

# MONEY

**Corruption: The universal language is graft, bribery and payoffs. Can it be...**

**Y**OU'RE DRIVING IN ACCRA, capital of Ghana, minding your own business, when a traffic cop decides you've made an "illegal" left turn. The spot fine? Fifty bucks, and no receipt. Your company needs telephone repairs in Beijing. The price?

A fishing trip for everyone in the local telephone-and-telegraph office. You spend a day at the Venezuelan port of La Guaira, filling in forms so you can export mangoes. At the last minute, an official spots a typo. So sorry, all paperwork has to be redone; that, or pay a "special fee." Or watch your mangoes rot.

*Baksheesh* in Egypt, *dash* in Kenya, *mordida* in Mexico—corruption is everywhere, and ancient: Mercury probably ran a crooked messenger service on Mount Olympus. Anti-corruption laws are just as old: "Neither shalt thou take bribes," God told Moses, "which blind the wise and pervert the words of the just." But in the last year the politics and economics of graft have absorbed businessmen and policy-makers to an extent rarely seen before. In Italy and France crusading judges have cut a swath through the ranks of politicians. In Britain two ministers resigned amid widespread press allegations of sleaze. Yet the real focus on corruption is in the economies of the developing world and in the countries making the transition from communism to capitalism. Quite simply, the scale of graft in such countries is so great that it risks causing political unrest or—no better—a backlash against free-market reform.

These new fears have caught some by surprise. A recent academic paper admits that "economic studies of corruption are rather limited" (which, given the pervasiveness of the practice, says all you need to know about economists). In a speech last year Jeffrey Sachs, a Harvard professor and adviser to reform programs in Latin America, Eastern Europe and Russia, dismissed the "excess focus" on the supposed corruption of the mafia in Russia, those square-necked characters who lurk wherever business in Moscow is done. "Many of those

**BY MICHAEL ELLIOT**



# Y TALKS

Can advocates of market reform and economic growth be heard above the din?



who are called mafia are simply traders," said Sachs. Development economists challenged on the effects of graft trot out the "Australian defense": Australia was settled by convicts and rapaciously corrupt British officials, yet within two generations was law-abiding and prosperous.

Times have changed. Some academics used to defend corruption as a useful training for entrepreneurship, but such insouciance is old hat (box). Those who were once too timid to attack "local customs" have begun to speak out. In Argentina recently, Michel Camdessus, the managing director of the International Monetary Fund, told his hosts, "Let's say it—there needs to be less corruption in several areas of government," and the Clinton administration has put corruption on the agenda for December's Summit of the Americas in Miami, Florida. Linda Chalker, Britain's much-respected minister for international development, recently told NEWSWEEK, "corruption is a major impediment to development . . . I do not accept, as some do, that it is a necessary fact of life that helps the wheels of government and business turn."

Seventeen years after its own Foreign Corrupt Practices Act, which prohibited the bribing of foreign officials to secure business, the U.S. government last May finally won promises from other rich countries that they would introduce similar legislation. In developing countries from Thailand to Nigeria (yes, even Nigeria), grass-roots campaigns against corruption are gaining strength. And a new lobbying group based in Berlin called Transparency International (TI) has given real visibility to the fight against graft.

Why the change? Partly because people involved in economic development are fed up with seeing aid projects hijacked by graft; it was just such a group that dreamed up TI. And leaner times have given corruption a nastier taste. It was easy to joke about the size of a Rolex on the wrist of a general in Lagos when Nigeria's oil-rich economy was growing. But since 1980 most of sub-Saharan Africa has grown poorer, which has made the sumptuary excesses of the *wabenzi* that much harder to swallow. It's merely unpleasant to have to pay \$12 to a

ILLUSTRATIONS BY MARK RYDEN



**A few academics used to defend corruption as useful training for entrepreneurs, but even small-time stuff can have bad consequences**

junior Zimbabwean official for a driver's license. But stomachs turn when—as happened in Angola—the social-welfare minister imports 300 Mercedes-Benz cars into a country racked by civil war.

**I**N OTHER COUNTRIES GRAFT IS SPRINGING up on ground that was relatively clean. Hong Kong, once notorious, won a good name after the establishment of a powerful Independent Commission Against Corruption in 1974. But growing trade with China (where corruption is endemic) has led to a new cycle of graft. Last year, for example, nine customs officers were arrested for allegedly helping smuggle stolen cars and electronic goods into China. Officials worry that after the colony reverts to Chinese control in 1997, its clean reputation will be lost. "Today Hong Kong is threatened once again by a rising tide of corruption," said Gov. Chris Patten recently. "The alarm bells have started to ring loud and clear."

Even nickel-and-dime graft can have horrific consequences. Thailand is the classic example. Prostitution is formally illegal there (don't laugh). But thousands of brothels, massage parlors and go-go bars just put a cop on the payroll, slipping him \$120 to \$600 monthly; a recent study from Bangkok's Chulalongkorn University estimates that the city's 1,000 entertainment houses pay bribes of \$600,000 a month to the local police. That keeps Thailand's police secure in their suburban villas and BMWs; a retired police colonel was recently found to have \$920,000 in his bank account. Even worse, the alliance between the police and the fleshpots has fueled an AIDS epidemic. Health officials say more than 400,000 Thais have been infected with the AIDS virus, most of them in brothels an honest police force would have closed long ago.

Above all, however, the new attack on corruption has followed from an uncomfortable discovery. The free-market economic-reform programs of the last two de-

ades—which stress cutting budget deficits, reducing subsidies and protection and fighting inflation—can make corruption worse, and often have. Fifteen years ago you didn't need to be a genius to know that Latin America and the communist world were corrupt. But—if you were a foreign businessman—it was a sort of predictable corruption. Just as you might have done in the '60s in Mayor Daley's Chicago, you paid a bribe to the representative of the governing party, communist or otherwise, and broadly speaking, got what you paid for. But in the 1980s the old political and economic systems were stood upside down. New sources of local political power supplemented the central party apparatus. New regulators grew up for specific industries. And they all wanted their slice of the pie. The result was predictable. In today's Russia, says Andrei Shleifer, an economics professor at Harvard, "Everybody is taking bribes independently. In transition economies, there's no organized corruption. Everybody is on his own. This makes corruption much more distortionary."

"Distortionary" is a nice economists' word. Ordinary Russians, watching heavy-shouldered guys hand bricks of dollars around the lobbies of Moscow's hotels, can be forgiven for being more blunt. Vladimir Kucherenko, a muckraking Moscow journalist, dates his disillusion with economic reform to the moment he saw documents proving that many top city officials—including "democrats"—were on the take. "This isn't capitalism," he says. "It's only great bribery,

and a great stealing of my country." According to a recent World Bank survey, 65 percent of Russians say life was better under the communists. Charles Blitzer, the World Bank's chief economist in Moscow, notes the dangers of public resentment about the new wealth in the hands of the old *nomenklatura* and mafia. "You can distribute assets and wait a generation or two," says Blitzer, "but it doesn't help politically in the short run. People were naive to have been indifferent to that." But those who dreamed up reform programs were indeed naive—and now they fear that the corruption associated with Russia's reform programs will lead to a political backlash in favor of nationalists or communists who claim to have clean hands.

This risk exists elsewhere, too. In Venezuela, the government of Carlos Andrés Pérez introduced a neoliberal economic reform package in 1989, cutting subsidies and attempting to bring some sanity to public finances. But the reforms just shifted the

of corruption; the old political hacks around Pérez quickly found new ways to make their pile. They manipulated new foreign-exchange rules that were meant to assist exporters; they demanded (and got) kickbacks from the foreign investors who rushed into Venezuela's newly liberalized economy. In 1993 an investigative reporter discovered a \$17 million payment made by Venezuela's Central Bank to a presidential "discretionary" fund. Pérez was forced from office last year, and the new government of Rafael Caldera has threatened to junk the whole neoliberal reform agenda.

Just the same dangers are evident in Africa. One of the most promising recent developments in that continent was the 1991 elec-

tion in Zambia of a reform-minded administration headed by Frederick Chiluba. But several members of his administration have quit in disgust at untrammelled corruption, and others have been dismissed. Now Kenneth Kaunda, the president Chiluba ousted (and the man who wrecked Zambia's economy), is toying with running for office once more, while a popular song in Lusaka claims that "Kaunda created wealth, Chiluba destroyed it all."

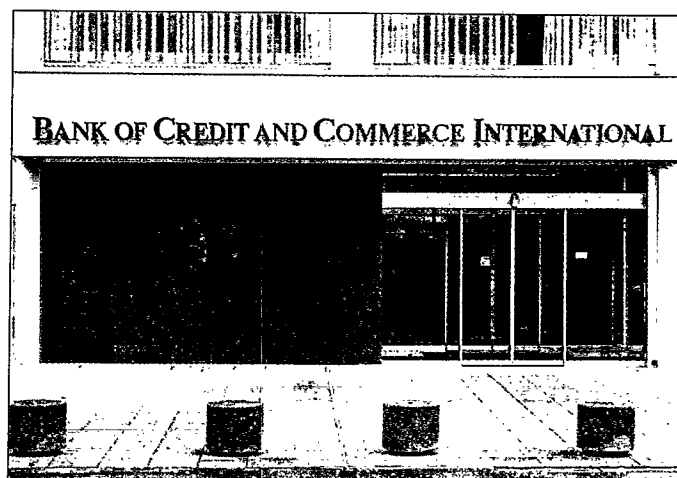
Suddenly panicked that voters disgusted with graft might turn against economic reform, development economists have subtly changed their line. The hot item now is the "second wave" of reform. Where the "first wave" stressed economic fundamentals

—like budgetary discipline and an open trading system—the second wave is meant to ensure that gains from economic growth are distributed equitably. It won't be easy. Lawrence Summers, under secretary of the U.S. Treasury and a former chief economist of the World Bank, says, "Cutting inflation is much easier than building an education system that works; letting a price rise is much easier than setting up a program which puts a floor under people's incomes; privatizing an industry is easy compared with setting up a regulatory framework." Indeed; just last week, Jaroslav Lizner, the director of the Czech Republic's privatization program, was arrested for allegedly accepting a \$300,000 bribe to rig a stock tender. And not

## Sometimes, a Little Corruption Helps

FROM BOTSWANA TO BIALYSTOK, from the House of Commons to Harare: bribery and corruption seem to have become constant themes of modern politics and economics. Yet each time a new scandal happens, journalists and politicians appear unable to understand why graft lives on. The BCCI scandal of the early 1990s left establishments in many countries shocked—shocked—that an enterprise with offices all the best addresses could offer "full service" for hot money. But when the bank was closed down, they seemed no better prepared to find strategies to combat corruption in the future. In part, that's because academic economists have devoted surprisingly little time to the subject, even as practitioners of the arts of corruption expand and refine their craft.

For years economists have assumed that corruption itself isn't the problem—the real problem was controlled economically in those where nothing worked without a bit of grease on the wheels. "Corruption is an outgrowth of government involvement in the economy," says program director Becker, a Nobel laureate in economics at the University of Chicago. "The more regulation you have in any part of the world, the more you will see corruption." In economic theory, needless government intervention in the working of a market reduces efficiency.



SCORCELLETTI—GAMMA-LIAISON

**Laundry: The rot within BCCI proved a good address is no protection**

Since such intervention was standard in, say, postcolonial Africa, where every sort of economic activity needed a mountain of paperwork, it's no surprise that corruption seems associated with poverty. In such circumstances, corruption can be quite useful. If it takes two years to get licenses and permits to sell your crop, then a bribe that gets the deal done in two weeks may increase economic efficiency. That's why Jagdish Bhagwati of Columbia University says that bribery can be OK when there are "irrational interventions" by government in the economy.

If that were all there was to it, the solution to corruption would be simple: scrap all government controls on the econo-

my. In practice, however, the economies in Latin America and the old communist countries making the transition from controlled markets to free ones pose a more difficult problem—as Robert Vishny of the University of Chicago and Andrei Shleifer of Harvard University have recently argued. In the communist Soviet Union, or (possibly) in China today, the state had a monopoly on corruption. In China, says Vishny, foreigners can count on the promises of the government, so a bribe just becomes a form of tax—irksome but not the end of the world. But in Russia today, there's no central authority to impose "rules" for bribery. "Everybody is taking bribes independently," says

Shleifer. "That's a problem."

No kidding. In a system where everyone wants a piece of the corruption pie and knows how to get it, economies can simply implode. Bhagwati warns that bribery, even if theoretically justified, eventually is corrosive, diverting revenues from the treasury to the pockets of bureaucrats until a government is so strapped for cash that it can't fund the infrastructure it needs to encourage investment. Moreover, since even corrupt bureaucrats have a bit of shame, they tend to keep bribes secret. Vishny and Shleifer argue that just makes things worse. Away from public scrutiny, dishonest officials can and will order equipment that's far too expensive for a country's needs, just to get a bigger "commission". That's one reason why a bribe does more economic harm than its cousin—taxation.

**S**o: how can corruption be tackled? According to the newer theories, not just by reducing government control of the economy—a necessary but not sufficient step. Countries with a tradition of corruption also need to pay bureaucrats a decent wage, to encourage whistle-blowers in the press and judiciary and to encourage a general sense of civic virtue. Unfortunately, not the kind of stuff you do overnight.

MICHAEL ELLIOTT and  
SUDARSAN RAGHAVAN

# 'People Can Get Away With Anything'

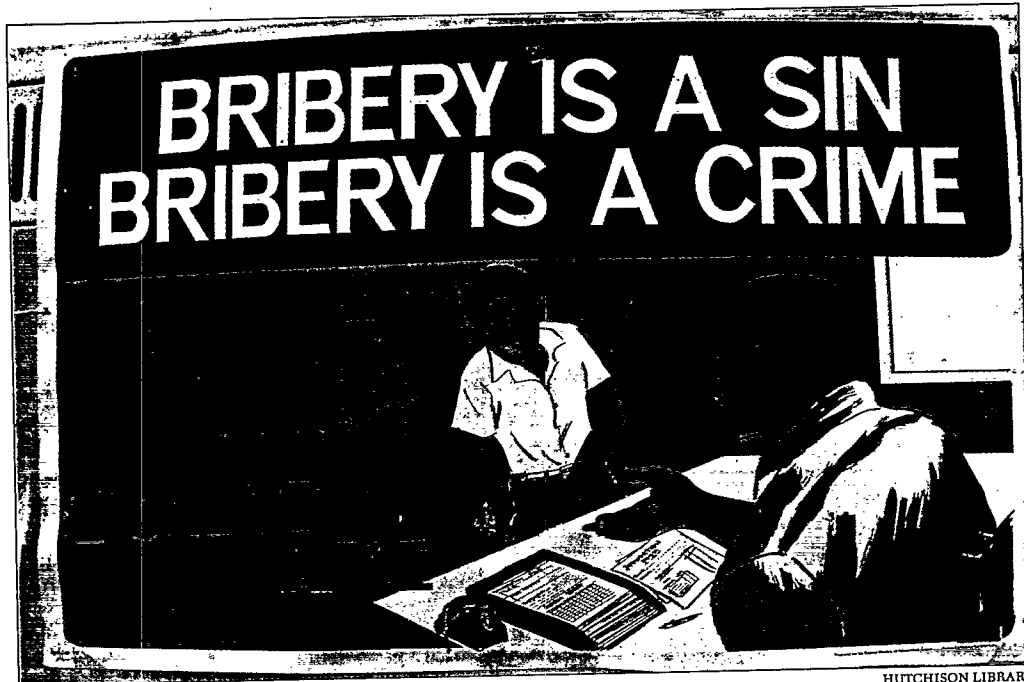
**D**O YOU HAVE SOMETHING for our drinks?" The question came just as I was extricating my passport from the immigration desk at Lagos's Murtala Muhammad International Airport. The supplicant was a middle-aged security guard with thick sideburns and even thicker glasses, an expectant smile playing on his lips. This was a first: in 11 years of

accept bribes. Resourceful common bilk unsuspecting foreigners of six- and seven-figure sums through elaborate advance-fee fraud schemes. Billions of dollars in oil revenues go unaccounted for. "It's a totally corrupted system, and people see they can get away with anything," fumes Lagos attorney John Adeleke. "There is absolute lawlessness in the higher

1973 oil embargo sent petroleum prices soaring. Almost overnight Nigeria was flooded with petrodollars, and the men in uniform who controlled the purse strings were accountable to no one but themselves.

That was a potent recipe for unbridled thieving, as officials of the Bank of Credit and Commerce International (BCCI) soon learned. The financial

pant. Court documents claimed a year ago that senior army officers and cabinet ministers had been given privately owned beachfront property in Lagos at sharply discounted prices under a retroactive decree issued in July 1993. The list of beneficiaries read like a Who's Who of the power elite. It featured current strongman Gen. Sani Abacha, then the defense minister; the chief of the general staff, Gen. Oladipo Diya; the ministers of justice, information and foreign affairs, and the leader of the Nigerian Labor Congress. Around that time, the head of the state-owned oil company and six other senior officials were charged with stealing \$41 million in connection with a shady fuel-storage contract. The seven defendants were later released, and the prosecution was quietly shelved.



HUTCHISON LIBRARY

Nigerian poster: Wiping out graft will require stronger institutions and tougher enforcement of the law

dealing with officialdom in Latin America and sub-Saharan Africa, I had met my share of mendacious lowlifes—but no Medellín cop or Angolan customs inspector had ever asked me for a donation to his liquor cabinet. But this, after all, was Nigeria.

Africa's most populous country is the Third World's kleptocracy central. The pervasive stench of corruption assaults the senses the moment a visitor enters the disarmingly neat and smart-looking airport terminal—and it is truly ubiquitous, reaching into the private sector as well as the bureaucracy. Doctors prescribe drugs for nonexistent ailments. Judges

ranks of society, and it stems from the people we have in government."

It wasn't always that way. When Nigeria became independent from Britain in 1960, it boasted an efficient civil service that was clearly separate from the business community and accounted for every penny of government revenue and expenditure. But by the mid-1970s, government had become a thriving enterprise unto itself as oil exports came to account for 90 percent of the country's foreign-exchange earnings. Two important changes had taken place in the intervening time: a coup d'état in 1966 ushered in 13 years of military rule, and the

house of choice for drug lords, money launderers and arms smugglers in the 1980s, BCCI made a killing in Nigeria by adapting quickly to local customs. Bank officials abetted over-invoicing scams involving commodity exports that robbed the Nigerian treasury of untold millions. Government officials used BCCI to move vast sums into personal bank accounts offshore. Senior civil servants received handsome "commissions" for services rendered to the bank. "Commission means kickback," BCCI manager Nazir Chinoy told a U.S. Senate subcommittee in 1991.

BCCI was closed down in 1991, but graft remains ram-

**C**AN NIGERIA'S PLAGUE ever be stamped out? One former head of state thinks so. Olusegun Obasanjo ruled the country from 1976 to 1979 and secured his place in history by becoming the first (and thus far only) Nigerian general to fulfill a promise to restore civilian rule. Obasanjo was perhaps the most prominent African to lend his name and stature to the anti-corruption group Transparency International when it was launched last year, and he sees the introduction of democracy as an essential precondition for a successful war against corruption. "The average African is not by nature more corrupt than the European or anyone else," he argued recently. "But other nations and practices which effectively discourage and punish corruption." Nigeria does not, and acquiring them will entail years of concerted effort and rigorous law enforcement. Until then the corrupt general drug traffickers and enterprising fraudsters will continue to define Nigeria's reputation.

JOSEPH CONTRERAS  
PAUL ADAMS in Lagos

...developing countries like the new talk. Take Argentina, where President Carlos Menem once accepted a \$100,000 Ferrari Testarossa from an Italian company bidding for government business (after he was caught speeding, Menem allowed the car to be auctioned for charity). "To talk about a second wave implies that we've accumulated some wealth and are now ready to distribute it," says Juan Llach, a key member of Menem's economic team. "It sends the wrong message."

Really? Not half as wrong as dumping the whole reform program would be; and at Argentina's elections next May, graft is bound to be a key issue. Better, surely, to introduce laws that stop the benefits of growth being appropriated by elites—which means action against corruption.

**W**HAT KIND OF action? In one important respect, the neo-liberal reform agenda helps. From Haiti to Ukraine, nationalized industries have been a traditional source of graft. "State-owned enterprises," says Lewis Preston, the president of the World Bank, "have been a playground of corruption forever." Privatizing them may lead to a period of what one Russian economist calls "Wild West capitalism," but the alternative is usually worse.

Rich countries can—and should—enact laws that prohibit their firms from bribing foreign governments. In some countries that is not just not illegal; it's positively encouraged. By one estimate, 500 million to 600 million Deutsche marks are deducted from German corporate tax returns for foreign corruption, passed off as "necessary expenditures." Chalker says that the American Foreign Corrupt Practices Act doesn't work very well because nobody else has such a law. But attitudes may be changing. According to Daniel Tarullo, a U.S. assistant secretary of state, the German government was helpful in brokering this year's agreement among the rich nations to pass legislation banning bribery of foreign governments.

In the end, however, the fight against corruption will be won in developing countries themselves—not in the rich world. There are encouraging signs: Thailand, Zimbabwe and others have set up anti-cor-

ruption commissions, though they don't always deliver what they promise. From Russia to Venezuela, journalists are risking their lives—quite literally—to chase down corruption stories. In Argentina and elsewhere, lawyers who once took civil-rights cases now fight corruption.

These indigenous efforts sometimes go off half-cocked. In China, for example, prosecutors recently sponsored an exhibition on some 5,000 anti-corruption cases cracked by government agents since 1990. Attendance was mandatory for thousands

ance. And good government isn't something that can be imposed from local capitals. Jorge Zepeda, editor of Siglo 21, a graft-busting newspaper in Mexico, says Costa Rica is "clean" because it has a de Tocquevillean tradition of local, grassroots democracy.

That's probably right. If one single book has gotten the economic development community buzzing recently, it is a study of Italian politics by Robert Putnam of Harvard University. Putnam argues, convincingly, that different regions of Italy



**Some take a benign view—they're really just 'traders'—of the gangsters and other shady characters who appear wherever money changes hands**

of bureaucrats—and the organizers trebled the admission fee without warning. In the World Bank and in universities, researchers are trying to figure out why some countries, but not others, can mount anti-graft campaigns that don't self-destruct.

The new buzzwords are "governance" and "the civic order." Sit in on a seminar of development economists and you will hear—as you would not have five years ago—lots of talks on the importance of an independent judiciary, fair-voting laws and a free press. Those who campaign against graft in the developing world stress that economists must learn politics, too. "You can't dissociate development from good government," says Sergio Aguayo, director of Mexico's Civic Alli-

have different levels of democracy and prosperity because of roots that go back 600 years. The north had a civic tradition of small associations—choral societies and craft guilds. The south had authoritarian governments and the mafia. The north seems just plain better at building a modern, clean, society than the south. Building such traditions in parts of the world that have known nothing but poverty and dictatorship won't be easy. Globally, the last two decades have seen astonishing economic growth. Without determined action, the worm of corruption may yet poison that apple.

With DORINDA ELLIOTT in Moscow, TIM PADGETT in Mexico City, JOSEPH CONTRERAS in Johannesburg, RON MOREAU in Bangkok and bureau reports