

A TAXONOMY OF CORRUPTION

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ABSTRACT. This article is devoted to providing a working definition of corruption and an explanation as to the importance and the effects of corruption. Included is a review of economic implications as well as an assessment of corruption as positive, negative, or neutral in its effects on the social, political, and economic environment of a nation.

Key words: corruption, culture, governance, taxonomy.

Defining Corruption

The word *corruption* originates from Latin *corruptus*, the past participle of *corrumpere*, which means to destroy. Conceptually, corruption is a form of behaviour, which departs from ethics, morality, tradition, law and civic virtue. The word “bribe”, in Middle English and Old French, meant a piece of bread given as alms. “The etymology of the words suffices to bring home the fact that whilst our law punishes petty corruption, it leaves untouched corruption in its wider sense. Save for the few modern exceptions inserted in our Statute book, the term does not cast its net wide enough to bring home the big fish, the sharks that are there to destroy the very fabric of our society” (Mauritius National Assembly Report, 2002).

It has been suggested that corruption is difficult to define, as the cultural definition of it will vary from one society to the next. This perspective draws its strength from the concept of moral and cultural relativism; “*one man’s gift is another man’s bribe*” is the often used analogy. However, in an effort to avoid a fruitless ontological debate about defining corruption this taxonomy will present the most commonly used and cross-culturally understood definitions of what constitutes corruption.

A Comprehensive Definition of Corruption

Inge Amundsen devoted an entire paper to defining the nature of corruption. The following is his definition of corruption: “Corruption is understood as everything from the paying of bribes to civil servants and the simple theft of public purses, to a wide range of dubious economic and political practices in which

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businesspeople, politicians, and bureaucrats enrich themselves” (Amundsen, 2000, p. 1). This succinct but comprehensive definition of corruption covers the arenas in which corrupt activity can occur (market, legislative, executive and administrative) and articulates the motive which is self-enrichment.

Forms of Corruption

Amundsen further devotes his paper to the description and definition of the forms of corruption that may be encountered around the world. “The main forms of corruption are bribery, embezzlement, fraud, extortion, favoritism, and nepotism. **Bribery** is the payment (in money or kind) that is given or taken in a corrupt relationship. To pay or receive a bribe is corruption per se, and should be understood as the essence of corruption. A bribe is a fixed sum, a certain percentage of a contract, or any favour in money or kind, usually paid to a state official who can make contracts on behalf of the state or otherwise distribute benefits to companies or individuals, businessman, and clients” (Amundsen, 2000, p. 1). The cultural term for bribe is as diverse as the languages and cultures of the world. In Latin America it is called *mordida*; in the Middle East it is *baksheesh*; in Kenya it is *kitu kidgo*; in Russia it is *po-chelovechesky*; in China it is *huilu*; in Indonesia it is *budaya korupsi*; and in the United States it is called a *kickback, sweetener or grease money*. In Japan it has been ritualized to such a degree that the payment is frequently paid through the mechanism of a bet placed on a round of golf played with the intent of the briber losing in a discrete and respectful manner so as not to cause loss of face to the recipient. “In Kenya a newspaper cartoon depicts a man meeting St. Peter at heaven’s gate and offering “*kitu kidgo*”—“*something small*” in Swahili—for a spot inside. In Kenya, the cartoon implies, bribing officials is so much a part of life it may even transcend death” (Omestad et al., 1997). Krzysztof Jasiewicz recounts his brother’s experience in Warsaw “My brother, who owns a little artisan shop in Warsaw, always carries a box of chocolates or a bag of good coffee in his briefcase. On a typical day he has to visit a government agency or two, and little gifts dropped off at official’s desks create an atmosphere conducive to good and swift business, he claims. He developed this custom in the old days of the communist economy of shortage; but today, when there is no scarcity of chocolates or coffee anymore, the practice seems equally effective” (Jasiewicz, 2002).

Embezzlement, the second form of corruption that Amundsen cites, is defined as the “theft of public resources by public officials, which is another form of misappropriation of public funds. Embezzlement is when a state official steals from the public institution in which he is employed, and from resources he is supposed to administer on behalf of the state and the public. In many corrupt countries, embezzlement is one of the most important modes of economic accumulation” (Amundsen, 2000, p. 2). This form of corruption is a form of “capital formation corruption” that has seen political families like the Suhartos of Indonesia amass huge fortunes by pilfering the state or public resources. In the late 1990’s it was

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estimated the Suharto family was worth approximately eleven billion dollars. “In Cote d’Ivoire, the president’s family holds the largest coffee and cocoa plantations; and in Cameroon and other African countries the president and his family own the biggest breweries, sugar refineries, transport and other companies. In Zimbabwe the ruling elite seized the farmlands of white farmers as atonement for decades of racism and converted it to their personal property by transferring it to party bosses, relatives and friends.” This form of corruption denies the public its rights to the resources of their nation and “maybe more important than extraction through bribes” to a nation’s economic well being and future (Amundsen, 2000, p. 2).

The third form of corruption cited by Amundsen is *fraud*—“an economic crime that involves some kind of trickery, swindle, or deceit. It is a broader legal and popular term that covers more than bribery and embezzlement. It is fraud for instance when state agencies and state representatives are engaged in illegal trade networks, counterfeit and racketing and when forgery, smuggling and other organized crime is propped up by “official” sanction and involvement. The term “dirty trick politics” is by Jean Francois Bayart in his book, the The Criminalization of the State in Africa, where he chronicles in some detail the fraudulent ways of money extraction including the “import” of toxic and atomic waste from western nations and their involvement in drug trade and money laundering” (Amundsen, 2000, pp. 2-3).

The fourth form of corruption that Amundsen references is *extortion*—“money and other resources extracted by the use of coercion, violence, or the threats to use force.” This form of corruption takes two forms: “one is the corruption from below where “mafia” type organizations in Russia or Italy are able to impose their influence upon individual state officials and entire state agencies through threats, intimidation, and targeted assassination. What they obtain in return may be preferential business opportunities and privileges, and freedom from taxation, and legal prosecution.” The second form is extortion from above “where the state itself is the biggest mafia of them all. This occurs for instance where the state and in particular its security services and paramilitary groups extorts money from individuals or groups to protect them from further harassment” (Amundsen, 2000, p. 3).

The fifth form of corruption that Amundsen (2000, p. 4) cites is *favouritism* – “a mechanism of power abuse implying “privatization” and highly biased distribution of state resources. Favoritism is the natural human proclivity to favor friends, family and anyone close and trusted. Favoritism or cronyism is the granting of an office to a friend or relative, regardless of merit.” Amundsen references a particular form of favoritism called nepotism where one favors their kinship member—family, clan, tribe, ethnic, religious or regional group. This form of corruption destroys the concept of meritocracy and renders government and institutions less effective and credible in the eyes of the public.

Inge Amundsen has for the purposes of this research offered a cogent and effective description of corruption that provides a foundation to avoid any further

debate about the cultural definitions of corruption. But the literature does offer even more laconic definitions of corruption and a review of these would prove useful.

Further Definitions of Corruption

Vito Tanzi (1995) describes corruption as “coming from the Latin verb *“rumpere”* to break, implying that something is broken. This something might be a moral or social code of conduct or, more often an administrative rule. For the latter to be broken it must be precise and transparent. Another element is that the official who breaks the rule derives some recognizable benefit for himself, his family, his friends, his tribe or party, or some other relevant group. Additionally, the benefit must be seen as a direct “quid pro quo” for the specific act of “corruption” (Mbaku, 1996). This definition of corruption will become particularly salient when the study examines the relationship of culture factors to the level of corruption in a nation.

Susan Rose Ackerman (1999) also offers a transactional definition of what constitutes corruption: “Payments, whether in money or in kind, can be characterized along two dimensions. First, does an explicit quid pro quo exist? If so, the transaction may be characterized as a sale even if there is a long time lag between payment and receipt of the benefit. Both market sales and bribes involve reciprocal obligations. The second dimension is the institutional positions of the payers and the payee. Are they agents or principals? A restaurant bill is paid to the owner; a tip to the waiter. A speeding ticket is paid to the state; a bribe to the police officer. Bosses give Christmas gifts to their employees, sales representatives give gifts to purchasing agents, and customers tip sales people for favorable service.

Table 1.1

Payments by clients or customers (Ackerman 1999)

	Quid pro quo	No explicit quid pro quo
Payment to principal	Price	Gift
Payment to agent	Bribe	Tip

Concentrating on only these two dimensions—the existence of a **quid pro quo** and the presence of absence of agents determines what constitutes a bribe” (Ackerman, 1999). (See table above.) The quid pro quo described by Ackerman implicitly involves another dimension in that the agents subordinate their responsibilities to their government and public and to their desire for personal enrichment by accepting the bribe.

Robert Klitgard (2000) offers a mechanistic definition of corruption as “**Corruption = Monopoly + Discretion – Accountability or C = M + D - A**. Whether the activity is public or private, or nonprofit, whether it is carried on in Ouagadougou or Washington, one will tend to find corruption when an organization or person has monopoly power over a good or service, has the discretion to decide who

will receive it and how much that person will get, and is not accountable.” Klitgard’s definition is at once a definition and an attempt to explain why corruption occurs in different environments at different levels.

In Colin Nye’s classical definition, corruption is behavior that deviates from the formal duties of a public role (elective or appointive) because of private-regarding (personal, close family, private clique) wealth or status gains (cited in Amundsen, 2000, p. 5). An updated version with the same elements is the definition by Mushtaq Khan, who says corruption is “behavior that deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private-regarding motives such as wealth, power, or status” (cited in Amundsen, 2000, p. 5).

“Corruption is not a unified phenomenon. It takes many forms with different types of participants, settings, stakes, techniques and different degrees of cultural legitimacy. In a well-researched paper, Dr. Sangita quotes James S. Nye.” “Corruption is behaviour which deviates from the normal duties of public role because of private regarding (personal, close, private clique), pecuniary or status; violates rules against the exercise of certain types of private regarding influence. This includes such behaviour as bribery (use of reward to prevent the judgments of a person in position of trust), nepotism (bestowing of a patronage by reason of ascriptive relationship rather than merit) and mis-appropriation (illegal appropriation of public resource for private regarding uses” (Nye, 1967, p. 419).

“Jacob van Klaveren (1990, p. 26) believes that a corrupt bureaucrat regards his office as a business from which he is able to extract extra-legal income. As a result, the civil servant's total compensation "does not depend on an ethical evaluation of his usefulness for the common good but precisely upon the market situation and his talents for finding the point of maximal gain on the public's demand curve.” As part of his definition of corruption, Nathaniel Leff (cited in Mbaku, 1996) includes "bribery to obtain foreign exchange, import, export, investment or production licenses, or to avoid paying taxes."

According to Carl Friedrich (cited in Mbaku, 1996), individuals are said to be engaging in corruption when they are granted power by society to perform certain public duties but, as a result of the expectation of a personal reward or gain (be it monetary or otherwise), undertake actions that reduce the welfare of society or damage the public interest as a result of the expectation of a personal reward or gain (be it monetary or otherwise), undertake actions that reduce the welfare of society or damage the public interest.

Institutional Definitions

“The Conference of European Ministers of Justice of the Council of Europe has provided the following provisional working definition of corruption. Corruption, bribery and any other behavior in relation to persons entrusted with responsibilities in the public or private sector which violates their duties that follow

from their status as public official, private employee, independent agent or other relationship of that kind that is aimed at obtaining undue advantages of any kind for themselves or for others" (Council of Europe).

The New South Wales Independent Commission Against Corruption (ICAC) in Australia "defines corruption very widely, including action by non-officials that might affect the 'honest or impartial exercise of official functions' breach of public trust, and misuse of official information. It goes on to list what sort of activities might adversely affect the carrying out of official functions including, for example, bribery, tax evasion, or election fraud" (cited in Mauritius National Assembly Report, 2002). Although it is a concise definition the Australian government has had difficulty determining a working definition of what constitutes "corruption" in a multi-cultural nation such as it. The Australian experience will be explored more fully as the study engages in the assessment of the relationship of culture to corruption.

Singapore's Corrupt Practices Investigating Bureau provides a very simple definition: Corruption is the asking, receiving or agreeing to receive, giving, promising or offering of any gratification as an inducement or reward to a person to do or not to do any act, with a corrupt intention (cited in Mauritius National Assembly Report, 2002).

Broadly, the World Bank defines corruption as "the abuse of public office for private gain." Public office is abused when an official accepts, solicits, or extorts a bribe or when a private agent offers a bribe to circumvent public policies and processes for competitive advantage and profit. Public office can also be abused for personal gain even if no bribery occurs, through patronage (cronyism) and nepotism, under pricing of State assets, collusion to divert public resources, or outright theft. Probably because of its functions, the World Bank is mainly concerned with corruption in the public sector has left the private sector out of this definition (Bottelier, 1998).

In its Source Book (cited in Mauritius National Assembly Report, 2002) Transparency International defines corruption as behaviour on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them. This would include embezzlement of funds, theft of corporate or public property as well as corrupt practices such as bribery, extortion or influence peddling.

Interpol defines corruption as ... any agreement between parties to act or refrain from acting in violation of the Public Trust for profit or gain in either the private- or public sector (Mauritius National Assembly Report, 2002).

The UN's Global Programme against Corruption (GPAC) defines corruption as the "abuse of power for private gain" and includes thereby both the public and private sector. Although perceived differently from country to country, corruption tends to include the following behaviours: conflict of interest, embezzlement, fraud, bribery, political corruption, nepotism, secretarisme and extortion.

Concluding Commentary on Corruption Definitions

At this juncture, it would seem appropriate to recognize that the definitions of corruption that have been chronicled in the previous pages from economists, social scientists, institutions like the World Bank, United Nations, European Council and a host of other sources all appear to contain similar language and meaning in their definitions. But despite this perspective some critics (albeit, cultural relativists) would contend according to Sandholtz and Gray “that practices considered corrupt in one society may be acceptable in another. A related objection is that the general definition is essentially a Western one, that it distorts social realities by forcing non-western cultures into Western categories. Indeed, the private-public distinction itself may be a Western invention. These objections can be responded to with two lines of argument. First, if one were to concede the irreducible cultural particularity of standards of corruption, then comparative, cross-national research on the topic would be impossible (Bayley, 1966), as some might argue that it is. But the logic is not compelling on scientific grounds. Indeed, it is ordinary scientific practice to define analytic categories whose utility is precisely that they permit comparative analysis. The key is to define those behaviors that will count as corrupt for the purposes of this study. In other words, for the purposes of this study, corruption consists of bribery, kickbacks, extortion misappropriation, nepotism, and other practices that use public office for private gain. We can attempt to measure (always) imperfectly the perceived prevalence of these practices in various countries, without claiming that they are considered inappropriate in every local culture (Sandholtz and Gray, 2001, p. 8). While this perspective embodies by in large the same philosophy as this study, it should be noted that global integration is forcing many nations that have simply ignored or winked at their domestic corruption to reassess its impact on their image around the world. “One African diplomat could not say it better. Eastern Europe is (now) the most sexy beautiful girl, and we (Africa) are an old tattered lady. People are tired of Africa. So many countries, so many wars. As we have seen, what is happening in Africa is a blueprint of the problem facing Nigeria. The nation’s “unworkable economic policies, blatant, corruption ... in fact the fossilized system of government has brought almost everything to a halt. Thus, corruption discourages honest effort and valuable economic activities; it breeds inefficiency and nepotism. Corruption leads to possible information distortion as it cooks the books and a high level of corruption can make public policies ineffective. Above all, corruption can tarnish the image of a country. As we have seen, Nigeria suffers more than most nations from an appalling international image created by its inability to deal with corruption and bribery (Dike, 2002, p. 5). So for the purposes of this study we will conclude as Sandholtz and Gray have that corruption is definable across nations despite cultural nuance and that cultural relativism notwithstanding, most nations would be better served by less corruption than more

In closing this section of the taxonomy of corruption here is a more impassioned definition of corruption. “It is impossible to measure the actual extent

of corruption in Mauritius. Corruption leaves no visible trace, no bloodstain and no fingerprints. "Corruption is a consensual crime shrouded in secrecy. The participants are willing, consenting and happy. Not a crime of passion, corruption thrives on secrecy and silence. It is only when a person feels cheated or is actuated by a rare sense of duty and loyalty that he will report an instance of corruption. Rarely does a participant have an interest in revealing the deal. Few crimes are as hard to prove. Perceived to be a victimless crime, it nevertheless has a devastating effect on our livelihood" (Mauritius National Assembly Report, 2002).

Importance of Corruption

"Corruption is like cancer, retarding economic development." (James Wolfensohn, President of the World Bank, 1996)

The issue of governmental corruption has been a topic of discussion, perhaps since one man began the process of governing another and reached its zenith since the advent of the modern nation state and the Weberian treaty on the bureaucratic system. Corruption has been the source of innumerable scandals, edicts, laws and has brought more than one government down in the aftermath of such scandals. "Current headlines suggest that corruption is rampant throughout the world, whether it is the bribery scandal of the 2002 Winter Olympics, the sleaze of the European Parliament, or the extreme malfeasance in corporate America" (Davis and Ruhe, 2003, pp. 275-288).

Effects of Corruption

As noted in the Introduction, The World Bank estimates that 5 percent of the value of exports to developing countries, some \$50 billion to \$80 billion a year, is paid to corrupt officials (Moss, 1997, 26). Transparency International reports that the global impact of corruption is estimated at \$600 billion including governmental contracts, arms procurement, drug trafficking, and bribes to politicians (Mukherjee, 1997, 24). In Pakistan economists have begun to track corruption as a contributor to GDP reporting it at 2% in 1988 and growing to 5% by 1993, according to Dr. Mahbuhul Haque, ex-minister of finance" (Haque, 1995, p. 2). "In Italy over 4800 Italian businessman and bureaucrats were arrested in 1992, in a major crackdown on corruption in the construction and pharmaceutical industries. By the end of the investigation in 1997 magistrates had traced over \$390 million in illegal kickbacks or payoffs. In a survey in 1997, 85% of Italian businessmen acknowledge that bribes had to be paid to secure public sector contracts" (Economist, 1994, 61). In the developing world corruption leads to project cost overruns, misappropriation of funds, and economic projects that benefit the few at the expense of the many. Anecdotally, while teaching in a Mediterranean country, one student, the son of a prominent ocean freight company owner, recounted tales of pallets of U.S. aid dollars being shipped by corrupt African leaders to Swiss bank accounts in the 1990's (Fitzpatrick, 2000). "In Africa, hydro-electric plants sit idle in the middle of

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a desert; highway projects in Pakistan experience cost overruns of 300 percent—construction of a motorway that should have cost \$8.2 billion rupees cost over \$24.2 billion rupees to complete” (Haque, 1995). In the United States corruption is euphemistically called “pork barrel politics”—an example being dead-end interstates in West Virginia (ala Senator Byrd) or enormous cost overruns of the now infamous decade long “Big Dig” in Boston. In 1999, the International Monetary Fund suspended a \$300 million economic development loan as a response to high levels of corruption in the Kenyan government.

One of the more succinct analyses of the importance of corruption is offered by Vito Tanzi, the Director of the International Monetary Fund’s Fiscal Affairs Department, who states that “corruption in government has numerous adverse economic consequences. It distorts the allocative role of government by favoring certain taxpayers, applying rules and regulations arbitrarily, allocating government contracts based on connections and bribes, and ignoring fair and objective criteria in making hiring and promotion decisions. Corrupt practices also distort government’s redistributive and stabilization roles. Furthermore, it prevents government from correcting market failures because it has weak control over the policy instruments that should be used to address imperfections in the market” (Tanzi, 1995, p. 24).

“While the prevalence of corruption varies from country to country, most studies recognize that corruption is detrimental to society and business as well. The Gallup International 2000 Millennium Survey of 57,000 people in 60 countries found that where corruption is at its worst, disillusionment with democracy is at its highest. This suggests that the democratic gains of the past decade are quite literally at risk (Transparency International, 2000). Among the effects are the misallocation of resources that disrupts economic development, the distortion of public policy, and the degrading of the integrity of the business system” (Davis & Ruhe, 2003, pp. 275-288). Revelations of corruption have brought down the governments of Indonesia, Italy, Brazil, Pakistan, and Zaire. “Earlier in the 1990’s corruption shook the governments of South Korea, Thailand, Bulgaria, India, Russia, Nigeria, Taiwan, and even Britain’s conservative government” (Davis and Ruhe, 2003, pp. 275-288). More contemporarily and proximate, New England experienced the venality of Dennis Koslowski, the CEO of Tyco International, and now the impeachment and imprisonment of the Governor of Connecticut for corrupt acceptance of gifts for his summer lake cottage.

Arvind K. Jain (2000) offers his review of corruption; “Corruption is of direct concern to the public at large and investors. First, corruption can directly affect how business is conducted when bribery or other forms of corruption interfere with specific transactions. Since operating within any system requires some familiarity with the “*rules of the game*” a corrupt system may discriminate against outsiders. Second, and more importantly, recent studies on the impact of corruption indicate that its effects tend to reverberate throughout an economy rather than remain limited to specific transactions that may have been influenced

by corruption. Corruption can affect economic growth through its impact on a host of economic variables. These variables may include the level of investment (see Fitzpatrick and Dakhar's study of corruption's impact on FDI, 2001), entrepreneurial incentives, and a design or implementation of rules or regulations regarding access to resources or assets within a country. In addition to economic growth rates, corruption can influence the income distribution within a country."

Empirical Evidence

At this juncture, it would be beneficial to review some of the more important empirical studies that have been conducted to assess the significance and the impact of corruption. Dr. Johann Graf Lambsdorff provides an initial review in his paper "Corruption in Empirical Research—A Review," published by Transparency International, 1999. "This study reviews a large variety of studies on the consequences and causes of corruption. It includes research on the impact of corruption on investment, GDP, institutional quality, government expenditure, poverty, and the international flow of capital goods and aid" (Lambsdorff, 1999). The Lambsdorff review while comprehensive provides the launching platform for a discussion of the state of the research literature on corruption. It will be augmented where needed by the inclusion of a review of articles by authors like Shang Jin Wei (1998, 1998, 2001), Vito Tanzi (1995), Daniel Treisman (1999), Susan Rose Ackerman 1977, 1999, 1999), Paulo Mauro (1995, 1998), and a host of others.

Economic Impact

"The first investigation on the impact of corruption on investment in a cross-section of countries was undertaken by Mauro (1995). The author finds in a sample of 67 countries, corruption negatively impacts on the ratio of investment to GDP. He claims that if Bangladesh was to improve the integrity of its bureaucracy to that of Uruguay, its investment rate would increase by almost five percent of GDP." A similar study by Keefer and Knack employed corruption and other variables into a single index of institutional quality and their findings indicated that corruption significantly reduces the ratio of investment to GDP. Brunetti and Weder also found in their sample of 60 countries that corruption has a significant and negative impact on the ratio of investment to GDP" (Lambsdorff, 2003).

Shang Jin Wei's article (1998) examines the "effect of corruption induced uncertainty on foreign direct investment. His measure of uncertainty is based on unpublished responses by individuals to a survey on levels of corruption in "host countries." The result is striking—the effect of uncertainty on FDI is negative, statistically significant, and quantitatively large. An increase in the uncertainty level from that of Singapore to that of Mexico, which at the average level of corruption in the sample, is equivalent to raising the tax rate in multinational firms by 32% points" (Wei, 1998). Wei in an earlier study used a "data set of bilateral foreign direct investment from fourteen source countries to forty-one host countries and

found clear evidence that corruption in host countries discourages foreign direct investment. Using the point estimates in the paper and the BI-corruption ratings he calculated that if India could reduce its corruption level to the Singapore level, its effect on attracting foreign investment would be the same as reducing its marginal corporate tax rate by 22 percentage points.

The nature of the uncertainty encountered by firms in corruption prone environments is evaluated by studies by Wedeman in his article, "Looters, Rent-Scrappers and Dividend-Collector 1995) and a World Development Report that quotes an entrepreneur who contends that "there are two kinds of corruption. The first one is where you pay the regular price and get what you want. The second is where you pay what you agreed to pay and you go home and lie awake every night worrying whether you will get it or if someone is going to blackmail you." In a study conducted by the World Bank a sample of 39 industrial and developing countries was employed and the results showed that for a given level of corruption, countries with more predictable corruption have higher levels of investment" (Lambsdoorf, 1999). Mauro found that if Bangladesh reduced its corruption to that of Singapore, "its average annual per capita GDP growth rate over 1960-1985, would have been higher by 1.8 percentage points. Assuming its average annual growth rate was 4% a year, its per-capita income by 1985 could have been more than 50% higher" (Wei 1998, p. 10). Mauro (1995) further finds that "a one-standard-deviation increase (an improvement) in the corruption index is associated with an increase in the investment rate by 2.9% of GDP" (Mauro, 1995, p. 694). Furthermore, Mauro found that bureaucratic efficiency and corruption were significantly and inversely correlated to one another and that as corruption levels increase the level of bureaucratic efficiency decreases. This finding by Mauro was also borne out in a similar study of corruption and bureaucratic efficiencies in a working paper by Fitzpatrick.

The impact on governmental expenditures or the allocative function of government agencies is assessed by a study conducted by Tanzi and Davoodi to determine the impact on public finance. "Tanzi and Davoodi carried out a systematic study on the effect of corruption on government's public finance. They found several important findings: 1.) Corruption tends to increase the size of public investment (at the expense of private investment among other things) because many items in public expenditures lend themselves to manipulations by high officials to get bribes. 2.) Corruption skews the composition of public expenditures away from needed health and education funds, because these expenditures relative to other public projects, are less easy for officials to extract rents from. 3.) Corruption skews the composition of public expenditures away from needed operation and maintenance towards expenditure on new equipment. 4.) Corruption reduces the productivity of public investment and of a country's infrastructure. 5.) Corruption may reduce tax revenue because it compromises the government's ability to collect taxes and tariffs" (cited in Wei, 1998, p. 11). Wei actually found that from a practical standpoint that an "increase in corruption reduces the quality of roads,

increases the incidence of power outages, telecommunication faults and water losses. He specifically found that an increase in corruption from Singapore level to the Pakistan level would be associated with an extra 15% increase of roads in bad condition” (Wei, 1998, p. 11).

The rent seeking activity of corrupt politicians and bureaucrats has the effect of redirecting the allocation of budget from “less manipulatable” but high social value projects like education and health care to construction projects and defense contracts where the lack of transparency allows for bribes to occur. So the old maxim that the “poor get poorer” and the “rich get richer” may be true in nations where corruption and poverty converge. In a study by Gupta, Davoodi, and Alonso-Terme that examined the impact of corruption on inequality in 37 nations, “significant positive impact was found. It was concluded that a deterioration of a country’s index of 2.5 points on a scale of 0-10 is associated with the same Gini coefficient as a reduction in average secondary schooling of 2.3 years. The authors found further evidence that corruption increases inequality in education and land distribution. Additionally, they examined the income growth of the bottom 20 percent of society and found that corruption exerts a significant and negative impact on this variable. They also were careful to test various instrumental variables to ascertain whether or not the relationship between corruption and inequality is a case of reverse causality; it was not (cited in Lamsdoorf, 2002). Gupta, Davoodi, and Alonso-Terme conclude that high and rising corruption increases “income inequality and poverty, lowers economic growth, biases the tax system to favor the rich, lowers social spending, reduces access to education for the poor, and increases the risk of investment by the poor” (cited in Lamsdoorf, 2002).

Corruption: Positive--Negative--or Neutral

It has been suggested by some scholars over the years that corruption actually may contribute to economic growth and bureaucratic efficiency. “Corruption can be like “grease” speeding the wheels of commerce” (Wei, 1998, p. 3). This perspective on corruption has been offered up in various writings as early as the 1960s by Leff and Huntington and in the late 1980s by Liu. These authors suggest that corruption increases economic growth through two mechanisms. “First, corrupt practices such as “speed money” would enable individuals to avoid bureaucratic delay. Second, government employees who are allowed to accept bribes would work harder, especially where bribes act as a piece rate system of compensation” (Mauro, 1995, p. 1). Liu argues that corruption has positive benefits acting as an allocative auction of bureaucratic services where different economic agents (firms) that are more effectively managed offer larger bribes to lower governmental “red tape. “Bribery then, like an auction, would result in license and contracts being awarded on the basis of bribe size, could achieve Pareto-optimal allocation” (41, Scott, page 33).

David Osterfeld argues that in a heavily regulated economy, one can find two distinct types of corruption: expansive corruption, which involves activities

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that improve the competitiveness and flexibility of the market, and “restrictive corruption,” which limits opportunities for productive and socially beneficial exchanges. Most public sector corruption falls in the restrictive category and involves illegal appropriation of public resources for private use (e.g. outright embezzlement by a civil servant) or the illegal use of an individual’s public position for his own personal enrichment. Public sector corruption hinders the proper functioning of the market system, retards economic growth, and thus is restrictive corruption. As examples of expansive corruption, Osterfield (1992, pp. 212-217) mentions the bribing of judges, politicians, and bureaucrats by members of the private sector. The payment of bribes to the right officials, he argues, can help mitigate the harmful effects of excessive government regulation and improve economic participation (cited in Mbaku, 1996, p. 3). Margaret Goodman on the other hand finds that contrary to Osterfield’s finding of the facilitating nature of corruption that “corruption in the Yucatan did not ensure new groups or entrepreneurs opportunities to enter the market. Instead, corruption allowed the old and more established groups to totally dominate and monopolize markets” (cited in Mbaku, 1996, p. 3).

Victor Dike succinctly reviews the argument of corruption as positive or neutral and its impact on society in his article, “Corruption Nigeria: A New Paradigm for Effective Control”--“Despite the immoral and pernicious effects of corruption, some scholars have argued that corruption can be beneficial to political development or “political modernization” (Nye, March 1965, pp. 1-19). Political modernization or development means growth in the capacity of a society’s governmental structures and processes to maintain their legitimacy over time (presumably in time of social change) by contributing to economic development, national integration, and administrative capacity, and so on (Nye, 1967). One could get entangled with different scales used for measuring political development. Nevertheless, Max Gluckman opined that scandals associated with corruption sometimes have the effect of strengthening a value system of a society as a whole (cited in Dike, 2002). This is probably true in the case of Nigeria. The scandals associated with the Abacha era (looting of the treasury and human rights violations) have given the nation food for thought. Nigeria is still perplexed and preoccupied with the issues of how to strengthen the nation’s essential government structures to avoid a reoccurrence of these kinds of looting and atrocities in the future. In addition, some writers have noted that corruption may help to ease the transition from traditional life to a modern political life. Some have argued that the vast gap between literate official and illiterate peasant, which is often characteristic of the countryside, may be bridged if the peasant approaches the official bearing gifts or their (corrupt) money equivalent. In this respect, McMullan points out that a “degree of low level corruption” can soften relations of officials and people (July 1961). And Shils notes that corruption can “humanize government and make it less awesome” (1962). These observations are common occurrences in Nigeria where communities pay political visits to their Governors, Commissioners, and top civil servants with cows, wine, cola nuts, and money stuffed in ‘Ghana must go’ (bags)

in order to get them to attend to their local problems. The apparent benefits of corruption notwithstanding, the overriding concern is with the evils of corruption. Any right thinking person in Nigeria where ubiquitous corruption has ravaged the society will find it impossible to agree that corruption is beneficial, no matter how plausible the argument (Dike, 2002, pp. 4-5).

The contrarian's perspective on the beneficial nature and effects of corruption while necessary to examine can be dispensed with by the writings of Mauro, Treisman, Wei, and a host of other scholars that find to the contrary that rather than acting like "grease on the wheels" corruption acts more like "sand in the gears" of progress and effective government. Kaufman and Wei find that corruption leads to excessive regulation in order to increase the potential for more rent collecting behavior. (Anecdotally, one thinks of the importer that must obtain 37 individual signatures before his shipment can be released--each signature being a rent-seeker.) Wei and Kaufman also find that firms that pay bribes must engage in wasteful interaction with the rent seeker during the process of the transaction and paying of the bribe. "Johnson, Kaufman and Zoido-Lobaton suggest in their study that "corruption sands the wheels by negatively impacting on the smooth operation of the official economy" (Lamsdoorf, 2002). Kaufman and Wei further underscore this finding by determining that corruption increases the "the burden of government regulations on business competitiveness" (Lamsdoorf, 2002). The paying of bribes for better access or improved bureaucratic process creates an asymmetrical competitive environment that favors larger more established firms and disadvantages smaller entrepreneurial firms. "Cumbersome and dishonest bureaucracies may delay the distribution of permits and licenses, thereby slowing down the process by which technological advances become embodied in new equipment or new productive processes" (Mauro, 1995, p. 1).

Shang Jin Wei offers a story published in the China Youth Daily that "is representative of how bureaucratic corruption and extortion can kill a small business. Huang Shengxin, a 36 year old former soldier and recipient of a Class III military medal, was a private business owner in Guangxi Province's Fangchenngang City in Southwestern China. He left the army in 1982; he thought he would go into the restaurant business. Through his and his family's long hours of hard work, his "Changxin Restaurant" had developed a good reputation and even won an official honorable designation from the county government. Huang himself was designated a National Outstanding Private-Sector worker in recognition of his success in business. This was when the trouble began. Bureaucrats and their relatives loved the restaurant. They paid countless visits over the years, sometimes in the name of work inspection. The problem is that they did not pay the bills. Hy Huang's account, by February 1997, the County Government of Tanying, where the restaurant was located, owed him 80,665 Chinese yuans in unpaid bills or just under \$10,000. On May 20, 1997, burdened by his inability to return the restaurant to its profitable past, Huang sadly folded "Changxin Restaurant" (Wei, 1998, p. 9). The "sand in

the gears” ground Huang’s entrepreneurial dream to dust and without a doubt the bureaucrats are now dining at another successful restaurant. As illustrated by this story, the debate of corruption as “grease” or “sand” may continue but only in narrow academic circles as the weight of reality and needs of society outweigh the value of the discussion.

Significance of Corruption to Multinational Corporations

Multinational corporations have a significant stake in the business environments that they operate within internationally and corruption has a variety of macro and micro impacts upon their performance and opportunities in international markets. Corruption creates a variety of issues for multinationals ranging from asymmetrical competitive relationships, increased cost of products, distortion of government contract allocation process, increased levels of uncertainty reduce investment opportunities, reduced GDP and GDP growth rates, reduced per-capita income levels, increased nominal “tax” rate, and a competitive environment that favors nations without a law comparable to the Foreign Corrupt Practices Act.

Detailed below are the macro and micro impacts of corruption on multinational corporations as reflected in the literature.

➤ Corruption creates asymmetrical relationships in foreign markets with new entrants to the market competing against local competitors with established bureaucratic “relationships.”

➤ Corruption increases the cost of products exported around the globe and makes imported products more expensive and thereby less competitive (15 to 20% increase in the cost of goods according to the 1997 World Development Report).

➤ Corruption distorts the allocative process of government spending and reduces spending in health care, education and similar social programs (World Bank Report, p. 1).

➤ Corruption reduces or inhibits new business start-ups and favors existing larger firms, so economic growth is stunted. Seventy percent of firms in developing countries have foregone investment because of corruption (World Bank Survey, 1997, p. 37). BEEP survey finds in a cross sectional analysis of 22 countries that small firms pay twice as much of their annual revenue in bribes than larger firms.

➤ Corruption reduces inward flowing foreign direct investment as the uncertainty and cost of corruption deters multinational interest in foreign markets. Investment in countries with high corruption levels averaged 12% of GDP compared with 21% for those countries with lower levels of corruption (World Development Report 1997).

➤ Corruption reduces GDP and GDP growth rates and consequently reduces markets for imported products (Mauro, 1995).

➤ Corruption reduces per capita incomes and inhibits the development of a consumer middle class.

➤ Corruption increases the time that senior executives spent in “negotiation” with bureaucrats to complete a project (DFID Anti-corruption, p. 3).

- Corruption acts as a tax and increases the cost of doing business (Wei).
- Corruption reduces managerial control—how does management really know how clandestine “fees” are actually being spent and how are they explained to the shareholders of the firm (Aibel, 1996, p. 3).
- Corruption allows the sale of obsolete or defective goods to developing markets but what is the residual impact upon research and innovation of the firm and its competitive posture in developed markets (Aibel, 1996, p. 3).
- Corruption has a corrosive effect on managerial discipline, transparency and trust in the organization by creating double standards for domestic managers and international managers (Aibel, 1996, p. 3).
- Corruption places firms headquartered in countries with strong anti-corruption legislation (Foreign Corrupt Practices Act) at a significant disadvantage when competing with firms without similar legislation governing their conduct abroad.
- Corruption or the disclosure of corruption has its most significant effect on the global reputation of the firm. Public disclosure of bribery and corruption can lead to the loss of contracts, property, and the paying of financial fines (Aibel, 1996, p. 3). Additionally, the scandal can affect the firm’s financial performance both from a revenue and capitalization standpoint.

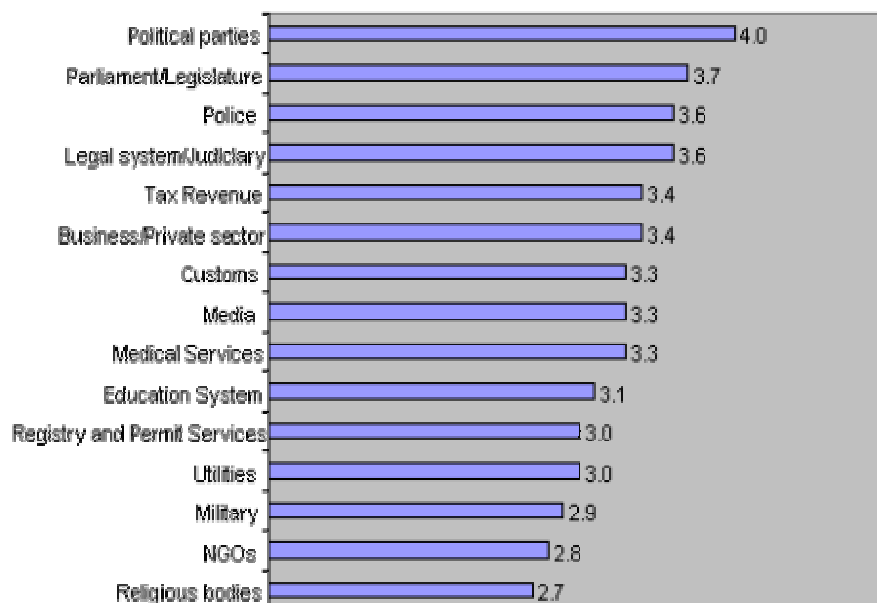
Micro and Macro Aspects of Corruption

The tables presented below are the results of a recent survey initiative by Transparency International to address the micro level impacts of corruption in each nation. This barometer provides a metric by which countries can assess the issues of corruption sector by sector in their societies. It is also becomes apparent by examining the sectors that are represented in this table that multinationals would have an interest in the manner in which transactions would be conducted across the majority of these sectors: legislature, legal system, judiciary, taxation, customs, registry and permit systems, utilities, educational system and the business and private sector. Each of these dimensions clearly would have an impact on the business environment that a multinational would be operating within.

Table 1.3 below provides an insight into the perceived effect on specific spheres of life in a country. Examining the business environment the impact of corruption ranges from a small extent, to moderate and large with corresponding scores of 19%, 30%, and 33% for a total of 82% of those surveyed indicating that corruption has an impact on the business environment. It should be noted that 66% of those surveyed viewed the impact as moderate to large. For the political sphere 85% believe that corruption has an impact on the political operations of their nations. Finally, in the personal and family sphere the survey finds that 66% view corruption as having an impact on their nation.

Table 1.2

Global Barometer of Corruption Perception in Societal Sectors



Source: Transparency International Global Corruption Barometer 2004

Table 1.3

Effect of corruption on spheres of life in a country

	Personal and family life	Business environment	Political life
Not at all	32%	13%	11%
To a small extent	23%	19%	15%
To a moderate extent	23%	30%	26%
To a large extent	20%	33%	44%
Don't know/ no answer	3%	6%	5%

Source: Transparency International Global Corruption Barometer 2004

Table 1.4 below depicts the impact of corruption at the most micro level of economic and political analysis. It affords the opportunity to examine the frequency with which corruption influences the daily lives of the citizenry of different nations. It is important to note that this survey is administered on a household basis so the impact can be considered far greater when countries are reporting that 20 to 50% of their households have had to pay bribes over the past 12 months.

Table 1.4

Corruption Impact on Households

Experience of bribery Question – In the past 12 months, have you or has anyone living in your household paid a bribe in any form? Answer – Yes	More than 50%	Cameroon
	41% - 50%	
	31% - 40%	Kenya, Lithuania, Moldova, Nigeria
	21% - 30%	Albania, Bolivia, Czech Republic, Ecuador, Ghana, Philippines, Romania, Russia, Ukraine
	11% - 20%	Bosnia and Herzegovina, Brazil, Costa Rica, Egypt, Greece, Guatemala, India, Indonesia, Kosovo, Latvia, Mexico, Pakistan, Peru
	5% - 10%	Argentina, Bulgaria, Croatia, Estonia, South Korea, Georgia, Macedonia (FYR), Poland, Turkey, Uruguay, Venezuela
	Less than 5%	Austria, Canada, Denmark, Finland, France, Germany, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, Netherlands, Norway, Portugal, Singapore, South Africa, Spain, Switzerland, Taiwan, UK, USA
<i>Source: Transparency International Global Corruption Barometer 2004</i>		

It is reasonable to assume that corruption has a variety of macro and micro level impacts upon performance and opportunities in international market places for multi-national firms and that multinationals would logically be concerned about corruption as an environmental business factor.

Concluding Commentary

Thus far, the taxonomic review has sought to define the term “corruption” within a cross-cultural context and to give examples of definitions from the World Bank, United Nations, European Council of Justice Ministers, Transparency International, and a variety of other sources. For the purposes of this study the following conclusions are drawn:

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- Cross culturally corruption is an activity that can be defined and recognized despite the potential for cultural nuance.
- The impact of corruption on society and economic development is manifestly negative and is recognized as such by both the scholarly community and governmental bodies across the world.
- That Transparency International's definition of corruption is recognized internationally and employed by governmental and non-governmental agencies in their definition of corruption.

It has been the intention of this paper to provide a taxonomic cross cultural definition of corruption that addresses the cultural relativists' belief that corruption is a cultural phenomenon and insulated from criticism or solution by this status. Corruption has its greatest impact on emerging nations and its most profoundly negative impact on the poorest in those societies as public projects and funds are siphoned away to projects that offer greater potential for graft, bribes and corruption. It is time to end the cross cultural semantics of "one man's gift is another man's bribe" debate and engage the issue of corruption with clarity and purpose.

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