

THE SOCIAL AND ECONOMIC IMPACT OF CORRUPTION ON NATIONS AND MULTINATIONAL CORPORATIONS

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ABSTRACT. This paper focuses on the social and economics impact of corruption on national economies and multinational corporations. The paper addresses the importance of eliminating corruption from the standpoint of its macro economics effects on gross domestic product, foreign direct investment and entrepreneurial activity within an economy. It also examines the impact that corrupt business environments have on multi national corporations and their abilities to compete in such environments.

Keywords: corruption, social impact, economic impact, national economies, corporations

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

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

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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 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” (Lambsdorf, 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-Scrapers 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” (Lambsdorf, 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 to “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 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

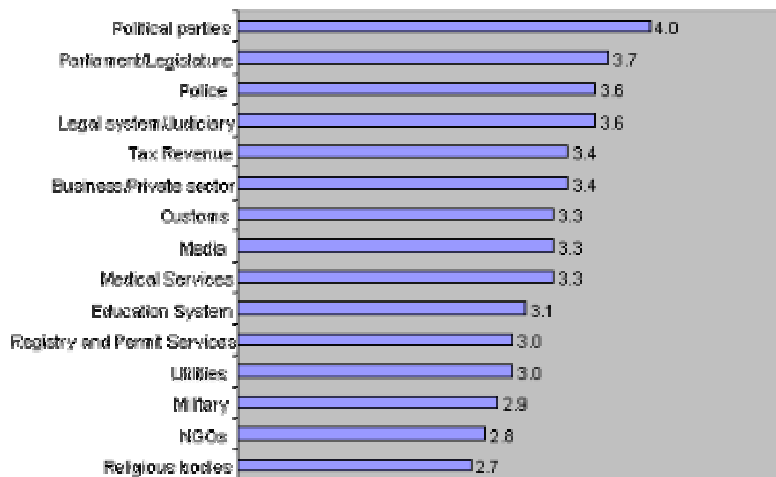
finances (Aibel, 1996, p. 3). Additionally, the scandal can affect the firm's financial performance both from a revenue and capitalization standpoint.

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 2.2.

Global Barometer of Corruption Perception in Societal Sectors



Source: Transparency International Global Corruption Barometer 2004

(A table listing each of these sectors by individual nation is available in the appendix along with accompanying notes explaining the results.)

Table 2.3 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 2.3.

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 2.4 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 2.4

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, a nation looking for a policy that would have the most significant and desirous affect on the levels of corruption would elect to free the economy of governmental burdens and allow free market mechanisms to increase transparency and reduce corruption in the nation. “In trying to alter a climate of conduct, it is encouraging to bear in mind the fact that each vicious circle entails a virtuous circle if the direction is reversed” (Sen, p. 278).

Governmental Reforms

Daniel Kaufman’s list would be an excellent place for any government to begin freeing their economies by reforming, reducing or eliminating the:

- Issuing of licenses, permits, quantitative import restrictions, passports, customs and border crossing documentation and bank licensing.
- Implementing and enforcement of price controls
- Blocking of new firms and investors from entry to markets and providing monopoly opportunities to existing firms.
- Awarding public procurement contracts.
- Granting of subsidies, soft credits, tax exemptions, inflated pensions, and allowing tax evasion.
- Imposing foreign exchange controls resulting in multiple exchange rates, over invoicing and the flight of capital.
- Allocation of real estate, grain storage facilities, telecommunications and electrical power contracts outside of free market mechanisms.
- Selective enforcement of socially desirable regulations such as those that apply to public health, education and the environment.
- Maintaining of obscure or secret budgetary accounts, or otherwise facilitating “leakages” from public accounts to private accounts.

Role of Multinationals in Reducing Corruption

Multinational corporations have a significant role to play in encouraging governments to adjust their economic policies to allow for greater free market activity. The resulting improvements in human development will increase the propensity of the nation to embrace transparency. Firms should establish the following internal policies (Sullivan, Center for International Private Enterprise, 2001, p. 5).

Internal Policies:

- Codes of ethics and procedures for dealing with the solicitation of bribes.
 - Strong and independent board of directors with significant consideration given to the issue of “conflict on interest”.
 - Accepted standards of financial accountability and transparency within the firm.
 - Independent auditing using internal and external agents for this process.
 - Honest and fair dealings with all elements of the community.
- Firms should support the following external policies.

External Policies:

- Domestic reforms that will increase democratic and free market processes that contribute to increased transparency.
- Efforts of a free press that protect the interests of a society as a whole.
- Trade associations in their efforts to reduce corruption.
- Non-governmental “watchdog” organizations in their efforts to reduce corruption.
- Grass-roots capitalism by supporting micro-lending programs throughout nations that they have commercial activity.
- Passage of the United Nations Convention on International Corruption, 2004.

Corruption should no longer be viewed by corporations or nations as a “polycentric” or idiosyncratic feature of doing business in developing nations but rather as a systemic impediment to global commerce. Corporations represent the agents of change in both the economic structure and to some degree the political and social structure, as well, and as such should bring their influence to bear on issue of corruption.

The international battle with corruption will be won as the citizens of nations across the globe have the opportunity to embrace democracy and democratic capitalism as the guiding precepts of their socio-organizational design.

***“Dico tibi verum, libertas optima rerum.
Freedom is best, I tell thee true, of all things to be won.***

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