Greed, Corruption, and the Modern State

Essays in Political Economy

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Introduction

Susan Rose-Ackerman and Paul Lagunes

Across the world, private wealth seeks to influence public power. In the extreme, economic and political power unite to produce a kleptocratic system of exploitation. More often, the state and the private sector are distinct but overlapping; the wealthy pursue political influence through lobbying and policy arguments, but such behavior can easily shift toward illicit influence pedaling and outright bribery.

A few US examples can illustrate the overlap. In the state of Colorado the former owner of a major beer company helped fund Ronald Reagan's candidacy for the presidency. After the election, several of the brewery owner's close affiliates were appointed to the Environmental Protection Agency. Soon afterwards that agency lifted restrictions that kept the brewery from dumping hazardous waste (Easterly 2002: 243). More recently, news reports claim that the private prison industry helped to draft the state of Arizona's harsh anti-immigrant law, a law that promised to boost demand for its immigrant detention centers (Sullivan 2010). Following a similar strategy, the Corrections Corporation of America offered to relieve the fiscal crises of 48 states by buying their prisons, but only provided the states agreed to keep the prisons 90 percent full for the next 20 years (Satz 2013: 1004). None of these cases involved illegal bribery; yet each illustrates the way private economic interests can influence policy decisions in violation of the public interest.

In light of these risks, state institutions must be willing and able to push back against excessive pressure from wealthy private actors and to safeguard the public interest. Bribery is only the most obvious manifestation of such pressure. As the US examples demonstrate, implicit quid pro quo deals are possible without the proverbial suitcases filled with cash. Nevertheless, it is useful to begin the analysis with straightforward cases of bribes paid to obtain public benefits. Some of the chapters in this volume concentrate on corruption in that sense, but others take a broader view and can help frame the debate on the links between private wealth and public power.

Fighting corruption, however, is not just about controlling the high-level

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malfeasance of so-called *big fish* as they interact with powerful private actors. Systemic corruption also occurs between low-paid and poorly monitored officials and ordinary citizens seeking to obtain benefits or avoid harms. Street-level bureaucrats—from local property tax assessors to police officers—are as much the public face of government as a president or cabinet member. Corruption at the base can undermine the legitimacy of the state in the eyes of ordinary citizens as surely as scandals at the apex of political power. Petty corruption can, moreover, complement and reinforce high-level corruption and undermine efforts to establish an honest and well-run state.

In the face of the corruption challenge, good governance has become a key item on the international agenda beginning in the 1970s and accelerating after the fall of the Berlin Wall in 1989. This global development had more than one point of origin, but it sometimes developed from grassroots movements seeking more responsible government. For instance, during the 1986 People Power Revolution in the Philippines nationwide demonstrations protested the high level of corruption in the military (Campbell 1984). The general outrage helped to drive President Ferdinand Marcos, who had embezzled some five to ten billion US dollars, from office (Clague 2003; Transparency International 2004). In Hong Kong in 1974, public protests over police corruption and the investigation that followed resulted in the creation of an Independent Commission Against Corruption or ICAC (Klitgaard 1988: 105–6; Manion 2004: 32–3; Cheng 2006: 34). The ICAC is widely recognized for transforming Hong Kong into a place where corrupt exchanges are the exception (Scott 2011).

A watershed moment for the United States occurred in the 1970s. Following the revelations of corruption underlying the Watergate scandal, Congress ordered an investigation into American business practices abroad. The ensuing report honed in on questionable payments to foreign officials by US corporations. More than 400 businesses admitted to making more than $300 million in illegal payments to obtain favorable actions from foreign government (Santangelo, Stein and Jacobs 2007). Given the troubling nature of these revelations, foreign officials in Japan, Italy and the Netherlands tendered their resignations. Congress responded by passing the Foreign Corrupt Practices Act (FCPA), which was signed by President Jimmy Carter on 20 December 1977 (Kaikati et al. 2000: 213).

The United States hoped that other countries would follow the US example and enact laws similar to the FCPA. However, many perceived the FCPA as an expression of American moralism (Brademas and Heimann 1998: 17–18). When the United States promoted a United Nations treaty to ban bribery worldwide, the effort ended in failure. At that time,

Germany, France, Denmark, Norway, Poland and the Netherlands even allowed businesses to deduct bribes as legitimate expenses (ibid.).

However, with the end of the Cold War came a new era. There was no longer a need to support corrupt regimes for national security reasons. In view of this fresh opportunity for anti-corruption reform, in 1993 Peter Eigen and nine associates founded Transparency International (TI), which is now considered the world's leading anti-corruption advocacy organization (The Economist 16 October 2014; Transparency International 2015).

Between 1995 and 1997, TI revived efforts to spur OECD members to reduce supply-side bribery worldwide (Eigen 2013). Then, in November of 1997, the OECD member nations signed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (Baughn et al. 2010). The member countries agreed to make the bribery of foreign public officials illegal under domestic law. The OECD Convention came into force in 1999 and, as of this writing, has been ratified by 41 countries, some outside the OECD (Brademas and Heimann 1998: 17 and 19; Pacini, Swingen and Rogers 2002: 390; OECD 2015).

Although the level of enforcement of the Convention's provisions has varied across OECD member countries (Davids and Schubert 2011; Transparency International 2014), other notable efforts emerged to curb corruption worldwide. In the mid-1990s, after the then World Bank president James Wolfensohn referred to corruption as a cancer, the World Bank began to design anti-corruption strategies for particular countries and sectors and revised its procurement guidelines (Mallaby 2004: 176). Following the Bank's example, the International Monetary Fund, the United Nations Development Program, the World Trade Organization, and several regional development banks also redefined their position on corruption (Brademas and Heimann 1998: 20; FIDIC 2001). In 2002, more than a hundred Member States of the United Nations began negotiating an agreement on fighting corruption. Three years later, in 2005, the United Nations Convention against Corruption entered into force, signaling a global commitment, although the treaty itself has little enforcement capacity (UNODC 2015).

Unfortunately, in spite of the heightened global interest in the topic of corruption, we have no good evidence that its incidence has decreased. In fact, some argue that it has become more entrenched, at least in some sectors and countries. Part of the difficulty with assessing the extent and impact of corruption is definitional. What exactly is the subject of study? As Michael Johnston (2005) notes: 'Corruption is a deeply normative concern and can be a matter of considerable dispute.' At the most general level, corruption concerns the links between private wealth and public power. In some polities one cannot meaningfully distinguish between

the obligations of public bodies and the private interests of elite political and economic actors. In such extreme cases of kleptocracy, the system is organized to benefit a select group. Technically, nothing has been 'corrupted' because there is no underlying commitment to honest and public-oriented government.

At the other extreme, in some polities corruption is the providence of a few 'bad apples' in positions of power, or it is the result of poorly designed public programs characterized by scarcity, too much discretion and too little oversight. In these cases, plausible policy responses are available—criminal law as a deterrent to the bad apples (see, for example: Becker and Stigler 1974) and program redesign to limit corrupt incentives in the day-to-day provision of public services, the regulation of economic and social life, and the collection of revenue (see, for example: Rose-Ackerman 1978; Klitgaard 1988). In this group of cases, the definition of corruption is narrow and clear. Public officials take advantage of their positions to demand or accept particularistic benefits, and citizens and firms pay to obtain what they should receive for free or make payoffs to induce officials to bend the rules in their favor.

The middle of the continuum is the most complicated. Consider several difficult cases. First, some countries appear to be success stories based on anti-corruption indices, but they are, in fact, controlled by a small elite. On the positive side, ordinary people pay few bribes and obtain adequate public services. However, real economic and political power is under the tight control of an oligarchy. Notable examples are Singapore (with a CPI 2014[1] score of 84), Qatar (CPI 2014: 69) and Rwanda (CPI 2013: 49).[2]

Second, cultural habits may entrench some kinds of personal payments and gifts. As a country develops, many of these interactions continue to be condoned as generous expressions of gratitude while others are viewed as corrupt efforts to undermine political and economic development. Drawing the line between one and the other may be difficult both legally and practically.

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[1] Transparency International publishes a yearly Corruption Perception Index (or CPI), which—not without controversy—ranks countries and territories based on their perceived level of public sector corruption. In 2014, the index included 175 countries and territories. The average CPI score for these countries and territories was 43.19 and the highest-scoring country (in other words, Denmark) received a 92. For more information visit: http://www.transparency.org/cpi2014/results (last accessed 6 May 2015).

[2] On the authoritarian nature of the Singapore government see 'Rule of Law-Country Studies—Singapore' *Democracy Web*, http://www.democracyweb.org/node/66 (last accessed 6 May 2015). The cases of Qatar and Rwanda are analyzed in Khatib (2014) and Bozzini (2014), respectively.

Third, in all modern societies the state signs contracts for large-scale procurement and infrastructure projects. These may be straightforward construction projects or complex public/private partnerships. All contain incentives for personal enrichment at the expense of the state and its citizens through inflated prices, projects with little social value, and padded costs. As a case in point, late in 2014 Mexico's presidency became mired by accusations of conflict of interest (The Economist 12 December 2014; Malkin 2014). Reporters discovered that the first lady and finance minister had each bought lavish homes from a firm that had received major government contracts, including one to build the country's largest infrastructure project in recent times (Montes 2014; Redacción AN 2014).

Fourth, the link between political and economic power may mean that campaign donors trade funds for favors from the state in the form of contracts or regulatory laxness. Revolving-door career paths may lead individuals to cycle between legislative staffs, lobbying firms or contractors and back to regulatory agencies and executive departments. In any of these cases, the machinery of government might function sufficiently well—and yet there are deep problems relating to the distribution of power and the role of gifts and donations in influencing the allocation of state contracts and other valuable public benefits. Ordinary citizens pay the price, but may not even realize the extent of their losses.

Given the diverse ways in which corruption can affect state functioning, it is no surprise that its control is difficult and contested. As a legal, economic, political and cultural or sociological phenomenon, its causes and consequences are varied and complex, even within a single polity. However, drawing on a number of different approaches, this volume suggests alternative routes to the control of corruption. One group of chapters explores the nature of corruption and the influence of private concentrations of wealth in democracies and autocracies, and critiques 'reforms' that are mere façades. Other contributions examine specific instances of corruption and self-dealing in infrastructure, tax collection, cross-border trade and military procurement. We then focus, in particular, on corruption involving international business—both licit and illicit. A particular focus is the domestic regulation of foreign bribery drawing on international experience with the US FCPA and the OECD Treaty.

The first section begins with an essay by Jennifer Bussell that sets the stage by arguing for a set of alternative typologies to assess corruption. If one is not sensitive to the different ways in which corruption arises, one may mistakenly conflate different types of phenomena. She demonstrates the diversity of approaches in the existing literature by reviewing a selection of influential works on corruption. Drawing on the literature

on democracy, she suggests typologies that are relevant to the different empirical and theoretical contexts in which corruption arises.

Bussell suggests a conceptual framework that focuses on the kind of government resource—for example, mining licenses or welfare benefits—and that asks where corrupt incentives can arise. Different actors often control different kinds of state resources, so corruption can take many forms and involve a diverse set of actors. In the analysis of any particular sector, she urges researchers to distinguish between levels of government activity, for example, the legislative process, government contracting, public employment and public service provision. Studies would then seek direct and indirect corrupt incentives at various levels in the sector under study. Clarity about the location of these corrupt incentives would then facilitate comparisons across sectors and research efforts.

Bussell's focus is on corruption in an otherwise functioning state that has some degree of public legitimacy. She has not included outright kleptocracies in her framework although she reviews some studies from borderline cases such as Peru under President Fujimori. Nevertheless, the basic idea of clarifying the object of study and trying to place one's own research in a broader taxonomy of corrupt situations is an instructive way to begin our volume. It is not, however, the end of the inquiry. Getting the categories straight is only a first step toward realistic anti-corruption policies.

A next step would be to explore different strategies to see what works in fighting corruption. There are some known and tested anti-corruption tools that could be put in place by a regime that was serious about reducing bribery and self-dealing among its officials. They could be compared with suggested innovations to see which are most effective. Unfortunately, such a commitment to honest government cannot be presumed even when the needed reforms seem straightforward. As we have already pointed out, corrupt self-dealing can go to the very top of the government to include ministers, legislative leaders, top civil servants and even judges. Those at the top may exploit their offices for private gain and yet still want to appear to be reformers. Then, the stage is set for 'good governance facades' as outlined by Kalle Moene and Tina Søreide.

A country may be very dependent on foreign aid or on the good opinion of outside investors. Its leaders may thus put in place polices that are consistent with international 'best practice'. The result can be an impressive list of institutions that have little or no impact on state functioning. They are mere facades. Common examples are ombudsmen, anti-corruption commissions, freedom-of-information laws, or audit offices combined with a modern procurement law and civil service reforms. Of course, such reforms can play a positive role in some polities, but they can easily become

empty shells if not supported by the political leadership. Worse, they can become tools for selective enforcement of anti-corruption programs that target regime opponents and suppress dissent. These problems are likely to arise if a narrow elite controls the state and can divert resources to itself—including foreign aid and investment. In such cases, although good governance reforms are touted as steps towards development, they may instead facilitate political rent extraction and corruption. Leaders may then actively seek to create such facades in order to attract more outside resources that they can steal. Hence, Moene and Søreide urge aid and lending agencies to be cautious about accepting procedural reforms at face value. Performance targets linked to service delivery and infrastructure construction must remain central to the evaluation of aid. Their model is consistent with the claim that democratization with comprehensive political competition is necessary to achieve real governance reforms. Their conclusion is linked to the types of corruption outlined above. Reforms of particular sectors that might be effective in an otherwise well-functioning state may simply be high-jacked by corrupt elites for their own purposes. Thus, Moene and Søreide provide a cautionary tale for anti-corruption reformers, especially those connected with aid and lending organizations.

The often-deep connections between political and bureaucratic corruption are the theme of the next three chapters in this section. The authors problematize the meaning of corruption by highlighting perfectly legal ways in which concentrated private wealth can influence the exercise of public power. The chapters by Ray Fisman and Matthew Stephenson are critical literature reviews of the links between political connections and democratic institutions. The section ends with Fu Hualing's overview of the recent crackdown on corruption in China showing how it both upholds the regime and undermines grassroots activism. It complements the more general analyses of Fisman and Stephenson with an in-depth look at a crackdown in an authoritarian regime.

Fisman considers the roll of political connections in both weak and established democracies—especially Indonesia, India and the United States. In one category are systems governed by stable autocracies (as in Indonesia's Suharto) or dynastic politics (for example, the Gandhi family in India), where direct personal ties are a steady and reliable way to maintain ties with those holding political power. In contrast, US national politics demonstrates a relatively high level of churn. Hence, those seeking political rents seek to adjust their political connections in response to changes in the political landscape. In the US, campaign finance and lobbying are complements: Financial support provides access, which may then be exploited through lobbying. Fisman summarizes one study showing that both personal connections and expertise matter to those seeking

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to lobby the US Senate. Much of the empirical work summarized in his chapter does not involve explicit bribe payments, but rather studies other quid pro quos that may be equally or more destructive of democratic accountability. Fisman's basic point is that personalistic systems are open to massive rent-seeking at the top, but more competitive, decentralized systems are also open to the influence of special interests even if the mechanisms are more open and less easy to characterize clearly.

Stephenson concentrates on the question of whether democratic elections help reduce corruption. As he notes, many reformers—both anticorruption advocates and democracy promoters—hope and believe the answer is yes. Stephenson concludes that, overall, the empirical evidence offers some support to the optimistic view that democracy may help reduce corruption, but it also demonstrates that the relationship between democracy and corruption control is not as straightforward, or as unambiguously positive, as is sometimes assumed. A better understanding of the particular corruption risks associated with democratic institutions may help reform-minded policymakers craft more appropriate and effective responses.

Stephenson lists a few ways that democracy might be an antidote for corruption. Voters can hold corrupt leaders accountable by withdrawing electoral support. Voters can also react to policies and outcomes that are affected by or associated with corruption even if the payoffs are not public. Finally, voters might judge leaders on how aggressively and effectively they combat corruption inside government. However, democracy also affects politicians' incentives to engage in political corruption intended to improve their odds of gaining or holding power, and it alters incumbent leaders' time horizons with an ambiguous impact on corruption. Hence, the average negative correlation between democracy and corruption across countries is not particularly illuminating; cross-country research ought to be evaluated cautiously.

Over and above the characterization of a polity as 'democratic', different types of democratic systems may be more or less prone to corruption. Is a parliamentary system less prone to corruption than a presidential system; does party organization matter; does federalism limit or enhance corrupt incentives? Once again the theories make contradictory predictions and the empirical results have not generated consistent findings. As a result of ambiguities in existing research, Stephenson concludes his extensive survey with a call for better theories of democracy itself and of its interaction with the self-seeking behavior of both politicians and private citizens and businesses.

Fisman and Stephenson concentrate on democracies, even if some of them are not fully institutionalized. A number of the studies that

Stephenson reviews, for example, include countries with democratic constitutional structures that have been so undermined by corrupt self-dealing that some would take them out of the democratic column entirely. Fisman also considers autocracies, such as Indonesia, but only to ask if the prosperity of some large firms was tied to their connections to the leader and his family. Fu Hualing, in contrast, digs deeply into China's recent anti-corruption campaign. Here, the president, rather than simply amassing a fortune for himself and his family, uses a crackdown on corruption as a tool of political control. Prosecutions are directed toward political enemies, and the state discourages and even prosecutes civil society activism and investigative reporting. The anti-corruption campaign is not a façade in the Moene and Søreide sense, but it is a political tool, not a route to overall state reform. As Fu writes:

> A defining characteristic of the on-going anti-corruption campaign is diminishing public participation in the control of corruption, in spite of immense public support . . . The new government suppresses civil society at the same time as it cracks down on corruption.

Fu also argues that the law is being used to support the Party's activities, but only up to a point. If laws start to impose checks on Party policy, they are ignored. According to Fu, the strongest critics of the recent campaign are the investigators in China's anti-corruption authority (ACA) who lack independence in initiating investigations. Fu predicts that the current campaign will turn out to be quite destructive and will not build any long-term anti-corruption capacity.

All together, the first section provides an overview of the complex links between government institutions, the political system, and the honesty of a country's leaders. We turn now to the sectoral studies in Part II, following the suggestions of Jennifer Bussell that one should isolate the loci of corrupt incentives in the structures of the state. The chapters discuss infrastructure spending, urban property tax collection, tariffs and military procurement. In practice, the cases show the difficulty of distinguishing between outright bribery and fraud, on the one hand, and waste, incompetence and political favoritism, on the other. Of course, these problems often go together. A poorly monitored infrastructure project is likely to hide both payoffs and waste. An over-budget procurement can include favoritism toward the politically powerful and bribes to those managing the purchase.

Stéphane Straub studies the cost overruns and corruption allegations for two massive dams in Paraguay, one of the poorest countries in South America. According to his analysis, corruption in Paraguay is the product

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of the systematic organization of political and economic relationships, not a set of simple isolated events. Moreover, it has become entrenched as a result of past public choices, such as large infrastructure investments. Hence, anti-corruption measures aimed at specific cases of wrongdoing have been ineffective, and corruption has had long-term adverse effects, even after a major political transition. Beyond the direct wrongdoing and abuse in the construction and operation of these dams, Straub illustrates how these projects shaped the rent-seeking nature of the economy over several decades, well into the twenty-first century.

The distortions introduced by these massive projects generated perverse incentives among the population and potential entrepreneurs. The free-flowing resources to the state budget from excess energy production meant that successive rulers did not need to foster the development of a healthy, private productive sector. Furthermore, the widespread diversion of resources left the country's physical infrastructure—in particular, the transport and energy networks—underdeveloped. The result was economic stagnation and low growth. According to Straub, the underlying problem was the construction of two large-scale hydroelectric infrastructure projects in a country characterized by little democratic oversight and weak institutions. One cannot tell ex post whether the top officials supported these projects *because* they were open to manipulation, or whether they were potentially good projects gone bad. Straub's study serves as a warning to those who support massive infrastructure investments as a route to economic growth in polities that lack strong independent and democratically accountable institutions.

Paul Lagunes and Rongyao Huang bring the analysis to the US with a study of corruption in the collection of property taxes in New York City. They explore what some have called the greatest case of municipal fraud in US history. In 2002, 18 current and former tax assessors were charged with taking bribes in exchange for undervaluing properties. For the duration of the scheme, over three decades, New York City may have lost up to one billion dollars in revenue. This revenue could have funded schools and other public services. Other localities—from Los Angeles (CA) to Cook County (IL)—have had a similar experience. The authors rely on multiple sources, including elite interviews, government reports, news articles and legal documents in the public domain, as a means to shed light on the mechanics of corruption in taxation. They conclude with a brief description of the randomized control trial they conducted in partnership with New York City's Department of Investigation. The results of that research are currently being analyzed and should provide further insight into the effectiveness of distinct forms of anti-corruption monitoring.

Sandra Sequeira also focuses on revenue collection—in the ports

of Maputo, Mozambique and Durban, South Africa. Corruption can increase firm-level trade costs if it acts as an additional tax to clear goods across borders, or it can decrease trade costs if it allows firms to circumvent cumbersome bureaucratic procedures or reduce clearing times. Her results are striking. For instance, products that experienced a tariff reduction recorded a 60 percent decline in the probability of paying a bribe at the border. Thus, there are clear policy complementarities between anti-corruption and trade facilitation policies. In her chapter Sequeira also deconstructs the incentives at work in these ports. She shows that corrupt port officials faced almost no risk of punishment, and she exposes the significant role that bribes play in complementing official salaries. Automation, bureaucratic discretion and officials' time horizons on the job are additional factors that influence the level and type of corruption observed. Therefore, as in many other corrupt settings, policy interventions can succeed only if they mitigate incentives for private agents to pay bribes and create fewer opportunities for public officials to extract payoffs.

Exploring a different, if equally troubling, facet of international trade, Nancy Hite-Rubin studies the relationship between FDI and military procurement, where corruption is reputedly common. Because of the large size and specialized nature of the contracts, bribes can be hidden in the selling price and passed on to the purchaser. Hite-Rubin, however, is not able to study corruption directly because of the secrecy that surrounds these deals and the lack of clear market price comparisons. Instead, she looks at the common practice of using 'offsets' to sweeten a contract. These are agreements by the seller to purchase certain products from the buyer's firms as part of the deal. These might be related to the equipment being purchased, for example, parts or service contracts. However, they also take the form of completely unrelated products abundant in the country or useful for its development, for example, an agricultural product, such as palm oil, or manufactured products, such as textiles or consumer electronics. Offsets may be inefficient and may be a way to curry favor, but they are not themselves illegal. However, they can be a way to hide illicit benefits. For example, a firm might agree to buy a product from a firm owned by the president's brother and to pay a price far above the market price. Such deals can be a way to siphon payoffs to powerful individuals in the buyer's country.

Completing this section, Alberto Díaz-Cayeros, Beatriz Magaloni and Vidal Romero describe a pathological situation in which drug trafficking organizations (DTOs) victimize citizens and firms with police complicity. Through the use of a list experiment the authors shed light on DTOs activities in Mexico. Their analysis reveals that criminal organizations and the police extort respondents at an equal and disturbingly high rate. Thus,

it is no surprise that the public views municipal and state police as corrupt and untrustworthy—and that a climate of fear prevails. This chapter could not be timelier. As of this writing, 43 teacher-trainees from the state of Guerrero are missing, and there is evidence that a criminal gang and local authorities collaborated in their kidnapping and possible murder. The work by Díaz-Cayeros and coauthors helps us understand the dynamics that led to such an atrocity and serves as a warning of how deeply rooted the problem of police corruption is in Mexico.

Finally, Part III confronts the debate over corruption in international market transactions, both legal and illegal. The final four chapters discuss anti-corruption agreements, the enforcement of anti-bribery regulations, money laundering, and shadow banking. The issues are complex. They involve a diverse set of actors—from firms that practice bribery abroad to large criminal gangs—whose interests span multiple national jurisdictions. Reliable information about these actors' pursuits is difficult to come by; yet their activities have implications for trade, investment, capital flows, and even relations among nation-states.

Relying on cross-country analysis, Dimitris Batzilis studies the propensity of firms to bribe foreign public officials when they do business abroad. He uses survey data from Transparency International's Bribe Payers Index, which reflects business executives' expectations regarding the corporate conduct of foreign companies in their country. After controlling for economic, cultural and historical variables, Batzilis finds evidence that firms based in countries with high levels of corruption are more likely to bribe when conducting business abroad. As a concrete example, Russian firms are more prone than American ones to pay bribes when engaging in foreign trade or investment. He also shows that high rates of corruption in host countries increase the likelihood that foreign firms, regardless of where they are from, will practice bribery in their business dealings.

Batzilis also asks whether anti-corruption agreements, such as the OECD Anti-Corruption Convention, have an effect in restraining the behavior of signatory countries. Thus his study contributes to the general debate on whether international institutions constrain political, economic and social interactions that cross national boundaries. These institutions are rules that govern regional or global decision-making, but in spite of the high profile associated with some international institutions, a number of commentators argue that they are unimportant in and of themselves. Voices in this camp see the OECD Convention or the UN Convention against Corruption as inconsequential for all practical purposes. Batzilis avoids extreme conclusions, but contrary to what others have argued (for example, Baughn et al. 2010), he finds that laws against foreign bribery do not appear to have had a constraining effect. To be clear, companies

from countries that have signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions do exhibit better corporate conduct overall, but his results indicate that this is not due to the Convention itself. As evidence, he shows that there is no difference in the probability that firms from signatory countries engage in corruption that is prohibited (for example, direct bribery of public officials) as opposed to corruption that is tolerated by the convention (for example, facilitating payments). In the end, the author concludes that any anti-corruption effect associated with the international agreement must be explained by some unobserved variable, such as shared cultural norms.

However, even if there is little measurable difference between firms' propensity to engage in bribery prohibited by the Convention and to make facilitating payments, overall firm behavior could have been affected by the Convention. First of all, as a practical matter, firms may not be sure how their own law enforcement bodies will define the exempt category. They may err on the side of honesty. Second, although international institutions may be endogenous to culture or some other variable, they maintain the capacity to focus attention on otherwise hidden behavior and to limit impunity. Surely, major enforcement actions, such as those that led to massive fines levied against BAE and Siemens, helped to raise public consciousness worldwide.[3] These suppositions, at least, suggest that all would not stay the same if the Convention were to disappear. This brings us to the subject of enforcement—a defining factor in explaining whether an international convention is relevant as a disciplinary tool.

Unlike Batzilis, Kevin Davis does not question the FCPA's impact. Instead, his chapter is an invitation to reflect on alternative approaches to the enforcement of anti-corruption regulations. Enforcement, the author explains, can have several motivations, including moralism, self-interest and altruism. It may also seek to achieve distinct objectives, such as retribution, prevention and compensation. Different combinations of motivations and objectives result in varying decisions about which cases to pursue and what sanctions to impose. Davis observes that the way the United States currently enforces FCPA is dominated by prosecutors (as opposed to private litigants and judges), the expectation of imposing liability on organizations, assertions of broad extraterritorial jurisdiction, and high-powered sanctions. The FCPA, thus, attracts criticism both because corporate liability is pursued even when direct responsibility lies with low-level employees, and also because of the opacity with which cases

[3] For more information about the charges levied against BAE Systems and Siemens AG see DOJ (2010) and O'Reilly and Matussek (2008), respectively.

are usually resolved, the severity of the sanctions imposed on violating firms, and so on. Given that others are treating the FCPA as a model institution, Davis argues for changes in the United States' anti-corruption enforcement strategy.

Peter Alldridge takes a recent trend in tax enforcement as his starting point. Tax offices have increasingly joined forces with authorities fighting to curb the financial reach of criminals and terrorists. Thus, tax avoidance, tax evasion, offshore centers and money laundering are progressively treated as complementary facets of the same problem. Yet, according to Alldridge, these are all distinct phenomena that should be dealt with separately—tax evasion, but not tax avoidance, should be dealt with through criminal law. He also argues that offshore financial centers, which provide secrecy and low tax rates, are not inherently objectionable. In his conclusion Alldridge joins other commentators in arguing that capital flight is a problem, but he insists that, although heightened transparency in the financial system would be welcome, respect for the rule of law demands more precision when crafting standards and recommending policy reform.

As a worthy conclusion to the volume, Federico Varese studies the overlap between underground banking and corruption. Underground banking—or Informal Value Transfer Systems (IVTS)—involves a web of anonymous agents who must trust each other in order to move money through unregulated channels and between distant locations. It is the means by which undocumented immigrants and people engaged in criminal activities channel funds—often illegally—across borders. Varese describes two cases of IVTS—in Italy and in China. In the latter, we follow the money trail from an underground mall in Zhuhai to VIP rooms in one of Macau's casinos. Those who use IVTS find it attractive, in part, because it appears to work beyond the reach of rent-seeking government officials. Thus, although the existing literature shows that other informal activities (from street vending to illegal gambling) rely on bribes in order to avoid the state's intervention, IVTS generally avoids corruption's grabbing hand. It does not need to use payoffs because it avoids contact with public officials, except for petty payoffs to low-level bank staff for changing small denomination bills to large ones. Nevertheless, it may, of course, be an attractive means for transferring corrupt benefits across national borders.

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