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Anti-Corruption Institutions: Some History and Theory*

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Abstract:

Corruption is a multi-dimensional problem that has been pervasive through history. Attempts to fight corruption must likewise be multi-directional. The institutions that have been designed in different societies for this purpose include formal laws, special agencies, community organizations, and combinations; their record of success is varied. This paper examines some prominent examples of such effort, with special attention to campaigns like the ones led from the top that transformed Hong Kong and Singapore, and the bottom-up Addiopizzo movement that has for the last decade organized resistance against the Sicilian Mafia's extortion. The paper suggests some requisites for success of anti-corruption institutions by analogy with the conditions for success of other self-governing institutions that address other issues like contract enforcement, and places these ideas within a general theoretical framework of collective action.

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1. Introduction

Corruption is a complex, multidimensional problem. Even its definition is elusive and a matter of disagreement among those studying it. Many attempts to define it yield some variant of “use of public office for personal gain.” I will broadly follow this usage in this paper.¹

Corruption comprises a range of such malfeasance. Start with petty bribery, which can take two forms. The first entails extorting money or other favors as a price for some good or service (such as rationed food or medical care under a national health service) or a document or permit (such as a passport or driving license), to which the citizen is entitled for free or at a low price. Variants of this include delaying delivery of the good or document unless the price is paid. The second form of petty bribery involves extracting a price to convey a favor for which the applicant does not qualify; for example a customs officer waiving import duty in exchange for a payment or kickback. And there is a spectrum spanning these categories where the qualification is a matter of discretion or judgment; for example an inspector’s decision as to whether a restaurant meets sanitary standards that are not precisely quantitatively measurable. Corruption also includes larger deals, where in exchange for bribes or kickbacks, politicians or bureaucrats award government contracts for supply or construction, overpay providers of public services, give public property including land and the airwave spectrum for free or at a low price, and grant waivers or exemptions from regulations. Finally, there is grand corruption: contributions tantamount to purchase of politicians in order to secure monopolies or laws that create private profit. Some definitions also include politicians’ and officials’ use of inside information about future public projects to

¹ There can be similar misuse of authority in private enterprise; for example, a firm’s purchasing manager may overpay in exchange for a kickback from the supplier. Firms attempt to deter such behavior using efficiency wages and similar strategies, and presumably they do so to an optimal extent trading off costs of detection and benefits of deterrence. This is basically a principal-agent problem in corporate governance, therefore I will leave it aside and focus on corruption in exercise of public authority.

make private profit by acquiring lands or businesses that stand to benefit from the projects, but when this is not explicitly prohibited by law, others call it “legal corruption” or “honest graft”. All these forms of corruption are facilitated if the judiciary is also corrupt, for example if judges are complicit in violation of property rights or let off any prosecuted officials or politicians lightly.

Some or all of these forms of corruption have existed in most countries and throughout history.² Perhaps the earliest mention is in Kautilya (also known as Chanakya) in his *Arthashastra*, which was written more than 2000 years ago. The following is noteworthy: “Just as it is impossible not to taste the honey or the poison on the tip of the tongue, so it is impossible for a government servant not to eat up at least part of the king’s revenue. Just as a fish moving under water cannot possibly be found out either as drinking or not drinking water, so servants employed in government work cannot be found out while taking money for themselves.” (Kautilya, 1992 [translation], chapter IX). This nicely captures both the temptation of officials who have the power to create or distribute economic rents, and the difficulty of detecting their corrupt actions.

Actually many of Kautilya’s remarks pertain to embezzlement from the state treasury, which we may or may not regard as corruption. Mungiu-Pippidi (2016, p.63) observes the same about Europe in the middle ages under feudalism and monarchy. Her explanation is as follows. Most modern societies profess ethical universalism – application of the same impersonal and impartial rules to everyone – and practice it to varying degrees. In pre-modern Europe, “since no one ... even aspired to the norm of ethical universalism, one could hardly speak of corruption in the modern sense.” When all allocation is at the ruler’s whim, creation and misappropriation of rents by his officials is at worst a principal-agent problem between the those parties.

To the extent that corruption acts like a tax on business, it deters production, investment and innovation. Worse, to the extent that it is a tax levied at arbitrary rates at the whim of a politician or official, it creates uncertainty, which has

² The recent leak of Panama Papers shows how much corruption at high political levels persists, even in advanced and supposedly squeaky-clean countries.

particularly harmful effects on investment and growth.³ The economic costs of corruption have been well documented in the literature and need not be recounted here. It is sometimes argued that bribery enables firms to get around bad rules and regulations and thereby reduces the distortionary costs of these.⁴ But this is at best a “second-best” argument; it would be better to get rid of the bad rules.

Corruption being complex and multidimensional, anti-corruption policies and strategies need to tackle its many different aspects. At its broadest, the whole culture of a society needs to change, from regarding corruption as a way of life to thinking it to be unacceptable and shameful or even evil.⁵ Each such culture is sustained by its own set of beliefs, expectations and actions. Therefore the desired change entails shifting from one equilibrium to another. There is no clear game-theoretic prescription for doing so. In this paper I examine a small selection of such attempts in history. They are varied, with an equally varied record of successes and failures. They suggest a few necessary conditions, but not a clear set of sufficient conditions, for shifting away from a corruption-ridden equilibrium. Then I briefly touch on some related theory. In the concluding section I draw on the history and the theory to offer some tentative suggestions and lessons for current and future anti-corruption efforts.

³ See e.g. Dixit and Pindyck (1994).

⁴ Findings of some recent research on Russia (Mironov and Zhuravskaya 2016) contradict this “greasing the gears of bureaucracy” hypothesis.

⁵ The concept of culture is even more complex than corruption! The Merriam-Webster dictionary defines it in several parts: *a*: the integrated pattern of human knowledge, belief, and behavior that depends upon the capacity for learning and transmitting knowledge to succeeding generations; *b*: the customary beliefs, social forms, and material traits of a racial, religious, or social group; *also* the characteristic features of everyday existence (as diversions or a way of life) shared by people in a place or time; *c*: the set of shared attitudes, values, goals, and practices that characterizes an institution or organization; *d*: the set of values, conventions, or social practices associated with a particular field, activity, or societal characteristic. (<http://www.merriam-webster.com/dictionary/culture>, accessed May 13, 2016.) For my purpose here, the key feature is the sharing of values, practices, etc. This creates the common knowledge – everyone knows, everyone knows that everyone knows, and so on – that helps sustain equilibria in games.

2. Europe and the United States

Mungiu-Pippidi (2016, chapter 3) gives a good account of corruption in pre-modern Europe and the different routes by which different countries reduced it. Especially instructive is the case of many Italian city-states, which took elaborate steps to design their governance systems to prevent corruption. They “opted for ... a city manager, a professional ... It was mandatory for this manager, or *podestà*, to come from a different city so that no local candidates could be favored. He brought his own staff with him, including law enforcers, clerks, and magistrates. He paid a security deposit at the beginning of his term and after his final management report was accepted, he received his money back along with his fees, less any fines incurred. He was usually appointed for a one-year term.” He was confined to a (luxurious) palace in order to insulate him from being influenced by local families. “[N]either [he] nor [his] staff were allowed to perform any activity other than [the management] service. ... Continuous controlling and auditing were regular features of government. ... Many services provided by the state to its citizens were funded by fees that passed directly from the consumer to the provider, without actually circulating in the treasury.” All this points to “the Italians’ understanding that conflicts of interest are ubiquitous.” (Mungiu-Pippidi 2016, p. 65.) Some of these practices were copied by cities and republics of northern Europe, especially if they had trade relations with Italy. However, “[b]y a gradual diminution of power, and by inter-city conquest, the office gradually disappeared” (Born, 1927, p. 869). The underlying reasons are not clear; were there any basic defects in the system or did better governance institutions evolve?

Nor is it clear how and why the system was developed and sustained.⁶ Mungiu-Pippidi (2016, pp.66-67) argues that three important features underlay the

⁶ Ancient China had a somewhat similar system of “guest” officials with supervisory role (Parker 1903, p. 234). And Paul Romer’s idea of “charter cities” (see e.g. Fuller and Romer 2012) has some parallels with the *podestà* system. Therefore a better understanding of that system can have broader use and application.

governance system of these city-states: participation in public affairs by a high proportion of the citizenry; the concept that public office was not a privilege but a civic duty; and equality before the law.

In some countries the road to combating corruption passed through a crisis. In Denmark, a major military defeat in 1658 was a crisis that forced the nobles to transfer power and privileges to a king. He consolidated his position by replacing aristocratic administrators with bureaucrats hired from the bourgeoisie. These had to swear loyalty directly to the king, and having no private fortunes, were also reliant on their positions for their incomes. Gradually this service became more professional, with meritocratic appointments based on objective criteria of education. Other military defeats also led Denmark, Britain and France to move away from selling officers' commissions in the armed forces. (Mungiu-Pippidi 2016, pp. 69-72.) The historical accounts do not explain why the reaction to the crises and the subsequent developments took this path, rather than some other path that might have led to some worse authoritarian rule with its own, perhaps worse, form of corruption. In any case, one hesitates to recommend defeat in war as a way to improve governance!

In Britain and France, many reforms in the appointment and functioning of public administration followed revolutions: the Glorious Revolution of 1688 in the former and the bloodier one in France a century later. However, the process lasted many decades. Britain in mid- and late 18th century was regarded as highly corrupt, both by British thinkers and by American fighters for independence and framers of the constitution (Teachout 2014, chapter 2). The path of revolution is too risky and too slow to serve as an anti-corruption policy, hardly to be recommended to today's Asian, African and Latin American countries.

In the United States, corruption was widespread in mid-19th century. The economy and the role of government were both expanding rapidly; that created opportunities and incentives for all forms of corruption. But it declined in some quite rapid spurts from 1870 to 1920. How did this happen, and does it hold any lessons for today's anti-corruption efforts? We find useful descriptions and analyses

in a book edited by Glaeser and Goldin (2006).⁷ They identify, not one definitive answer, but several actions and movements that contributed to the outcome.

They recognize three distinct theories of institutional change. First, a social welfare maximizing person or party or coalition come into power and enact and enforce the necessary reforms. Second, powerful special interests find it to their benefit to reduce corruption and influence policymakers to bring this about. Third, political entrepreneurs manipulate public opinion and tools of government toward reform. They find instances where each of the three played a part.

The rise of an independent press and investigative journalism proved very important. This in turn was linked to rising standards of literacy in the population, and to the decrease in the costs of communication and transport following the spread of the telegraph and of railways. Newspapers could be delivered promptly to much larger readerships. The resulting economies of scale made it possible for the press to be free of the need to placate politicians and seek patronage. These changes also interacted positively with the rise of the Progressive Movement in politics.

Producer interests have often captured the regulatory process and agencies under various pretexts of appealing to consumer interests. This may have happened in workplace safety regulations, which were supported by large manufacturing firms to raise the costs and deter smaller firms. When opportunities to deregulate arose, a by-product was their role as anti-corruption weapons. For example, reduction in chartering requirements of New York banks in the late 1830s increased competition.

Corruption in the provision of public relief, welfare and unemployment compensation took the form of clientelism practiced by local political party machines. Moving these functions to the federal level and basing benefits on objective criteria reduced this problem, especially because the Roosevelt administration needed to acquire and maintain a reputation for efficiency and credibility in the face of political opposition that would have exploited any evidence

⁷ For a narrative account over a longer span of time, together with an argument for a broad definition of corruption, namely systemic use of public power to serve private ends instead of the public good, see Teachout (2014).

of corruption. This observation runs counter to the belief frequently asserted that “empowerment,” placing the handling of projects and benefits in the hands of local governments, will reduce corruption.

Political competition helped, but corrupt politicians were often able to remain in power on the basis of ethnic or other factional support. A notorious case in point was James Michael Curley, who remained mayor of Boston for many years by appealing to Irish-Catholic jingoism. He was defeated only when political challengers emerged with a clean image but the same Hibernianism.

Thus the decline of corruption in the United States had multiple causes. Some were top-down, others bottom-up. Some were explicitly targeted to combat corruption; others were a part or an incidental aspect of movements aiming to clean up other dimensions of the society and the economy. There was undoubtedly some synergy between the multiple forces acting toward the same goal, but there does not seem to have been much explicit coalition-building or coordination between them. It is not clear that the interests of the emerging newspaper industry would be aligned in exposing corruption. Investigative journalists probably benefited from doing so, but owners might have been on the side of the status quo. Thus the reduction in corruption seems to have been a fortuitous combination of synergy of reforming forces and good luck.

Even with all the forces of improving education and technology, the press, political movements and competition operating in the right direction, it took several decades for corruption in the United States to fall to relatively low levels. And even now the country does not rank very highly for being corruption-free among the world’s advanced economies; see Table 1. This is a cautionary lesson for developing countries and transition economies in the 21st century that are trying to reduce corruption much more rapidly.

3. Hong Kong and Singapore

A more optimistic perspective comes from Singapore and Hong Kong, both of which had high levels of corruption and a culture that accepted it as a fact of life, and

turned this around rapidly and thoroughly. Today both countries rank very high, better than many western countries. Table 1 shows some such comparisons. The second column shows the World Bank’s 2014 World Governance Indicators for “Control of corruption” (labeled WB-WGI-CC 2014 in the table), and the third column shows Transparency International’s 2015 “Corruption perception index” (TI-CPI 2015). In each case 100 is best and 0 would be worst. No country attains 100, but it is amusing to note how things have changed since Shakespeare’s time – now almost nothing is rotten in the state of Denmark.

TABLE 1: Cross-country comparisons of corruption

Country	WB-WGI-CC 2014	TI-CPI 2015
Singapore	97.12	85
Hong Kong	92.31	75
Denmark	99.52	91
Germany	94.71	81
United Kingdom	92.79	81
United States	89.42	76
Italy	55.29	44

How was this turnaround achieved? In each case, the wake-up call resulted from a big scandal. Thereafter two took somewhat different approaches but the ultimate and explicit aim was to change the whole equilibrium.

Corruption was prevalent in Singapore’s administration and police force for almost a century of British colonial administration; attempts to counter it were weak and ineffective.⁸ The situation became even worse during the Japanese occupation in World War II. The big scandal came in 1951, when the police force

⁸ My account is based on Quah (2007).

was found to be involved in an opium hijacking operation. This led to the establishment of a Corrupt Practices Investigation Bureau (CPIB), which was independent of the police force. It got effective backing from the top. Its powers were increased after self-government in 1959 when Lee Kwan-Yew became Prime Minister; in fact the CPIB came to be located directly in his office and answerable only to him (Quah 2007, p.23). The strategy was “to minimize or remove the conditions of both the incentives and opportunities that make individual corrupt behavior irresistible” (Quah 2007, p.17).

The strategy on the incentive side seems to have consisted of improving the detection process and imposing much stricter penalties upon conviction (Quah 2007, pp.20-21). As the economy grew, civil service salaries were improved substantially, creating one more weapon on the incentive side, namely efficiency wages (Quah 2007, pp.27-29). As for opportunities, the government’s general pro-market economic policies may have reduced the magnitude of rents available.

Except for speeches and statements by the Prime Minister emphasizing the importance of being free from corruption, this strategy does not seem to have been backed up by much educational or publicity efforts; in fact surveys point to this as one weakness of the CPIB (Quah 2007, pp.33-34). However, over time the strict and impartial enforcement seems to have sufficed to change the public perception and culture to the point where corruption is regarded as unacceptable.

Hong Kong shows some similarities but also important differences.⁹ The British colonial and Japanese occupation histories were similar, and rapid economic changes and low civil service salaries after World War II sustained much corruption and its acceptance through the 1960s. There was an anti-corruption unit in the police force, but it was itself a partner in the crimes. The jolt to this prevailing culture again came from a big scandal. A British senior police officer Peter Godber, who had amassed a fortune of 4.3 million Hong Kong dollars, came under

⁹ The ICAC web site http://www.icac.org.hk/en/about_icac/bh/ gives a good account. See also the Wikipedia article: https://en.wikipedia.org/wiki/Independent_Commission_Against_Corruption_%28Hong_Kong%29 Some recent developments are recounted in a news article <http://www.cnn.com/2013/10/15/world/asia/china-hong-kong-corruption/>

investigation in 1973 and fled to the UK. (He was later extradited back, tried, and convicted.) The public outcry led to the establishment of the Independent Commission Against Corruption (ICAC). It had strong backing from a new Governor, Murray MacLehose, and was answerable directly to him. Its strategies combined whistleblower-protection, amnesties and forced retirements for smaller offenses, and some prominent trials and sentences for bigger ones. It gradually achieved a reputation for being clean and effective. Today it has a staff of more than 1,000 dedicated professionals. Along the way, it had to overcome strong resistance (including physical confrontations and punch-ups!) from corrupt elements in the police force. It also had to ensure its own integrity, quickly tackling any scandals within ICAC, even ones unrelated to corruption. Its activities were helped by some policies such as legalization of off-track betting, which reduced the scope for corruption.

The ICAC combines these enforcement strategies with ones focusing on public relations and education. Its officers actively reach out to companies and organizations to help them put into place systems and procedures to prevent corrupt practices taking hold. It also conducts publicity, and education starting at the kindergarten level: children are told stories and shown films where characters face ethical dilemmas and the honest ones win. To quote from the CNN news story cited in footnote 5 above: “We don't teach them about laws but we teach them about values,” said Monica Yu, executive director of the Hong Kong Ethics Development Centre, an ICAC division.

Hong Kong enjoys one other advantage: its largely free and open economy creates much less rent at the disposal of officials, thereby reducing the temptation for corruption. Legalization of off-track betting was an important step in this direction. However, land sales and public housing are exceptions to the general rule, and corruption scandals in these do erupt from time to time despite the ICAC's strong enforcement efforts.

Both Hong Kong and Singapore had the advantage of being small city-states where power was effectively centralized, and getting strong backing from the top

for the drive to eliminate corruption. In Singapore this seems to have sufficed; in Hong Kong a broader effort to change the society's culture helped the process.

One further remark of caution should be added to this account. Although these states get high ratings for freedom from bribery in their public administration, they are far from being open access societies: insiders get favored treatment and access to rents, without explicit quid pro quo bribes. In The *Economist's* index of crony capitalism Singapore stands very poorly at No. 4 (the ranking goes from worst to best), China (which includes Hong Kong in this index) is not much better, at No. 11.¹⁰ Using the broad definition advocated by Teachout (2014) or the concept of grand corruption, perhaps they should rank lower in the corruption indexes, and their transformations regarded as much less successful.

4. Italy today

Substantial corruption of all kinds persists in modern Italy. Its score and ranking in Table 1 are very poor in comparison with the other European countries, Hong Kong and Singapore. In another unfavorable comparison, Transparency International gives Italy the same score as Lesotho, Senegal, and South Africa. But this section is about a somewhat different form of corruption, namely extortion by the Sicilian mafia from local businesses. This is not strictly within the definition of corruption as the mafia does not hold a public office that it exploits for private gain. But the difference is only of degree, not kind, between extortion under a threat of burning down a store and extortion under a threat of denying the owner some license or certification crucial for staying in business. Also, perhaps the difference between official and private extortion is minor in this context because the mafia has enjoyed close political connections. The bigger difference is that the drive to combat extortion in this instance is almost entirely a bottom up social movement.

Pizzo is the name for protection money the mafia extorts from local businesses; this was believed to involve 160,000 businesses and to yield the mafia

¹⁰ "The party winds down", *The Economist*, May 7, 2016.

more than 10 billion euros per year (Superti, 2009). Battisti et al. (2015, p.3) report that the extortion payments may reach 40% of Sicilian firms' gross profits.

In 2004 an initially anonymous group of young people started a movement they called *Addiopizzo* to fight the mafia's extortion.¹¹ They began by plastering all over Palermo small stickers that read "un intero popolo che paga il pizzo e' un popolo senza dignità" ("an entire population that pays the pizzo is a population without dignity"). This was a clever "counter-hijacking" of the concept of "dignity", which the Mafia had previously hijacked to connote conforming to the Mafia's rules and to its code of silence (Vaccaro and Palazzo 2015, pp.1079, 1083.)

A year later the group shed its anonymity and launched a three-fold drive. First, they recruit businesses that promise not to pay *pizzo*; these get certificates and banners to post on their storefronts. They investigate members who might have secretly paid *pizzo*, and have expelled a few such "double-game" players. (Battisti et al 2015, p.7.) Second, they seek to convince consumers to patronize only those businesses that participate in this venture. They also organize public events and education programs in schools to discuss the Mafia and the harm it causes. (Vaccaro and Palazzo 2015, p.1080.) More recently they have started ventures like *pizzo*-free tourism, organized tours that use only Addiopizzo-certified hotels, restaurants and travel (Superti 2009, p.9).

In 2012 "Addiopizzo could count on the support of 56 activists, 10,143 consumers, 154 schools, 29 local associations (e.g., the Sicilian branch of Confindustria, the highly influential Confederation of Italian Industry), and more than 700 affiliated firms (over 10% of the entrepreneurs in the Province of Palermo)." (Vaccaro and Palazzo 2015, p.1080.) This is a small but significant dent in the power of the Mafia. It is all the more remarkable because the movement has not had much support, let alone leadership, from the political elite. However, it has benefited from some support from the police, at least the chief and other high-level officials (Superti 2009, p.7).

¹¹ The first scholarly study of Addiopizzo published in English known to me is Superti (2009). More recent and more detailed quantitative and sociological studies include Battisti et al (2015) and Vaccaro and Palazzo (2015).

Superti (2009, pp.4-5) identifies resisting the Mafia as a collective action problem. An individual firm or store is helpless when the Mafia demands *pizzo*; the business would be burned down, or the proprietor killed. But collectively the victims have power.¹² “Retaliation would ... have the potential to create unrest in the population. ... Moreover, by attacking representatives of a popular grassroots movement the criminal organization might transform the victims into new popular heroes, further fertilizing the environment for a general uprising. Active discontent among Palermitans would damage the Mafia’s interests more than the current decrease in profit from Addiopizzo’s campaign.” (Superti 2009, p.5.) To reinforce this, the movement keeps the names of its leaders and member businesses public and visible: “since media coverage of an attack on Addiopizzo would be as great as the organization’s current popularity and would bring the situation to the forefront of the entire population’s mind. This is not in the interests of the Mafia.” (Superti, p.8.) Indeed, secret interceptions of telephone conversations have shown Mafiosi ranting against Addiopizzo, but they have generally refrained from violence against volunteers of the movement or businesses adopting the credo. “Cosa Nostra chiefs appear to understand that with public opinion solidly behind the group, targeting its volunteers could backfire disastrously.”¹³

Addiopizzo has thus used good strategies in mobilizing public opinion, building coalitions, and starting collective action among businesses and consumers. However, it is far too soon to declare victory. The movement must overcome many difficulties if it is to maintain and expand its foothold. Its system of detecting and expelling “double-gamers” who pledge not to pay *pizzo* but do so in secret needs to be improved. It has yet to demonstrate whether and how it can survive a retaliatory lashing out by the Mafia. Superti (2009, p.9) identifies some other weaknesses. The

¹² A similar philosophy motivates India’s “zero-rupee note” movement to combat petty bribery. When a cop or official asks for 100 or 500 rupees, offering this note instead of merely refusing “shows a person’s affiliation with a larger movement.” (“Small change,” *The Economist*, December 7, 2013.)

¹³ See <http://www.newsweek.com/2014/09/26/addiopizzo-grassroots-campaign-making-life-hell-sicilian-mafia-271064.html> .

movement has so far relied on idealism, and a Manichean dichotomy between good and evil. It is not clear whether this can scale up beyond the limited context of Sicily. Nor is it clear whether the movement can include police and political elites in its broad social alliance.

Finally, it has to overcome understandable hesitance to join on part of businesses. Battisti et al (2015) conduct a statistical analysis of firms' decisions in this matter. They find several correlates that make intuitive sense. Older firms, and firms with more physical assets, are less likely to join; they have more to lose from any Mafia retaliation. Also, they may have greater need for credit, and banks seem to restrict credit to Addiopizzo members, perceiving higher risks (Battisti et al 2015, p.7). Firms with more employees and ones with higher levels of human capital, and ones located in districts with higher levels of socio-economic development (including higher education levels), are more likely to join; they are probably more influenced by the social coalition that the movement has built. This points to a hopeful future; as economic development proceeds in Sicily, perhaps itself assisted by Addiopizzo's initial success, it may set in motion a virtuous circle of higher education, human capital, socio-economic development, and entry of new firms, leading to greater participation in Addiopizzo, and in turn further accelerating growth.

And if a privately organized societal coalition can notch up some success against the Sicilian Mafia, similar collective action should be able to face up to mere bureaucrats and politicians!

5. Anti-corruption agencies across countries

Many countries have established anti-corruption agencies (ACAs) in various forms, given them differing mandates and powers, and obtained equally mixed results. Recanatini (2011) offers a good summary of this cross-country evidence, and some initial policy recommendations.

She starts by listing "the four traditional anti-corruption functions" and the proportions of ACAs assigned to cover these: "prevention, including education and

public awareness (82 percent); investigation of corruption cases (78 percent); prosecution of corruption cases (58 percent); and policy, research and coordination (52 percent).” As most ACAs do not have sole or comprehensive responsibilities for all four, they must coordinate with other public institutions: “[those] responsible for investigation and prosecution ... , the audit authority, the ombudsman, the financial intelligence unit, tax authorities, regulatory authorities, ministries and agencies across the public sector.” Proper coordination requires a clear mandate for the ACA, and well-specified enabling legislation.

Many ACAs face serious budgetary and staffing problems; in some cases politicians cut their budgets during high-profile investigations. Politicians can also affect the independence and impartiality of the work of ACAs through their powers of appointing and reappointing their leadership.

The best ACAs maintain good communication and information links with the public through their media and web strategies, and establish partnerships with public sector and civil society organizations. Almost all of them are required to issue annual reports listing investigations conducted and concluded.

Thus we see some factors that determine an ACA’s effectiveness: (1) political support from the country’s leadership, especially in appointing good heads for the agency and giving them secure terms of tenure, (2) a clear and comprehensive framework of legislation that delineates its powers and relationships with other policy agencies, (3) guarantee of adequate resources and independence, and (4) accountability and relationship with the citizenry and the media.

A public policy research program at Princeton University conducted a comparative case study of ACAs in eight countries, Botswana, Croatia, Ghana, Indonesia, Latvia, Lithuania, Mauritius, and Slovenia (Innovations for Successful Societies (ISS), 2014). The different circumstances in these countries, the different strategies pursued by the agencies, and their different degrees of success, have yielded some useful suggestive insights, even though there are too many variables

and too few data points for any definitive statistically significant conclusions.¹⁴ The study emphasized four “key lessons”:

“1. Strong internal controls and accountability mechanisms play important roles in preserving integrity and protecting ACAs from being subverted or discredited.

2. ACAs often can outflank their antagonists by building alliances with citizens, state institutions, media, civil society, and international actors.

3. Preventive efforts that disrupt corruption networks, together with educational efforts that reshape public norms and expectations, can enable an ACA to make long-term gains without triggering overwhelming pushback.

4. Under certain conditions, ACAs pursuing high-level corruption can overcome retaliation by carefully managing timing, resources, and external support.”

Observe that all four pertain to the need for ACAs to deter, counter, and overcome opposition from the beneficiaries of corruption. The opposition’s tactics range from maligning ACA personnel, to behind-the-scenes lobbying, to open legislative battles. To counter this, ACAs have to deploy multiple strategies and balance some tradeoffs across these strategies.

First, ACAs should strive not to leave themselves open to valid criticisms. They should ideally have highly qualified and competent staffs with top integrity, cohesion, and morale. When starting from scratch, this requires time to build, and in the meantime the agency can be criticized for doing nothing, as happened to the one in Indonesia. If the agency rushes to recruit and start with some high-profile cases to show its activism, that can create its own internal problems and scandals, as

¹⁴ One problem with the study is that all eight ACAs in the sample “were considered by experts to perform well relative to peer agencies.” Understanding determinants of success requires a sample with sufficiently many and varied instances of failure!

happened to the one in Latvia. If and when such criticisms hit home, it is essential to improve the procedures and recover from the setback quickly, as both did.

The high-profile strategy galvanizes public opinion, but also attracts strong political opposition. The low-profile strategy mutes such opposition, but may also render the public apathetic toward the anti-corruption movement, and lull the corrupt officials into a true sense of security!

To counter the powerful elite who strategize to weaken ACAs, the agencies must build coalitions with media, civil society, and the international community, as well as sympathetic elements in political parties and other administrative agencies. Indonesia's KPK did this well; when the government tried to reduce its powers and arrest its commissioners, their allies in citizens' movements held mass protests and foreign diplomats lobbied behind the scenes on their behalf. Such support is best won by acquiring a reputation for boldness, impartiality and competence, but should be enhanced by good communication and public relations. The ACAs of Mauritius and Lithuania failed to cultivate journalists and civil society groups; they suffered from public misperceptions and distrust despite objectively reasonable performance at their tasks. If the country does not have anti-corruption civil society groups, the ACA can itself foster their development, as the one in Ghana did.

Two later ISS case studies (2015 a, b) also illustrate the value of maintaining good public relations. In Slovakia, an open data initiative was having some success until a change of government in 2012, when it lost support of the new Prime Minister's office. By working with NGO activists, the office in charge of the initiative was able to continue and even expand its scope. In El Salvador, integrity pacts served to focus collaboration between the government, the private sector, and civil society, and counter some internal opposition from the bureaucracy, to reduce corruption and improve the culture at the Ministry of Public Works.

The ACA's procedures should also be designed to minimize the risk of false accusations and public distrust. Transparency is important, as are clear guidelines and prompt and full handling of complaints. As a former commissioner of Hong Kong's ICAC said: "If a citizen has screwed up his courage to come and tell you

something, if you treat him or his complaint as insignificant, he will never come to you again. You've lost him, and you've probably lost all his friends as well."

Preventive and educational efforts, by the ACAs themselves or in alliance with other social organizations, are very helpful, and also hard for opponents to oppose openly. High-profile investigations and low-profile education have proved complementary in changing public perceptions and culture.

Some agencies publicly ranked government offices; "No head ... would want their ministry to be labeled as the most corrupt ministry," said Rose Seretse, head of Botswana's DCEC. In the next section I suggest a similar ranking scheme on the "supply side" of corruption, to rate firms by their clean practices in this regard.

In contrast to the relatively optimistic conclusions of the ISS report, Heeks and Mathisen (2012) flatly declare: "Most anti-corruption initiatives in developing countries fail." They attribute this to a large gap between design and reality, i.e. a big mismatch between expectations built into the design and realities of ground-level context of implementation. They recommend "a move away from grand designs developed by technocrats to a focus on interventions that have local fit and strategic fit."

The key difficulty they identify is the same as that emphasized by the ISS report: "few if anyone in a position of power and benefiting from corruption would like to see the opportunities for extraction reduced." The strategy and tactics of the opposition depend on their local power and context, and leaders of anti-corruption initiatives must counter-strategize accordingly.¹⁵ The ISS report offers a somewhat selective sample of ACAs that successfully did this; Heeks and Mathisen look at several others that did not.

In her discussion of Heeks and Mathisen, Mungiu-Pippidi (2015, pp.208-9) suggests a more fundamental difference of philosophies. She argues that many Western scholars and donors take a purist line: corruption is a disease or social

¹⁵ Unfortunately anti-corruption movements and their leaders are often driven purely by idealism and enthusiasm; they lack organizational and strategic skills. Anna Hazare's Lokpal (ombudsman) movement and Arvind Kejriwal's Aam Aadmi Party in India are good examples of this.

pathology, and the only solution is to cure it. Therefore they regard partial progress as essentially no progress. She believes this zero-tolerance approach is mistaken: “in developing countries corruption is not a deviation, but rather the norm.” The task is then to change beliefs and the norms, which entails changing the whole equilibrium. This is always a slow process, and partial success should not be dismissed.

6. Some Theory: Prisoner’s Dilemma or Assurance game?

Prime Minister Lee Kuan Yew in Singapore and Governor Murray MacLehose in Hong Kong provided strong leadership and backing for anti-corruption laws, agencies and actions in those countries. But we cannot generally expect politicians and bureaucrats to do so; after all, they are the main beneficiaries in a corrupt system. Rather, we should expect them to pass laws that are weak and have loopholes, to enforce them as slowly and feebly as possible, and to obstruct the workings of any independent anti-corruption agency they may have been compelled to create. Coalitions of the victims of corruption, like the Addiopizzo movement, have stronger incentives to fight it. Their main problem is organizing collective action, and game-theoretic analysis can help us understand the issues.

For the business community as a whole, most forms of corruption create a game of prisoner’s dilemma. In bidding for government contracts or licenses, each firm stands to get a better deal by offering a higher bribe. But when they all do this, they are merely transferring more of their profits to the bureaucrats or politicians who have the power to award these favors, so in the aggregate they lose. Worse, to the extent that corruption acts like a tax, and worse because it is often levied at uncertain and arbitrary rates, it dampens incentives to invest and innovate, so the dynamic losses exceed the pure static transfer costs. This situation, where pursuit of individual incentives leads to a collectively bad outcome, is the classic Prisoner’s Dilemma game.

Some argue that business will simply pass on such a tax to consumers through higher prices. But such recovery will in general be much less than full. If the bribe is for a permit to operate the business per se, that is a fixed cost, and does not

alter the pricing decision. Any market power would already have been exercised to the same extent and reflected in prices even without the existence of a bribe, so the bribe is a pure subtraction from profit. A bribe that raises marginal cost will impact prices. But if the original price was optimally chosen to maximize profit, the added cost of the bribe can only lower the net profit. In some unusual circumstances, higher cost can act as a collusion-facilitating device for oligopolists; see Seade (1983) and Dixit (1986). But such an industry can surely find simpler and more legal ways to raise its costs than corruption! For example, it can support regulation that requires all firms in the industry to spend to achieve some generally agreed socially desirable goal such as reducing pollution or carbon emissions.

There are forms of grand corruption where business can collude with politicians or regulators to create monopolies for their mutual benefit at the expense of the public, and the following analysis does not apply to these. However, if other forms of corruption are tackled, that can contribute to changes in overall culture and attitudes, which in turn make this form of corruption difficult to sustain.

Game theory has yielded several ways the parties to a prisoner's dilemma can resolve it. The two most pertinent in our context are (1) repeated interaction and (2) multiple interactions involving different issues. If members of the business community need to deal with one another over time on several matters such as supply, subcontracting, trade credit, finance, and marketing, then they can create a system of rewards for cooperative behavior and penalties for selfish deviations. To combat corruption, the community should establish a norm that no member shall obtain an advantage by bribery in matters of government licenses or contracts. In matters of deals among themselves, each member should give preference to those who are known to adhere to the norm, and avoid dealing with those who are known to have violated it. A firm that is known to be an egregious briber will be ostracized by others, and thereby effectively put out of business. Since it is almost impossible for a firm to operate without any business deals with others in any moderately complex economy, the prospect of such ostracism should suffice to ensure adherence to the norm.

Such self-governing institutions based on norms and sanctions have operated in several business communities to achieve adherence to contracts among members. Avner Greif's study of a group of Jewish traders in North Africa nearly 1000 years ago (Greif 1993), and Lisa Bernstein's studies of contemporary diamond merchants and cotton traders (Bernstein 1992, 2001) are well known. Dixit (2004) constructs mathematical models to explicate their working.

Kingston (2008) and Dixit (2015 a, b) develop similar models of community-based anti-corruption institutions. Of course the rigorous analysis reveals several conditions necessary for success of the scheme. The community must have an accurate mechanism for detecting violations of the norm, and must be careful to catch, deter and punish false accusations. It needs some support from the formal state apparatus in that verdicts of its adjudication forum should be accepted and not double-guessed by courts in the same way that those of arbitration tribunals are. It must not become an insiders' clique that cartelizes the industry and deters new and innovative entry. It needs to get some large and highly respected businesses as launch or anchor members to attract attention and by example induce others to join. It must maintain good relations and build alliances with broader social groups, NGOs, and media. Dixit (2015 a, b) discusses such issues in detail.

Dixit (2015 b) finds that a business community institution of this kind is complementary or synergistic to any anti-corruption efforts the government may undertake: the two together are more effective than the sum of the effects of each on its own.

Other theoretical, empirical and experimental work has clarified the requirements for sustaining cooperation in a prisoner's dilemma. Perhaps the most important one is that members of the group should be willing to participate in the prescribed punishment of a cheater. If the cheater is being ostracized, he may offer an extra tempting reward to any firm that breaks the ban and deals with him. However, how would this firm know that the cheater would not cheat it also? In fact, the cheater is already ostracized and other firms are not dealing with him, so he has nothing worse to fear. A firm that deals with him would have to give him a greater share of the rent to keep him honest in an ongoing relationship. Therefore it is

actually more costly to deal with an ostracized cheater than to deal with a firm that has a clean history. Greif (1993, p. 535) gives a formal proof of this in Proposition 2.

Willingness to participate in punishment of a cheater to sustain a good social outcome, even at a private cost to oneself, also exists. Evidence has mounted for such “altruistic punishment” (Fehr and Gächter 2002), and it has been found to be ingrained in some basic neural circuitry of the brain (De Quervain et al. 2004). Of course we also need the members to understand that others have this willingness to punish, and the common understanding created by the society’s culture can help.

A recent working paper by Transparency International (2016) suggests an even more promising avenue for the business community institution to combat corruption.¹⁶ It argues that today’s young people want the economy to have good governance and to be corruption-free. They, especially the smartest among them, prefer to work for firms that are good and clean in this respect. A firm that credibly pledges and acts in an ethical manner will find it easier to attract and retain such workers, and keep them happy in their work. Therefore it will enjoy higher productivity and lower labor turnover rates. Customers will favor it; indeed we already see this in the success of some firms like Patagonia. Therefore being more ethical is also becoming conducive to being more profitable.

Of course if most firms are corrupt, being a rare ethical standout does not do much because such a firm will lose out in most aspects of treatment by bureaucrats and politicians. But once enough firms start to be ethical, the relative advantage will tip in favor of good behavior.

In other words, the game may not be a prisoner’s dilemma, but one called “assurance,” like driving on the left versus right. If other cars drive on the left, it is in your own best interest to drive on the left, but if other cars drive on the right, it is best for you to do likewise. Similarly, if other firms are corrupt it pays you to be corrupt, but if others are good and clean, then it is best for you to be likewise.

¹⁶ Discussions with some prominent Indian businesspeople at a recent conference organized by the World Bank confirm Transparency International’s claims about the private benefit of to corporations from being non-corrupt. Experimental research of Grant (2008) also finds that intrinsic prosocial motivation has positive effect on job performance and productivity.

Thus assurance games have two equilibria; which one prevails depends on what common knowledge and expectations of others' actions the players have. Such knowledge and expectations can be created and sustained by the overall culture of the society in which the players live; see Footnote 3 on p. 4 above.

In the driving example it may not matter much which of the two equilibria prevails, but in the case of business conduct the equilibrium with good behavior is better for everyone. The question is how the business community can move from a prevailing bad equilibrium to the good one.

This is not easy, but it is easier than resolving a prisoner's dilemma. To get the process started, reliable information about the identity of good and clean firms should be made available, so the smart young people can seek work at these firms and can support them as customers. As this starts to happen, other firms will recognize the advantages of being good and clean, and will strive to improve their behavior. Once this virtuous circle gathers momentum, the eventual outcome will be the preferred equilibrium. In other words, the whole social culture will change from one where corruption is expected and accepted to one where it is against the norms of behavior and unacceptable.

Think of the information-creating system by analogy with the Michelin star ratings for restaurants. There are one, two and three star restaurants. Owners and chefs try very hard to earn and keep stars; losing a star is a disgrace. The idea is to create a similar rating system for companies, with the difference that in the eventual equilibrium almost every firm will have at least one star, whereas most restaurants never get any Michelin stars.

Of course it is crucial for the rating machinery itself to be entirely above-board and free from corruption. For that, it should be under continuous scrutiny of an independent oversight committee consisting of representatives from different kinds and sizes of companies, highly respected elders in society, some academics, and so on.

7. Lessons for the future

The historical examples as well as the theory reviewed above suggest several approaches to combating corruption. Some try to design the rules and operation of politics and administration so that opportunities and incentives for corruption are minimized. Others focus on enforcement, to detect and punish the corrupt, using independent anti-corruption agencies or similar bodies. Some are top-down; others are bottom-up. This variety of methods produces an equal variety of degrees of success, and the historical accounts do not give much guidance about the deeper underlying structures that can explain or predict success. But taken together, the examples and the theory do have some common themes and offer some tentative suggestions – strategies to adopt and mistakes to avoid.

First, we see the importance of leadership, or at any rate support, from among the topmost tiers of government: the elite in the city-states in Italy who participated in launching and sustaining the *podestà* system, the king of Denmark who got rid of the corrupt bureaucrats, Lee Kuan Yew who led the transformation of Singapore, and so on. Purely citizen-led bottom-up coalitions, like the *Addiopizzo* movement in Italy, can achieve success, but it will be limited. Lack of support from the top may be the biggest obstacle anti-corruption activists in many LDCs will face.

Next, in many instances different groups and strategies appear to be mutual complements: together they accomplish more than the sum of their individual effects. The most successful campaigns, like the one in Hong Kong, combine support from the top and good coalitions at the bottom. Case studies of anti-corruption agencies in several countries show that their efforts have to balance and combine different strategies, and choose the right level of aggressiveness, taking proper account of the political and social context.

Many episodes of anti-corruption action started with a crisis. Although the path from the crisis to the change in the culture of corruption was not always the same and often not very clear even in hindsight, anti-corruption activists should be alert for such opportunities. They should keep in mind the famous saying of Rahm Emanuel (President Obama's first Chief of Staff and later Mayor of Chicago): "Never

let a serious crisis go to waste. And what I mean by that it's an opportunity to do things you think you could not do before.”

The main obstacle facing a group that seeks to fight corruption – whether a government agency or a private movement – will be opposition from entrenched interests that are gaining from the corrupt system. They will look for and exploit all errors and weaknesses of the anti-corruption group. Therefore it is especially important for these groups to avoid any taint of corruption within themselves, or indeed any other scandals that can be used by the opponents to discredit them.

In the modern age, coalitions for anti-corruption action must include the media, including social media, schools, and related networks of information and communication. The anti-corruption groups should actively present themselves to the public, using modern publicity methods, clever slogans, etc. They should develop and maintain good relations with the media, which will then treat discrediting allegations from opponents of these groups with skepticism, and in doubtful cases give the groups the benefit of the doubt.

Whether the movement is led from the top or the bottom, it has to work to change social norms and culture. The experience of Hong Kong demonstrates the value of education, especially at the early school level, for this.

Many of the examples I reviewed demonstrate the importance of contingency (as does so much of history more generally); therefore even good strategies need to be supported by good luck.¹⁷ Just as Louis Pasteur said in matters of scientific observation, “chance favors the prepared mind,” in fighting corruption chance is likely to favor the prepared alliance. Even then, as the historical episodes sketched above show, progress is likely to be slow, and success much short of 100%. Activists and critics alike should not disdain partial success, or criticize attempts at reform because they do not yield a perfect outcome; waiting for perfection merely ensures the status quo, which amounts to 0% success.

¹⁷ See Dixit (2008) for more on the theme that “strategic complementarities plus luck” is the broadly valid recipe for development success.

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