on their own would be too weak and because international efforts would be poorly received without domestic grassroots support. This dual need is reflected in Transparency International's structure, which includes more than 80 national chapters that mobilize public support for anticorruption measures, including integrity pacts, and provide monitoring and vigilance.

Several other civil society organizations also work at the national grassroots level. For example, using information provision as its main tool, Global Witness emphasizes the link between the exploitation of natural resources—such as diamonds or forests—and conflicts or human rights violations. The National

Democratic Institute fights corruption by promoting democracy and government accountability (<http://www.ndi.org>). The Anti-corruption Gateway is a repository of information about combating corruption (<http://www.nobribes.org>). Similarly, the Uganda Debt Network endeavors to raise awareness among the general public of the need to call authorities to account for the allocation of funds from international loans or financial support (<http://www.udn.or.ug>). The network monitors schools and hospitals where official funds have been allocated, to see whether they are really receiving textbooks or medicines. The network enlists musicians and artists to promote its work with the public. Such initiatives are critical for continued improvement in governance.

At the international level Transparency International has helped actors make a coordinated exit from the prisoner's dilemma game by promoting the OECD antibribery convention and similar initiatives. By providing third-party oversight, credible civil society organizations can help overcome commitment problems and reassure participants that they are not alone in constraining corrupt practices. Only through a partnership among governments, private actors, and civil society organizations can government accountability be strengthened and corruption effectively curtailed. Such partnerships provide a tangible example of the crucial role civil society organizations might play in providing global public goods.

NOTES

1. McGuire and Olson (1996) show that a group or individual has an encompassing interest in providing public goods when the private returns exceed the cost of providing the goods, regardless of contributions by other beneficiaries.

2. World Bank (2000a) reports that "investigators from the Bank's Corruption and Fraud Investigations Unit as well as the Office of Business Ethics and Integrity were alerted to the activity through a call placed to the Bank's hotline for reporting fraud and corruption."

3. For the list of noncooperative countries and territories, see http://www1.oecd.org/fatf/NCCT_en.htm.

4. For a discussion of how corruption disproportionately affects poor people, see World Bank (2000b, p. 102).

5. For more on the Corruption Perceptions Index for 2001, see <http://www.transparency.org/documents/cpi/2001/cpi2001.html>.

6. For information on the signatories, see <http://www.oecd.org/pdf/M00017000/M00017037.pdf>.

7. For an update on implementation of the OECD antibribery convention, see Quinones (2001).

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