"Corruption Networks and Implications for Ethical Corruption Reform"

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ABSTRACT. The problem this article focuses on is not the isolated individual act of corruption, but the systematic, pervasive sub-system of corruption that can and has existed across historical periods, geographic areas, and political-economic systems. It is important to first understand how corrupt and unethical subsystems operate, particularly their network nature, in order to reform and change them while not becoming what we are trying to change. Twelve key system elements are considered that include case examples from Asia, Latin America, the Mediterranean, and North America. A key operating feature of corruption sub-systems is that they are relatively stable networks rather than exceptional, independent, individual events. Drawing on social network, social movement, and action-learning theories, six theory building propositions concerning ethical corruption reform are developed.

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Introduction

One way to categorize the causes of unethical organizational behavior is a framework that considers the individual, organizational, and environmental level causes of unethical organizational behavior (Nielsen, 1996; Nielsen and Bartunek, 1996). This framework is somewhat similar to Trevino and Youngblood's (1990) framework that looks at "bad apples" (individual causes) vs. "bad barrels" (organizational causes) and Brass et al. (1998) framework that also considers "bad apple" and "bad barrel" causes, and adds network relationships among actors within organizations.

Examples of studies that focus on individual level causes of unethical organizational behavior are Blasi's (1980) study that looked at links between individual cognition and ethical action and Nielsen's (1984) study that looked at individual character archetypes that contributed to unethical organizational behavior. Examples of studies that focus on organizational level causes of unethical organizational behavior include Victor and Cullen's (1988) study that considered organizational causes of ethical work climates and Vidaver-Cohen's (1997) analysis that focused on institutional factors that either inhibit or promote

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moral imagination in organizational problem solving. Examples of studies that focus on environmental level causes of unethical organizational behavior are Noonan's (1984) and Klitgaard's (1988) studies that looked at corruption environments and Dworkin and Near's (1997) article that considered how different types of legal environments can hinder or promote whistle-blowing.

The problem of systematic corruption is an important as well as an old and continuing problem that may be near universal in its geographic and historical dispersion (Noonan, 1984; Klitgaard, 1988; Kane, 1993; Nielsen, 1996; Rose-Ackerman, 1999; Barry, 2001; Caiden et al., 2001). While it is true that some countries and economic sectors experience much more systematic corruption than others, few countries have no sectors with no systematic corruption problems. Corrupt environments can contribute to unethical organizational behavior (Noonan, 1984; Klitgaard, 1988; Kane, 1993; Nielsen, 1996; Nielsen, 2003, 2000a). It is important to first understand how corrupt and unethical subsystems operate in order to reform and change them.

The problem this article focuses on is not the isolated unethical individual act of corruption, but the systematic, pervasive, unethical subsystem of corruption that can and has existed across historical periods, geographic areas, and political-economic systems. For example, as early as 3000 B.C. there are reports of corrupt subsystems (Collins, 1998; Noonan, 1984). There are corrupt sectors in Africa, Asia, Central Europe, Latin America, the Mediterranean, North America, and Northern Europe.

As with the problem of disease, while great progress has been and can be made in reducing particular types of disease, it is probably unrealistic to expect that either disease or corruption can ever be eliminated totally. Also as with disease, there seems to be continuing emergence of new forms as well as reemergence of older forms of systematic corruption (Barry, 2001; Fentress, 2001). Some postmodernists have observed that biases associated with power are changed rather than eliminated as power structures change (Derrida, 1988; Foucault, 1994). This may also be true for corruption problems.

Not just reform of corrupt sub-systems is important, ethical reform of corruption is important. Historically, some of the action solutions taken against corruption have been as ethically problematical as the disease. For example, Mussolini's fascist and Stalin's communist national campaigns against a few forms of corruption were at least as destructive as the corruption the campaigns were directed against (Lindblom, 1977; Johnson, 1983; Stille, 1995).

Certainly while qualitatively very different than the above two cases, nonetheless, some of the applications in the United States of the Racketeer Influenced and Corrupt Organizations Act (Pub.L. No. 91-452, tit. IXD, 84 Stat. 922, 941, 1970) against various types of violations, e.g. environmental pollution, have also been criticized as being unethical violations of privacy and rules of evidence. That is, some applications of the RICO Act have been criticized as unethical means applied for ethical ends. However, the RICO Act was and is a very important tool in the struggle against organized crime and organized crime's unethical and illegal entanglements with various business and political sectors in the United States (Blakey and Roddy, 1996).

This paper proceeds as follows. First, the paper considers how corrupt sectors and sub-systems operate. Second, theory building propositions are developed concerning ethical corruption reform that are based on network, social movement, and action-learning theories.

How do corrupt sub-systems operate?

Twelve key system elements are considered: (1) there is a sub-system of destructive, parasitic, win-win reciprocity within exclusive corruption networks; (2) extortion by government and party officials is a much bigger problem than bribery; (3) parasitic corruption behaviors can be entangled with productive behaviors that further support the corruption sub-system; (4) small, daily entrapment, ethical violations both co-opt potential reformers and are used as weapons against potential reformers; (5) personally and individually, many of the corruption network players can be very nice, generous, fun to be

with, smart, and even courageous while also being parasitic and destructive; (6) socially popular but unrealistic laws are passed to generate political popularity and extortion/bribe opportunities; (7) there are corruption links between political parties and police, prosecuting, judicial, and legislative branches of government; (8) there are corruption links between political parties and potentially "watch-dog" reporting and research institutions such as the auditing, journalistic media, universities, and professional associations; (9) large campaign funding requirements entangle reform candidates and/or their relatives and supporters in problematic funding relationships; (10) win-win corruption participation is offered to potentially effective reformers followed by win-lose attacks if co-optation is rejected; (11) public sector principal-agent incentive conflicts result in misregulation and relaxation of supervision which is not the same as deregulation; and, (12) national and/or international rescue programs maintain the corrupt system while forcing austerity measures on the middle and lower classes.

1. *Parasitic win-win reciprocity within exclusive corruption networks.*

Parasitic win-win deals and relationships can be beneficial for the individuals who make the deals as well as other members of exclusive corruption networks. However, these types of reciprocal win-win relations can be very bad for those excluded and the general society. Three elements are important here: (a) reciprocal, parasitic win-win behaviors; (b) networks; and, (c) exclusion.

Examples of exclusive networks include the obviously criminal organizations such as the United States Mafia and the Japanese Yakuza (Mass, 1997; Stille, 1965; Brenner and Thornton, 1997). There are also somewhat more subtle types of corruption networks such as what has come to be know as "crony capitalism" where informal networks of large family businesses and government officials control such activities as large loans from state banks that are not repaid, preferential government contracts, protected monopolies, investment banking and brokerage conflicts of interest, auditing and consulting conflicts of interest, etc. (Auletta, 1986; Baker and Faulkner, 1993; Betancourt, 2002; Brown, 2002; *The Economist*, 2002b). There have also been and are network entanglements of trade associations with systematically corrupt behavior such as in the United States Savings and Loan bank insurance scandals of the 1980s that involved trade association officials, bankers, large real estate development borrowers, regulators, and elected public officials such as legislators, mayors, and governors (Kane, 1989).

There are also secret societies that sometimes cut across and underneath political parties for the benefit of the members of those secret societies. For example, Mussolini, before he came to power, belonged to a secret Masonic Lodge that helped plot the take-over of the Italian government (Baigent and Leigh, 1989). Another secret Masonic Lodge has been linked to the assassination of the Swedish leader Olaf Palme. Sometimes these secret societies even have honorable beginnings such as the Sicilian Mafia's resistance to the French occupation of Sicily (Stille, 1995).

Another name for the Mafia is Cosa Nostra, "our thing." The word "our" is important here. The Mafia belongs to its members who share reciprocal, win-win rewards from parasitic behavior. Win-win cooperation among Mafia members is rewarded. Mafia members are expected to help each other in their parasitic activities.

For example, in Mafia influenced construction industries, there are several win-win relationships that are also parasitic. The Mafia members share the profits from the nonunion construction. The union leaders win in the sense that they receive a piece of the profits. The developer wins in the sense that the building is completed on time with lower costs. The corporation that buys the building wins in the sense that it pays a fair market price for the building that is completed on time. The politicians, prosecutors, and police win in the sense that they receive money for ignoring and/or cooperating with the illegal construction (Bonanno, 1999; Fentress, 2001; Mass, 1997; Robb, 1998; Stille, 1995).

Who loses, how is this win-win behavior par-

asitic? Very directly, the union workers who have to accept lower wages or who are excluded from employment lose. Indirectly, less taxes are paid since costs and revenues are not recorded accurately. The public loses when the buildings are constructed without meeting building code standards. The public also loses because its politicians, prosecutors, police, and judges owe Mafia members favors and preferential treatment for accepting regular Mafia payments.

What has come to be know as "Crony Capitalism" in large parts of Africa, Asia, Latin America, and the Mediterranean share these key features of (a) reciprocal win-win behaviors that are (b) parasitic and (c) exclusive. For example, in many developing and some developed countries such as Italy, the state banking system has been and in many countries still is corrupt (Interviews with Latin American, Mediterranean and Swiss Bankers, 1984-1998; Klitgaard, 1985; Moffett and Friedland, 1996; Oppenheimer, 1996; Pope, 1995; Preston, 1995). This is how the corrupt system more or less works. If one is important in the political party that is currently in power, one can be appointed to a key position in or even the head of a state bank. The state bank, for example, pays depositors 10% and charges 20% for loans. In spite of such a large spread, the bank makes little or no profits.

Where does the money, the spread between the 10% and the 20%, go? The politically appointed bankers make loans to family members, friends, uneconomic and patronage based state owned enterprises, and party officials either directly or indirectly through dummy corporations and dummy projects that do not pay the loans back to the bank. Either all the money is taken by individuals or money is skimmed from unprofitable projects that can not and do not repay all or large parts of the loans.

The private banks that might compete against the state banks either by offering lower cost loans or paying higher interest to depositors are coerced by the government into offering the same spread. Since the private bank is not making intentionally bad loans, its default rate is very low and its rate of profitability very high, but with a smaller market share than it could achieve if it could compete more vigorously against the state banks. However, sometimes the private banks are also pressured to make bad loans to politically connected people and organizations with the result that these banks also lose profits and risk insolvency. Pressures include threats of loss of politically connected business, imposition and/or enforcement of restrictive regulations, and even threat of partial or complete nationalization of the private bank. Sometimes when the bad loans are not paid back, the private banks are bailed out by the politicians who forced them to make the loans in the first place. However, now the private banks are obligated to the corrupt politicians and are even more tightly entangled within the corruption system (Klitgaard, 1983; Preston, 1995; Oppenheimer, 1996; Nielsen, 1996; Nielsen and Balas, 2000; Betancourt, 2002; Boulton and Metin, 2001).

This is very win-win for several of the players within the corruption network. The politically appointed bank official becomes very rich by making loans to himself through relatives and dummy corporations and unprofitable projects. The political party officials become very rich by receiving loans from the state banks that they do not pay back or through skimming of profits from unprofitable government projects. Lower level party supporters receive jobs in the state bank and other state owned enterprises as political appointments for supporting higher level party officials within the party. The private bankers have a relatively small but very profitable share of the deposit and lending markets. Also, the private bankers rely on the corrupt government and banking officials to bail their banks out both when they are forced to make bad loans and when such "crony capitalism" type corruption stimulates a domestic and international financial crisis.

Who loses and how is this behavior parasitic? Depositors do not receive as high rates of interest as they could. Legitimate borrowers have to pay higher costs for loans. Many legitimate borrowers are not able to obtain loans since loans funds have been allocated to corrupt areas and there is less bank liquidity for sound economic and business projects. When enough projects and loans fail, the government has to bail out the banks with increased subsidization or printing money that in

turn produces inflation and further transfers wealth from the mass of citizens to the members of the corruption network. In such liquidity crises, legitimate businesses who are not part of the corruption network have a difficult time finding normal financing loans and can consequently lose business and sometimes are forced into bankruptcy.

In addition to being tied to political parties, these types of corruption networks can be tied to particular families. For example, Zitner (1998, p. E8) reports that "In Indonesia, no one can travel the business world for long without running into a Suharto family member or friend. They hold interests in banks, hotels, toll roads, and chemical, transport, and cement companies. Hardly any sector of the economy is free of their influence. For years, doing business in Indonesia has meant working with one of the Suharto children or a family friend – often at a high cost, such as an ownership stake in the business." In order to do business of any significant size in Indonesia, an organization needs a license. According to Zafer Achi, the head of the Jakarta office of Booz Allen & Hamilton, the management consulting firm, one could not get a license unless one made a sizable payment, often a share in the business, to a Suharto family member or friend (Zitner, 1998, p. E8; Mapes and Madani, 2002).

When the network corruption gets so extreme that the country has to be bailed out with national, regional, or International Monetary Fund financing, the institutions that provide the rescue financing often, and in the case of the IMF usually, insist on austerity measures that create unemployment and cuts in government spending that for the most part hurt the least powerful people in the society who are not part of the corrupt networks. Meanwhile, the members of the corrupt networks have protected their ill-gotten profits and assets in Zurich, Tokyo, London and New York banks, in domestic land ownership, as well as ownership of legitimate businesses acquired through the profits of the fraudulent loans and government extortion. After the bailout, the cycle often repeats a few years later. For example, in Mexico the cycle appears to have recurred once every seven or eight years for the last eighty-five years (Klitgaard, 1983; Oppenheimer, 1996). This corruption rescue cycle phenomenon is discussed further below.

2. *Government led extortion is a bigger problem than bribery.*

It is important to distinguish between extortion and bribery (Lindgren, 1993). While the problem of bribery often receives more attention, in many parts of the world the problem of extortion by government officials is both more extensive and more serious than bribery by business people. Also, extortion is usually the more important phenomenon within corruption networks. In corrupt sectors, bribery is often individual and isolated while extortion is much more pervasive and systematic (Mitchener, 2002; Mapes and Madani, 2002; International Chamber of Commerce, 1999).

Extortion is a threat initiated by a government official to use illegitimately the power of government to withhold permissions and services an individual or an organization is legally entitled and/or initiate illegitimate shut-downs, prosecutions, and even arrests unless that individual or organization pays the government official the resources the official demands. Bribery is, more simply, a payment initiated by an individual or business of some resource to a government official for a service or permission that one is not legally entitled.

However, sometimes extortion is disguised as bribery. Some corrupt government officials pass laws and regulations for the sole or primary purpose of creating extortion and bribery opportunities for the corrupt officials. For example, until recently in South Korea it was common for government officials to pass laws and regulations designed and targeted against specific businesses and business families who refused to make large enough annual contributions to the governing political party. The businesses then had to make payments to government officials that appeared to be bribes so that the business would not have to obey those discriminatory laws and regulations (Nielsen, 2000a; Brady, 2000; *The Economist*, 2002e).

Examples of permissions and services that individuals and businesses are legally entitled but nonetheless often have to pay extortion demands for range from a license to drive or register an automobile, municipal garbage collection, a license to operate a business, construction permits, occupancy permits, health and safety certifications, admission to a hospital and timely surgery, employment, promotion, a bank loan, stock and bond offerings, financial statement audit certification, tax audit certification, import permissions, export permissions, telecommunications services, foreign exchange movements, government insurance, etc. In addition, extortion methods include illegitimate shut-downs of business operations, prosecutions of employees, managers and owners, and even official and unofficial arrests unless that individual or organization pays the government official the resources the official demands.

The extorted resource can be a cash payment to an individual, a political party/society, a religious organization, a social organization, part ownership of the business, a demand that the business do business, buy services and material from, and/or make a loan to another business of financial and/or political interest to the government official, and is also often a demand that the business hire and promote employees selected by the government official.

A relatively simple, but nonetheless common and important example of extortion is policemen extorting money from small businesses. For example, one Boston Chief of Police remembers that in the late 1960s about 80% of the detective sergeants regularly extorted payments from local businesses in their districts (Boston Police Chief, 1996).

An example on a larger scale, is the common practice in several Latin American, Mediterranean, Asian, and African countries for tax auditors to extort payments from businesses (Klitgaard, 1988; Stille, 1995; Oppenheimer, 1996; Nielsen, 1996; Nielsen and Balas, 2000). For example, if the legitimate tax bill is $5 000 000, the tax auditor tells the business that they will have to pay a tax bill of $7 000 000, a $2 million penalty, if they do not pay the auditor an extortion of $100 000; and, if they do pay the auditor $100 000, then they receive a $2 000 000 discount on their tax bill and only have to pay $3 000 000. The tax auditor in turn shares the payments with others who are involved in the corruption network. The auditor also tells the business that if the business tries to go to court they will lose, since some of the judges, including some high level judges, also receive part of the extortion payments.

The auditors and judges receiving the extortion payments have been from the leading political parties of both the left and the right. In some countries, there is a great deal of competition to become a tax auditor since one can become very wealthy very quickly. For the most part, the businesses pay the extortion demands either directly or indirectly through intermediaries such as local law firms; local business partners; or, state required set-aside subcontracts with local businesses. They know it is illegal and unethical to require and make such payments but they pay anyway. It is the shared belief that it is impractical to oppose such payments because political parties and by extension from the political parties, some police and military personnel, some prosecuting officials, some judges, and some media owners and editors are part of the corruption and corruption networks. In addition, one saves money from one's legitimate tax bill by paying the extortion. In the example given above, the business saves $2 000 000 in taxes by paying the extortion of $100 000.

Similarly, in New York City, Chicago, Boston and several other United States cities until quite recently with the enforcement of the Racketeer Influenced and Corrupt Organizations Act (Blakey and Roddy, 1996), but also continuing at least to some extent (Barry, 2001), some elected political officials in alliance with purchasing-contracting personnel, organized crime, and organized crime infiltrated labor unions extort money from contractors and real estate developers for special sub-contracts in building construction, waste management and government contracts (Summers, 1993; Mass, 1997; Brady, 2001). Either, the organized crime figures or the politicians or both would tell the real estate developers and contractors that it would be futile

to go the authorities since some politically appointed judges as well as members of the staffs of various prosecuting offices as well as members of the police investigation department and journalistic media were receiving parts of the extortion demands and were part of the corruption network.

If that was not sufficient to stimulate compliance, threats of shutting down a business operation, unofficial and official arrests and rotation among police stations, physical injury and death were also made against extorted individuals, their families, and witnesses. For example, the owner of the New York Walbaum retail chain stores in explaining why he cooperated with such corruption said, "Don't forget I have a wife and children (Mass, 1997, p. 110)." In Chicago, the mother of a person so targeted by the police was arrested for questioning and moved from police station to police station for several days while the family's lawyer tried to find her. In Toyko, a managing director of Fuji was assassinated because he refused to cooperate with such extortion (Bremner and Thornton, 1997).

3. *Corruption behaviors entangled with productive behaviors*

Parasitic corruption behaviors can produce some productive by-products. In addition, an individual or family participating in corruption activities can also be engaged in parallel productive activities. Both types of entanglement can make it more difficult for reformers to reduce such corruption since the by-product and parallel productive activities can both further spread the corruption sub-system and produce allies and rationalizations for the corruption behaviors (Baker and Baulkner, 1993; Beckett, 2001; Betancourt, 2002; Bonanno, 1999; The Economist, 2001; *The Economist*, 2002c; Manuyama, 1996; Mydans, 1996).

For example, a loan from a state bank that is received through corruption can be stolen completely, stolen partly, or invested in productive activities that might produce employment, profits, and even repayment of the loan. Even if the loan achieved through corruption is used productively, it is still corruption with corruption's negative effects. One such potential negative is opportunity cost. The loan to corrupt network member might be used more productively by a person or organization that is not part of the corruption network. In addition, the loan might give the member of the corruption network an unfair competitive advantage relative to a non-member. Such corruption based loans can also spread corruption by reinforcing the perception that the only way to get a loan or succeed economically is to pay extortion to corruption network members such as party officials, government officials, state banking officials, and other members or allies of the corruption network.

An individual or family participating in corruption activities can also be engaged in parallel productive activities. For example, in one Asian country a member of a corruption network was given advance information about his country's currency devaluation. In addition, he was given a $100 million loan in advance of the devaluation with no collateral. He bought Swiss francs and U.S. dollars with the loan in violation of his country's currency trading and lending regulations. After the devaluation he bought back his country's currency and made a profit of about $40 million. This added to his family wealth that had been accumulating through similar corruption activities.

Parallel to this type of corruption, the family built, owned and operated a large hotel as well as owned and operated several distributorships for European, Japanese, and United States multinationals (Asian Hotel CEO, 1998). Apparently, these parallel businesses are operated for the most part productively.

Nonetheless, there are also negative corruption costs from this type of parallel activity. There are the lost opportunity costs suffered by those who might have obtained the distributorships who were not part of the corruption network. As in the previous example, this type of parallel corruption contributes to the self-fulfilling perception that in order to succeed economically it is necessary to be a member of the corruption network or pay extortion to members of the extortion network.

Also, there is some evidence to suggest that distributorships operated by members of corruption networks while profitable may also be less profitable and less efficient than distributorships that are owned and operated by business people who can not so readily depend on illegitimate sources of funding and political influence and protection (Emerging Market Automobile Distributor CEO, 1996). Further, jobs and promotions within the productive businesses of corruption network members are often obtained on the basis of political loyalty and political connection rather than merit which in turn further spreads the scope and influence of the corruption sub-system and network.

4. *Entrapment violations co-opt and are used against reformers.*

The daily details of life in some countries and sectors can entangle most people including reformers in a series of more or less daily corruption transactions. Taken together they interweave with many aspects of one's life and can foster a sense of hopelessness and co-optation with respect to corruption sub-systems (Betancourt, 2002; Oppenheimer, 1996; Wolff, 1993; Thones, 1998; Sciascia, 2001; Robb, 1998).

For example, government officials in many countries extort money from citizens for such things as drivers licenses, automobile registrations, traffic violations, admissions to public elementary schools, placement in classes, grades, admissions to public hospitals, attention by qualified doctors, medicine, surgical operations, permits to build houses, permits to occupy houses, property taxes, telephone service, garbage collection, connections to electrical and heating public utilities, birth certificates, marriage licenses, passports, pensions payments on time, etc.

The extortion payments in each of these transactions can be as little as between $1–$100, but taken together represent a fabric of a daily life of extortion payments. From a very young age children learn that their parents and themselves have to pay extortion for admission to certain schools, classes, grades, bus transportation, etc. Children learn that corruption and extortion are part of the system. From a young age many people accept such extortion and corruption as a natural way of life. That is the way it is, that is how it has always been, that is the way it must be. When most people accept that corruption must be, it makes it that much harder to change and reform the corruption sub-systems.

In addition and in order to navigate the daily details of life, many reformers also have to pay the many daily life extortions. These payments can in turn be used as weapons against the reformers. Sometimes reformers are retaliated against and attacked by corrupt party and government officials for paying bribes. The extortion and the extortion payments are illegal. If a reformer becomes too effective, the corrupt network members can sometimes prove that the reformer has paid many extortions which the corrupt officials call illegal bribes. Ironically, ethics is used as an effective weapon against those who are trying to reform the corruption. Misinformation campaigns are used against the reformers that include many true instances where the reformers paid extortions that are called bribes. The misinformation is mixed in with the real payments to discredit, embarrass, punish, and stop the reformers and the reform efforts. For example, such misinformation campaigns have been used effectively against the Italian reformer Antonio Di Pietro (*The Economist*, 1997a), the Iranian reformer Gholam-Hossein Karbaschi (The Economist, 1998), and the Zimbabwe reformer Roger Boka (Block, 1998).

5. *Key corruption players can be charming, generous, fun to be with, and even a form of courageous*

Current members of corruption networks may be the successors to several generations of family members who were members of corruption networks. As such, they may also be the beneficiaries of several generations of inherited wealth, very good educations, gracious life styles, and even a sort of "noblise oblige." Many of these

people can be quite charming and enjoyable to be with. There can be in a sense aristocracies of corruption (Lampedusa, 1961; Caro, 1994; Bonanno, 1999; Betancourt, 2002; Sciascia, 2001).

The successor and still active corruption generations are wealthy and have the resources to be very generous. They have the education and training to appreciate, for example, beautiful and very comfortable homes, fine foods and wines, sailboats, as well as the fine and performing arts. They can also afford to be very generous in supporting both the arts and charities for the poor, the sick, and the dispossessed (who they also systematically help dispossess) as well as the middle classes. It can be very enjoyable to be with these well educated, gracious, and generous members of corruption networks.

They can even be caring friends. For example, if one had a sick family member or a family member or friend in some medical, financial, political, or criminal difficulty, then such a well connected and powerful friend can have both the means and the inclination to sincerely want to and be able to help so long as such help would not threaten too much another member of the corruption network or one's individual or family's position in the corruption network. That leaves a large amount of room to be generous, gracious, and caring. Such generosity and caring can range from sympathetic conversation and genuine concern about one's family, friendship and work lives; visiting the sick and paying for medical bills, education bills; helping someone get into a school, get a job, get a promotion; paying for a vacation trip with the family of the corruption network member; supporting a local church, a local sports team, building a hospital, funding a performing arts group, funding an art history book; funding a museum; etc.

With respect to who you might want as an allied fighter with mettle on your side in a fight against superior forces, parasitic corruption network members, particularly first generation members, can be in a sense courageous. For Aristotle (The Nicomachean Ethics, Book Three), "Experience of particular kinds of risk is regarded as a form of courage. This sort of courage is shown by different types of persons in different kinds of danger. . . . Mettle is also referred to courage, for those who act with mettle, like beasts charging those who have wounded them, are also considered to be courageous, because the courageous too are spirited (for spirit is very bold in the face of danger): hence Homer's phrases 'into their spirit he put strength' and 'rage he aroused and spirit' and 'bitter rage about his nostrils' and 'up boiled his blood'; for all these seem to indicate the rousing and impulse of the spirit. . . . Human beings, too, feel pain when they get angry, and pleasure when they retaliate; but those who fight for these reasons, although they may be good fighters, are not courageous, because they are acting not from a fine motive, nor on principle, but from feeling. Still, they bear a close resemblance to the courageous."

Perhaps this is some part of the reasons for why United States governments made alliances with Mafia leaders in the WWII invasion of Italy and the attempts to overthrow the Cuban Castro government (Bonanno, 1999; Summers, 1993). In particular, first generation corruption network members are sometimes characterized by such "a close resemblance to the courageous." For example, they often meet with severe resistance to their entry into corruption networks from established corruption network members. The aspiring corruption network members experience risk, danger, and can be spirited fighters against far superior forces. In a sense, it is their willingness to risk defeat and mettle in the ensuing fights that enables them to enter corruption networks that resisted them with superior forces.

Aristotle observes that while this "bears a close resemblance to the courageous" it is not identical with courage "because they are acting not from a fine motive, nor on principle." However, from the perspective of aspiring corruption network member, they may think they are acting from fine motives and principles.

For example, they may have a sense that it is not fair for the current corruption network members to exclude them and their families. The aspiring corruption members see vastly unequal distribution of power, wealth and income that is not connected to any merit that they can see. In

a sense, some aspiring corruption network members are motivated in part by a fierce sense of injustice and need for redistribution of wealth and income toward them, their families, their ethic groups (Lehr and O'Neill, 2000). While their principles and motives might not be as good as the motives and principles that Aristotle requires; for the actors, this may not be understood. From the perspective of the actors, they are combining principle, fighting mettle, and willingness to risk defeat against far superior forces. This can come very close to Aristotle's experience of courage.

Such courage, generosity, graciousness, hospitality and caring can be quite sincere and beneficial to others. It can also make it more difficult for the beneficiaries of such courage, generosity, graciousness, hospitality, and caring to appreciate the significance of such peoples' parasitic roles in corruption networks and even more difficult to oppose such personally formidable, attractive and generous people. Nonetheless, corruption reform is necessary.

6. *Popular but unrealistic laws passed to generate extortion opportunities.*

In some countries, socially popular laws are passed that simultaneously gain politicians who are members of corruption networks both popular support and extortion opportunities (*The Economist*, 2002g; Lindgren, 1993; Mapes and Madani, 2002; Stille, 1995; Thones, 1998; Xin and Pearch, 1996). For example, worker safety, pollution control, building code, luxury consumption taxes, and high corporate income taxes laws are often politically popular with general populations. Many people want safe working conditions, reductions in pollution, safe buildings. Similarly, the general public often supports higher taxes on luxury goods such as luxury automobiles. Also, the public often supports very high taxes on what they consider rich corporations, particularly foreign multinationals. Political parties and politicians can gain election and political power for supporting such measures. This is a "win" for the politician. It can also be a double "win" for the corrupt politician, particularly if the socially conscious and popular laws passed require standards that are very difficult or impossible to achieve.

For example, in one Middle Eastern country the government permits asbestos concrete manufacturing and its use in building construction (Middle East Engineer, 1991). Simultaneously, the government requires an asbestus parts per million air standard that is not technologically possible to meet, which is why this process is illegal in many countries. Nonetheless, several factories produce asbestos concrete with consequent high incidences of worker cancer. When the Palestinian and Pakistani workers contract the cancer, they are deported. Most of the workers are "guest workers."

The politician and political party responsible for the stringent air quality standard received a great deal of social and political approval. The politician through the government occupational health and safety inspection office personally collects about 2% of the factories' gross sales for permitting the factory to remain in operation. The government official went to the factory owner and demanded the 2%. If the factory owner did not comply, the factory would be closed and a license given to another factory owner who would pay the 2% of gross sales the government official demanded.

In Mexico and Italy there are very stringent earthquake construction regulations (Stille, 1995; Robb, 1998; Oppenheimer, 1996; Preston, 1995). In recent earthquakes in both countries, several newly constructed government buildings along with other buildings collapsed with many people killed and injured. In both countries, politicians of the PRI (Mexico) and the Christian Democrats and Socialists (Italy) received much public approval for their support of the stringent earthquake requirements. The governments simultaneously required the builders to pay between ten and fifteen percent of total building construction to the political parties, meet stringent construction requirements, and do so under a less than market cost contracts. This was not physically possible. The government told the builders that since they were paying the ten to fifteen percent extortion, they should cut costs on quality of materials and safety standards and

the building inspectors would approve the violation of standards.

A similar system operates with respect to personal luxury goods taxation and corporate taxation (Nielsen, 1996). Politicians and political parties receive a great deal of public approval for passing very high corporate tax rates and personal luxury goods consumption taxes. In many countries, working in customs is a very lucrative job, but not from one's salary. For example, people importing luxury cars are told that if they pay the customs inspector $5000 per automobile, they will only have to pay twenty five percent of the luxury tax. If on the other hand they do not pay the customs inspector, not only will they have to pay the full 100% to 200% tax, but the car will also be delayed in port for several months and that sometimes such delayed cars are damaged and/or lost. Many people pay the extortion.

7. *Corruption links among political parties, police, prosecuting, judicial, and legislative branches*

Large, successful, parasitic, and exclusive corruption networks are for the most part not a secret within their domestic societies. In fact, because the corruption networks are so well known, this in a sense can sometimes increase their power and effectiveness. The thinking and the reality goes something like this. If the corruption network is so large and so successful they must either be more powerful than the government, be part of the government, or enjoy the protection of the government. Therefore, one must cooperate with the corrupt network members who extort resources.

As in the state banking corruption and Indonesian examples, this is quite true. For example, for many years in Italy and Mexico, the people who control the leading political parties received their opportunities for systematic extortion and corruption because of their positions in the party (Robb, 1998; Fentress, 2001; Sciascia, 2001; Stille, 1995; Klitgaard, 1983; Oppenheimer, 1996; Preston, 1998). Since they are high party officials, they can be themselves or appoint heads of the state banks who in turn owe their appointments to the party officials. Heads of various state organizations including banks and natural resource exporting companies as well as ministries of industry receive a percentage of all the business that passes through their agencies. In order to keep their positions, portions of the extortion are passed back and shared with the leading party officials.

In turn, the party officials appoint judges, prosecutors, and police who are supposed to be fighting corruption, but instead are supporting the network based corruption. Sometimes individuals who are not part of the network are effectively prosecuted, but this in effect strengthens the power of the members of the corruption network who are not prosecuted.

Even small government organizations are not exempt. For example, the principal of a local elementary school, the head of a local health clinic, the head of a local public works department, the head of a local motor vehicle bureau that issues drivers licenses and vehicle registrations, or the rector of a university can receive for example 15% of all the purchases their institutions make which are in turn shared with party officials.

Even what might appear small amounts of such corruption can add up to quite a lot. For example, the politically appointed head of a municipal motor vehicle bureau can charge unofficial and illegal fees for example of $100 to have a drivers license renewal application expedited. If one does not pay the $100, one can sit in the bureau's offices and be asked to produce additional documents that can take several trips to the bureau, several months for processing, and several days waiting on line in an office; or, one can pay the $100 and receive the license renewal in an hour. When several thousand people per month pay the $100, it adds up to quite a lot of money and is a large source of income for the politically appointed bureau head, that head's assistants, and the political party officials who also give lower level jobs in the bureaus to political supporters.

If the corrupt government official is ever exposed and as long as it is not too embarrassing, the corrupt officials are protected by the prosecutors, judges, police, and some media that are

part of the corruption networks. Occasionally, if the corruption is too blatant and too extreme, one corrupt official will be removed and replaced with a more discreet official.

The corrupt officials in turn place political supporters in jobs within the corrupt public and cooperating private organizations. This further increases their political power. In order to get a job for oneself or a family member, many people feel that they must support the corrupt politician. They may not like the corrupt politicians personally and may also not like the corrupt system, but they cooperate because they believe it is a practical way to get a job that pays reasonably well, is secure, and where one also does not have to work too hard.

8. *Corruption links among political parties and "watch-dog" institutions such as auditing, journalism, universities, and professional associations.*

The auditing, journalistic mass media, universities, and professional associations can provide very important "watch-dog" reporting, research, investigation, and whistle-blowing functions. While it may be clear for example how newspapers can investigate, report, and blow the whistle on corruption activities, it may be less clear how universities and professional associations can play similar roles.

For example, some forms and sub-systems of corruption such as the United States Savings and Loan banking and insurance scandals (Kane, 1989, 1993) and some anti-trust and high technology market rigging cases (Yoffie and Cusumano, 1998; Muller, 1998) can be so complex that they may need the help of the research services that universities can provide.

Similarly, professional associations can provide investigation and reporting functions concerning corruption. For example, most professional accounting, engineering, law, and medical associations have ethics codes as well as due process procedures for hearing complaints and reporting on ethical violations that include corruption behaviors such as extortion and bribery payments, violations of tax codes, violations of banking regulations, violations of engineering safety and pollution standards, etc.

Institutions such as the press, the universities, and the professional associations can provide resources for investigation of corruption activities as well as political space for both discussing, exposing, and reforming corruption abuses. As such, these institutions can serve as important institutional means for both reducing corruption and restricting the growth of corruption.

Unfortunately, in many parts of the world, these institutions are entangled in the corruption subsystems and are therefore hampered in their abilities to restrict and reform corruption. Not only that, press institutions that should be helping to investigate and report corruption sometimes help in covering up the corruption. For example and as referred to above, many Mexican newspapers receive large payments from the government which is tightly linked to the PRI political party which has controlled much of Mexican political, economic, and cultural life for the last seventy-five years. In exchange for the payments, many Mexican newspapers both do not publish stories and editorials critical of government and party behavior, but also allow government officials to write both news and editorials under the names of press reporters and editors (Oppenheimer, 1966).

Sometimes professional associations are co-opted into the corruption. For example, in some countries Certified Public Accountants are licensed and chartered by the government. Both the government chartering organizations and the CPA associations are sometimes also controlled by members of the corruption network. The professional association can both facilitate, for example, tax extortion payments and ignore complaints and whistle-blowing by businesses and individuals who are being extorted by the tax inspectors. In both cases, the ethical "watch-dog" investigation and reporting roles of the professional association is subordinated to the interests of the corruption sub-system (Nielsen and Balas, 2000). And as we have seen recently in the United States, public accounting firms can ignore and/or misrepresent financial reporting requirements in exchange for lucrative management and information technology consulting contracts and

preferential allocations of Initial Public Offerings of "hot" stocks (Brown, 2002; *The Economist*, 2002c; *The Economist*, 2002f; Gasparino, 2002).

Similarly, legal bar associations can be influenced and controlled by the corruption sub-system. For example, if a business or a family tries to take a case of tax inspector extortion to court, lawyers and the professional law association can support the corruption sub-system. Lawyers in the court administration system can assign the case to a judge who is part of and/or favorably disposed to the corruption sub-system. This assignment of the case to a corrupt judge is sometimes known and ignored by the business' or family's law firm which receives large parts of its revenues through connections to the corruption network and does not want to help disrupt and/or be blamed for disrupting the system. Complaints about assignment of the case to a corrupt judge and the existence of corrupt judges are ignored and/or covered up by the professional bar association (Emerging Market Law Firm Partner, 2000).

Universities and professors are also sometimes part of the corruption and the non-research about the corruption (Horowitz, 2002; Italian Professors, 2000). For example, in many countries professors make as little as 20% of their income from employment as full-time professors. It can be normal for full-time professors to have an additional full-time job working for some government agency at twice their university salary. In addition, they can do consulting work for and sit on the boards of other government agencies and companies doing business with the government.

With all these sources of income the professors and rectors can receive high incomes. This can create an enormous conflict of interest. If the rectors were to support and the professors were to do research into how the corrupt sub-systems are operating, and in particular, name names of institutions and individuals, they would risk losing large parts of their incomes and sometimes much more. If the rectors facilitated this type of research, they risk losing political party support for their election to the position of rector. The rectors would lose influence, prestige, and opportunities for extorting money and favors from contractors and vendors who do business with their universities.

In corruption sub-systems, members of the press, the universities, the professional associations often choose to ignore their investigation and reporting functions and instead choose to go along with the corruption and get along with respect to maintaining and increasing their incomes and wealth. When the "watch-dog" investigation and reporting functions of such key institutions are systematically and pervasively compromised, it makes it that much more difficult to reform and prevent the spread of the corruption sub-systems.

9. *Campaign funding can entangle reform candidates in problematic relationships*

In many parts of the world, it can cost a great deal of money to run for political office. In corrupt sub-systems, financing for the political campaigns of corruption network members comes from the political party which in turn often extorts contributions from corporations and business families. Unfortunately, the Organization For Economic Cooperation and Development's 1998 proposal for member countries to make it illegal to pay extortion to government officials does not include or require that extortion payments to ruling political parties also be illegal (OECD, 1998). This is an enormous loophole in the reform proposal since in corrupt sub-systems it is often the corruption network entanglements with political parties that is the core of the problem rather than isolated individual acts of extortion or bribery.

The corruption network members often have much more money available for political campaigns than reform candidates. In addition and as discussed above, since much of the mass media are entangled with the corruption networks, there is a great deal of in effect free publicity and political advertising for corruption network candidates (*The Economist*, 2001). To compete effectively against corruption network members in political campaigns can cost a great deal of money.

Where can the money come from? Sources

include personal wealth from the families and friends of the reform candidates as well as associations such as federations of industry and labor unions that support corruption reform. Sometimes such sources are sufficient to finance effective political campaigns, but not always. When there is not enough money to finance effective campaigns, sometimes the reform candidates and/or their friends and supporters solicit and/or accept what at least the donors believe are quid pro quo contributions for present or future considerations from the reform candidates.

Such campaign fund raising entanglements can be used by members of corruption networks against reform candidates through charges of corruption against the reform candidates. That is, ethics is used as a weapon against reform candidates. Sometimes, simply the appearance of campaign fundraising entanglements are enough to hurt the reform candidates. At other times, there is actual extortion and/or bribery by supporters that hurt the reform candidates and reform movements.

For example, in 1992 Kim Young Sam won the presidential election in Korea. Before 1992 he was not involved in any corruption scandals and was generally considered part of the opposition (Seo, 1998; Nielsen, 2000a; *The Economist*, 2000e; Brady, 2000; Biggart, 1998). Most of his career he presented himself as a reform and opposition candidate. When he became President in 1992 he developed a strong and effective anti-corruption program. He uncovered and punished the corruption activities of several high level government officials. In addition, he pushed through legislation requiring transparency such as requiring top officials to publicly reveal their assets and making it illegal to hide financial assets under false names, a common practice in Korea for hiding the gains from corruption activities. President Kim Young Sam's corruption reform program revealed that the former President Roh had accumulated $654 million in corruption funds. Both President Roh and several very wealthy businessmen went to jail.

Unfortunately for the corruption reform movement, in 1997 it was revealed that President Kim Young Sam's son, Hyun-chui, received millions of dollars in extortion-bribe money from many Korean corporations. This revelation greatly hurt the political strength of President Kim Young Sam and his reformer allies. Many people perceived that they were not very different from the corruption network members they claimed to be trying to reform.

Why did Hyun-chui ask for and accept such large contributions from Korean corporations? Part may have been personal greed and corruption, but part of the reason might also have been that the son was trying to help his father and the reform movement with funds for political campaigns. In order to win the 1992 election, President Kim Young Sam ran for election with the support of the corrupt ruling party. After he prosecuted several members of the corrupt party and network, he lost most of his financial support. In part, the son was trying to raise money to continue the reform efforts and political campaigns. Nonetheless, the corruption network members were able to very effectively use the sins of the son against the father and other reform candidates.

Entanglements of campaign funding requirements with corruption is also a problem in many developed countries such as the United States, France and Germany (Hitt and Hamburger, 2002; Cloud et al., 2001; Karnitschni, 2000; Cohen, 2000; Rohwedder, 2000).

10. *Corruption participation is offered to reformers followed by attacks if co-optation is rejected*

It is not an uncommon phenomenon in many political systems to begin and win election as a reformer and retire many years later fabulously wealthy. In between, enormous wealth can be accumulated. The wealth accumulation for the most part does not come from savings on one's government salary or from extraordinarily wise investments. One way to get rich in a corrupt system is to begin as a reformer and then sell out for a high price and progressively higher prices as one climbs the corruption ladder. Some of these people even justify such self-interested and corrupt wealth accumulation with occasional actions on behalf of the average voter which in turn helps the corrupt officials to be re-elected.

In the United States, the late President Lyndon Johnson was such an example. Much of his family's fortune was accumulated through preferential broadcasting licenses and other government favors (Caro, 1990, 1994).

While it is also true that some of the "selling out" accusations that one hears are sometimes linked more to envy and/or frustration that oneself is not asked to sell out than solely or mainly ethical concern, the "selling out phenomenon" is not without serious foundation. Several examples are offered from one Latin American country where this method of win-win followed by win-lose coercion is quite well-developed and pervasive (Oppenheimer, 1996; Klitgaard, 1983).

The PRI party in Mexico has controlled the country for almost 75 years until it lost the national election in 1998. Successive student leaders of one of the more radical continuing university based student organizations were regularly offered positions in the corrupt PRI and the government (PRI Party member and professor, 1998) . Over the last thirty years, most of the student leaders of this particular organization have accepted. When there is an economic crisis, the students blame outsiders and the United States for the crisis instead of the corrupt government and government officials. While it is true that the United States is not without very serious complicity in this country's economic difficulties, in the periods of crisis, the student leaders deflect internal public attention from the corrupt internal system and corrupt government officials. In turn, many of the students, become party members and very wealthy. Several of these former student leaders and later PRI and government officials even claimed graduate degrees from foreign and Mexican universities that they never received (Oppenheimer, 1996).

Also in a Latin American country, one way to begin a financially successful newspaper or magazine is to begin as a reform paper and criticize the ruling party and the government. Then, government agencies offer to pay large amounts for advertisements to the papers and later offer to pay even larger amounts to reporters, editors, and publishers to have stories written by government employees presented as articles written by the papers' reporters. The newspaper owners and reporters become wealthy (Oppenheimer, 1996). If one refuses, the government has resorted to very win-lose methods to stop criticism. For example, newspapers have been denied permits to buy paper, reformers and family members of reformers have been threatened, attacked, and murdered.

This method of win-win followed by win-lose if the reformer does not accept co-optation even operates at what at first might appear insignificant levels. For example, there was a Latin American medical doctor and department director at a hospital who wanted to hire a competent junior physician (Emerging Market Medical Department Director, 1998). Instead, the head of the hospital wanted him to hire and promote a party member who knew very little about medicine or surgery.

At first the director refused. The director was then offered a well paid position on the Board of Directors of a government linked private company and the promise of consideration for a position as head of another hospital. The director expressed his appreciation, but indicated he could not build a good department if he did not hire competent physicians and surgeons. He then received angry phone calls from the present and former heads of his hospital.

He still would not hire the political appointment. A member of the corruption network then made inquiries in his village and talked with his mother and neighbors implying that her son and their friend might be in some difficulty. The director still refused. The government then appointed the political person and passed a law saying that doctors could not do the type of outside work this doctor was doing while making many exceptions for other doctors that did not apply to this particular doctor. The doctor then lost about 40% of his income, lost a department line, and lost the appointment of the qualified doctor.

Why did the government and corrupt network use such an extreme measure against this director for what might seem such a small matter? To the politically appointed head of the hospital, this was not a small matter. If he could not deliver a job he had promised to a political supporter, he

would lose influence within the party and in turn appointment to various government positions and the opportunities for very lucrative extortion and bribery that came with those positions. What might seem like a small matter is nonetheless very important if it related to the security of one's position in the corruption network. The potential financial losses from losing face in one's ability to deliver small political appointments can be enormous. If this party person can't take care of an insignificant junior doctor, then that party person is considered not very strong.

11. *Public sector principal-agent incentive conflicts result in misregulation and relaxation of supervision*

Kane (1989; 1993, p. 329) in his comparison of corruption sub-systems in the United States Federal Savings and Loan Insurance system and in the Japanese banking industry found important similarities. In particular he found that there were "particular conflicts in bureaucratic incentives that make . . . regulators reluctant to acknowledge and resolve . . . financial institutions exposure to catastrophic risk."

More specifically, Kane found that there was a misalignment between incentives of bureaucrats to serve the interests of citizen taxpayers and the systematic self-interest incentives offered to politicians and regulators. That is, there can be great incentives for politicians and regulars to not serve the interests of citizen taxpayers. Regulators and politicians can have strong incentives to not accurately monitor, acknowledge and resolve catastrophic risk problems (Hendersshott and Kane, 1992).

Kane (1993, pp. 336–337), with respect to the U.S. savings and loan scandal, explains the incentive conflicts as follows: "Bankers want deposit insurance as a competitive advantage. Politicians want deposit insurance as a way to avoid being embarrassed by bank failures. Because they (regulators) are more directly answerable to politicians and bankers than to taxpayers, in practice, government regulators are pulled more toward avoiding failures and subsidizing deposit-institution operations than they are toward minimizing taxpayer loss exposures. The seeds of the mess lie in defective incentives for measuring and controlling the taxpayer loss exposures that politicians and top regulatory officials create. . . . These incentive defects engender conflicts with bureaucratic and personal goals that, in tough times and in tough cases, tempt government officials around the world not to enforce the underwriting standards, coverage limitations, and takeover rights that constitute taxpayer's best theoretical defenses against cumulative deposit-insurance losses. Although highly ethical individual regulators may routinely reject these temptations, the main lesson of the S&L insurance mess is that it is fatuous for society to depend on a regulatory framework whose successful operation demands acts of selfless heroism from its top managers."

Regulators, politicians, and party officials are encouraged by hopes and offers of concurrent and/or post government employment as well as "implicit and explicit bribes" and campaign contributions not to monitor, acknowledge and resolve potentially catastrophic risk problems. In addition, not acknowledging the depth of the risks and insolvencies that one has ignored during one's term of responsibility for oversight minimizes the current likelihood of being blamed for the eventual collapse. When the collapse occurs, the responsible regulators and politicians have moved on with the incentives they have received for ignoring the creation and build-up of the problem. The direct "implicit and explicit bribes," concurrent and future private sectors jobs, and campaign contributions can be much greater than the direct incentive benefits from one's official public sector salary.

Kane (1993) concludes that "Inadequate constraint on the pursuit of self-interest by government officials is the root cause of U.S. problems and is what threatens Japan with relaxation of supervision today." Unfortunately, but as Kane predicted, Japan is currently experiencing a near collapse of its banking sector in large part because of the conflicts of interest and consequent lack of monitoring, acknowledgment, and correction of catastrophic risk and nonperforming loans in Japan's banking sector (Nakamae, 1998).

12. *Rescue programs maintain corruption systems while forcing austerity measures on middle and lower classes*

In many emerging markets and third world countries, when the corruption reaches the breaking point, international organizations such as the International Monetary Fund and The World Bank with additional help from national agencies such as the United States' $40 billion Exchange Stabilization Fund, rescue the corruption system and corruption network leaders and impose harsh bailout costs on the lower and middle classes. While corruption is not the sole cause of such financial crises, it is an important part. There are recurring cycles of scandal, rescue, scandal, and rescue as well as cycles of scandal, reform, scandal, reform (Sherman, 1979; Sanger and Stevenson, 1998).

The state banks make loans to members of the corruption network in the name of dummy corporations and/or unsound public works projects built by members of the corruption network that do not pay the money back (Biggart, 1998; Tanzi, 1998; Sherman, 1979; Singer and Stevenson, 1998; Boulton and Munir, 2001). The members of the network transfer most of the money to domestic land investments, gold, and/or hard currency countries such as Switzerland, Germany, England, Japan and the United States. In addition, the state banks make large loans to projects that have little chance of returning a profit or surplus. The funds for these projects go to members of the corruption network for things like construction and land purchases from members of the network who bought the land with the knowledge that the project would subsequently purchase the land. The members of the corruption network are paid the money and again convert much of the money to hard currencies, gold, and/or land. So, there are large amounts of nonperforming loans from dummy corporations and money losing projects. Much of the corruption from these nonperforming loans goes to nonproductive, at least with respect to the domestic economy, of deposits and investments in hard currency countries and banks and domestic land purchases.

The government then prints money and increases the money supply to finance the nonperforming loans. When it becomes known that the state banks are near insolvent or insolvent, that the government is printing money to finance the losses, that the wealthy elite are moving money out of the country to hard currency safe havens, the international investors soon follow. There is a massive withdrawal of funds from the country and the financial crisis deepens.

The financial crisis in the country with the large corruption sector threatens to disrupt international financial markets and exports from stable economies to the crisis economies. In order to help the country and stabilize international financial markets and exports, international agencies such as the International Monetary Fund lend billions of dollars to the country in order to stabilize the banks, the currency, the local stock market, and the general economy.

The International Monetary Fund requires that the loans be repaid and insists that the government undertake an austerity program such as cuts in government social spending and increased taxes. In addition, interest rates and taxes are raised to stabilize the currency. Money is more difficult for the honest businesses to get to finance cash flow and exports. Some of the state banks and many honest businesses go bankrupt. There is massive unemployment, inflation, and worsening of unequal income distributions. Most of the cuts in social spending hurt the middle and lower classes as do the increases in taxes and subsequent unemployment.

Meanwhile the wealthy corruption network members keep their billions safe in places like Switzerland. The corrupt government and corruption system is bailed out. As the crisis abates, the members of the corruption networks bring money back to the country that is worth even more relative to local income and their wealth and influence are often even stronger than they were before the crisis. Often, the government, the wealthy elite, and the intellectuals blame international outsiders for the austerity. In effect, the corrupt government and corruption network is saved and maintained by this type of bailout. There are alternatives to such a bailout such as attaching the secret bank accounts of the cor-

ruption network members in countries such as Switzerland.

Propositions

Cross-organization corruption networks within organizations

Brass et al. (1998) found that network relationships among individuals within an organization can both positively and negatively influence unethical organizational behavior within an organization. The case data presented above suggest that network relationships among individuals across organizations can also influence corruption behavior. More specifically, the following proposition is suggested.

> *Proposition 1.* Corruption network relationships among individuals across organizations can negatively influence corruption behavior within organizations.

That is, the power of corruption networks outside and across organizations can influence corruption behavior within organizations. For example and as referred to above, the political power of corruption networks can influence the lending behaviors of state banks and lending officers within state banks to make loans which the loan officers anticipate will be nonperforming, but that will be financially and/or politically beneficial to corruption network members.

Reform interventions

In some situations, corruption behavior is influenced much more by the corruption network than by an isolated, individual acts of unethical behavior. That is, the corruption behavior is more systematic and pervasive than it is an act of individual unethical behavior. In such a situation, the social movement literature (McAdam, 1982; Davis and Thompson, 1994; Nielsen, 2000a) suggests that reform efforts that are addressed at the underlying social relationships will be more effective than interventions that focus on isolated individual behaviors. The following proposition is suggested.

> *Proposition 2.* Corruption reform interventions that focus on corruption networks are likely to be more effective than interventions that focus solely on individual behaviors and agency incentives for individuals.

An intervention that targets and punishes one loan officer can be less effective than an intervention that focuses on the corruption network. One unethical loan officer can be replaced by another unethical loan officer. A more fundamental type of intervention might better address how the loan officers and auditing officials are hired and promoted. For example, the new CEO of a state owned bank in an emerging market country has pledged to stop the practice of hiring loan officers on the basis of political appointments and to hire loan officers on the basis of merit and to evaluate loan officers on the basis of merit based performance criteria (Emerging Market Bank CEO, 1998). Similarly, a RICO (Racketeer Influenced and Corrupt Organizations Act) type prosecution (Blakey and Roddy, 1996) against the members of a corruption network can be much more effective in reducing corruption that a series of isolated prosecutions against corrupt individuals.

Reform networks

The power of a corruption network can be greater than the power of an individual. In addition to recognizing that dominating self-interested social groups exist, the social movement literature (McAdam, 1982; Davis and Thompson, 1994; Nielsen, 2000a) also suggests that collective and cooperative group efforts can be more effective than isolated individual actions in challenging the status quo of a self-interested and dominating social group. Similarly and from a more micro perspective, Axelrod (1984) has found that in competitive games, win-win cooperative behavior among individuals tends to be more successful than isolated win-lose behaviors. That is, individuals who cooperate with one

another accumulate more resources than isolated individuals that engage in solely win-lose relationships with others. A similar phenomenon may also hold for network based corruption reform interventions. The following proposition is suggested.

Proposition 3. Individuals acting as part of a reform network are likely to be more effective in corruption reform efforts directed against corruption networks than individuals acting alone.

For example, the CEO of the state bank referred to above did not act alone in changing the hiring and performance evaluation rules in this particular state bank. He had the support of the country's prime minister as well as several key party leaders and members of the business community before he announced the hiring and performance evaluation reforms. Nonetheless, the power of this reform group appears to be limited. There are other state banks where there has been relatively little success in corruption reform.

Reform institutions

Some corruption networks such as the United States, Italian, and Japanese organized crime networks as well as corrupt political parties such as the Mexican PRI have existed for many decades and across several generations of relatives and friends. These types of corruption networks took many years and even several generations to build. It should not be surprising that it may take many years and generations to reform such long term networks. Long-term continuity and stability in corruption networks can require long-term continuity and stability in reform efforts. The social movement literature (McAdam, 1982; Useeem, 1984; Knoke, 1990; Nielsen, 2000a) also suggests that long term social movements can be greatly aided by the development of long-term social infrastructures that include reform institutions. Reform institutions can focus continuing attention and accumulate the continuing resources necessary to sustain long-term corruption reform movements. The following proposition is suggested.

Proposition 4. Reform networks that build reform institutions are more effective than networks that remain individuals based.

For example, reform institutions (McAdam, 1982) such as the National Association For The Advancement of Colored People (NAACP), the Southern Christian Leadership Council (SCLC), and the Congress for Racial Equality (CORE) were very important reform institutions in the United States Civil Rights Movement. Similarly, the Korean organization, Peoples Solidarity for Participatory Democracy (PSPD), has been very important in Korean corporate governance and corruption reform (Seo, 1998; Nielsen, 2000a; *The Economist*, 2000e; Brady, 2000; Biggart, 1998). Similarly, international institutions such as Transparency International, Amnesty International, and the Organization For Economic Cooperation and Development have been instrumental in corruption reform efforts (OECD, 1998; 2000; PCPD, 1999; Transparency International, 2001).

More local level reform institutions can also be effective in corruption reform efforts (Nielsen, 2000a). For example, in one emerging market country, a group of individuals in conjunction with an association of industries developed an education institution that offers an MBA program, executive education, public lectures, and conferences on various types of reform topics. Students are admitted and placed in jobs based on merit rather than political connections. Students and executives are taught how to be effective managers and leaders based on managerial skills rather than solely political connections. Public lectures and conferences are organized where successful reformers explain how they have been able to institute reform policies and build reform institutions.

Strong and weak network ties

Granovetter (1973) distinguishes between strong and weak network ties. The strength of a network tie refers to the emotional intensity, frequency, and reciprocity of that relationship. Granovetter identifies a weak tie as being characterized by infrequent interaction and minor positive affect. Somewhat paradoxically, Granovetter refers to the "strength of weak network ties." What Granovetter means by this is that having many weak network ties can increase one's influence as a contact person and boundary spanner relative to individuals who are more isolated.

Baker and Faulkner (1993) found in their study of illegal price fixing and market allocation networks in the electrical equipment industry that illegal conspiracies require the concealment of the conspiracy network and that relatively weak ties, particularly with respect to infrequency of contact among network members, can actually strengthen the effectiveness of the conspiracy by making it harder to detect and prosecute.

Corruption networks that exist over long periods of time and even across generations, in a sense, can also have weak ties among members (Bonanno, 1999; Betancourt, 2002; Fentress, 2001; Mass, 1997; Milhaupt and West, 2000; Robb, 1998; Stille, 1995). That is, the corruption network is more or less normalized and does not require a great deal of maintenance contacts among members. Also, since the operation of the corruption network is more or less automatic, it does not require strong, positive emotional affect among members to operate normally.

In some contrast, the social movement literature suggests that it can be both very difficult and even dangerous to challenge the status quo of an established, dominating group. As such, corruption reform can require a great deal of cooperative risk taking among reformers. Since reformers are typically less powerful and more vulnerable than the dominant maintainers of the status quo, they may need to have strong reform network ties both with respect to positive emotive affect and frequency of contact. The following proposition is offered.

Proposition 5. Strong network ties such as close personal friendship relationships are more important for reformers than for members of established corruption networks where weak ties are sufficient to maintain the established corruption network.

This proposition is further supported by the social movement literature. For example, Tilly (1978) found that strong personal relationships among reformers greatly increased the ability of the reform group to work together and sustain their commitment over time. Similarly, Knoke (1990) found that strong previous personal, social relationships among individuals was an important predictor of individuals joining together in a social movement.

Transparency, self-criticism, and inclusivity

As the action-learning (Argyris et al., 1987; Argyris, 1990), organizational learning (Torbert, 1987; Senge, 1990), and organizational ethics action-learning (Nielsen, 1996) literatures suggest, continuous reform, change and transformation effectiveness requires continuous dialogue, inquiry, and learning. Learning requires transparency. We need to be able to see and be able to discuss the phenomena we are concerned with. Actions, values, and tradition-systems develop biases that need to be identified and criticized. As Lord Acton observed in the 19th century and as the postmodernists (Derrida, 1984; Foucault, 1994) point out today, power can corrupt. If we are not careful, we can become like what we oppose. The following proposition is suggested.

Proposition 6. Continuing feedback, criticism, inclusivity and transparency increase the likelihood that reform networks will not become like the corruption networks they oppose.

There is sometimes a conscious and unconscious tendency for people in higher positions of power and influence to give preferential treatment to people who "look like" themselves.

This is true for both old powerful and new powerful groups and organizations (Derrida, 1998; Foucault, 1997). Unfortunately but as might be expected, it is not unusual for reform groups to become at least somewhat like the corrupt groups that they are opposing. For example, the Italian Mafia began as a reform organization against the French Bourbon occupation of Sicily (Bonanno, 1999; Fentress, 2001; Mass, 1997; Milhaupt and West, 2000; Robb, 1998; Stille, 1995). Similarly, some organized crime groups in Ireland and the United States began as reform groups against British occupation of Ireland and anti-Irish discrimination in the United States (Coogan, 1992; Toolis, 1995; Adams, 1996; Lehr and O'Neill, 2000). Some ethnic, racial, gender, social class, and ideological groups give preferential treatment to people "like us" and more or less consciously and unconsciously discriminate against people "not like us."

This can be a particular problem for reform groups since reform groups sometimes believe and decide to trade ethical means for ends effectiveness. For example, in the interests of ends effectiveness, the means methods of secrecy, preferential treatment, and internal suppression of criticism in the interests of outcome goals are not uncommon among some reform networks. The ethics of results sometimes are deemed more important that the ethics of means.

When the new powerful replace the old powerful, all biases are not eliminated. More often, some biases are reduced, but not without the addition of some new biases. For example and as referred to above, it is not unusual to give preferential treatment consciously or unconsciously to "one of us" relative to "one of them." Transparency and inclusiveness can help reform networks not become like the exclusive, secret, predatory networks they are trying to reform.

Conclusion

As can be seen from the above subsystem elements, corruption subsystems can be very complex, strong, and damaging. It is essential to understand how the subsystems operate in order to begin to consider how to reform them. The key element to corruption subsystems appears to be that the subsystem is an integrated network. What this suggests is that it may be necessary to approach the corruption subsystem less as if one was approaching isolated individuals than a very strong if secret and sometimes invisible network organization. Similarly, since the phenomenon that needs to be addressed is a group and a network, it is also probably important to approach the corruption subsystem as part of reform network rather than as an isolated individual. It is hoped that this discussion of how the corruption sub-systems operate and some reform measures based on the network character of the subsystems may stimulate more interest and energy toward investigating and developing more effective methods for reforming and transforming the corruption subsystems.

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