



Combating Corruption 1st Class Meeting

Juridiskā fakultāte
Latvijas Universitāte
5. Februāris 2020
Shawn N. Sullivan

About the Instructor

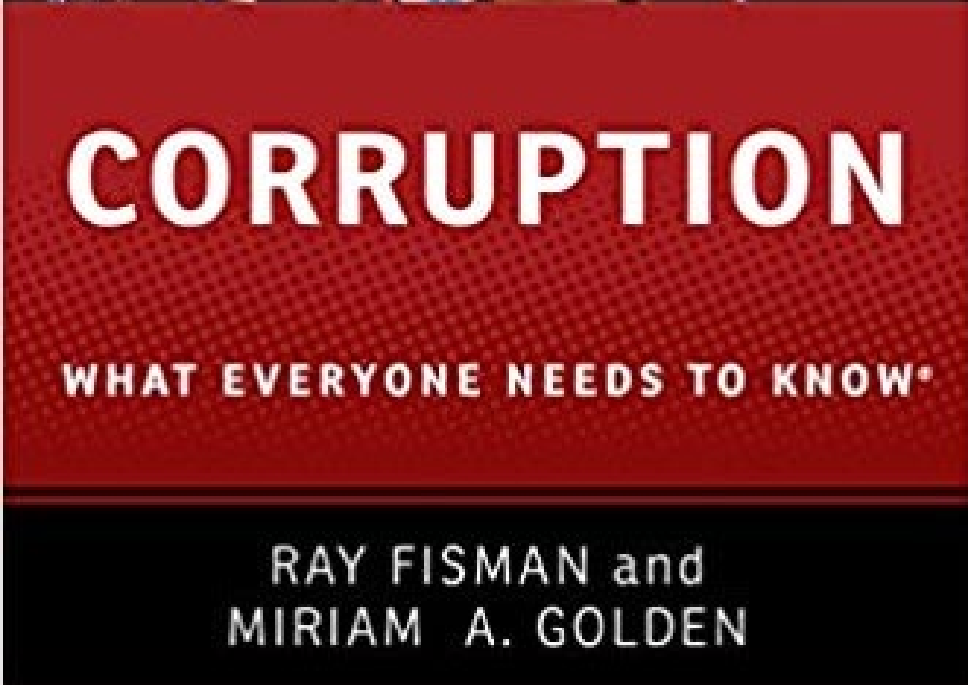


- Shawn N. Sullivan
 - Attorney from Washington, DC, USA.
 - In Riga as a Fulbright Scholar this semester.
 - Email: sullivan@sullivanlaw.net
 - Local telephone: +371-2612-9290



About the Course

- This course is a short study of issues relating to public corruption.
- Although this is a law course, a proper understanding of the phenomenon of corruption also requires us to consider matters of;
 - Political science / International relations;
 - Economics;
 - Sociology.
- My approach: As apolitical as possible.
- Limitations: U.S. instructor with mostly compliance background.
- Guest speakers (tentative)
 - Transparency International (delna.lv)
 - Financial Intelligence Unit of Latvia (FIU Latvia)
 - Possibly others



- Ray Fisman & Miriam A. Golden, CORRUPTION: WHAT EVERYONE NEEDS TO KNOW (Oxford University Press 2017).
- Online materials at: <https://corruptioncourse.online>
 - Alternative reading materials
 - Treaties
 - Legislation
 - Case studies



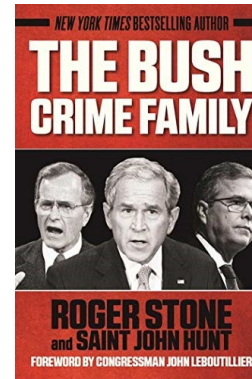
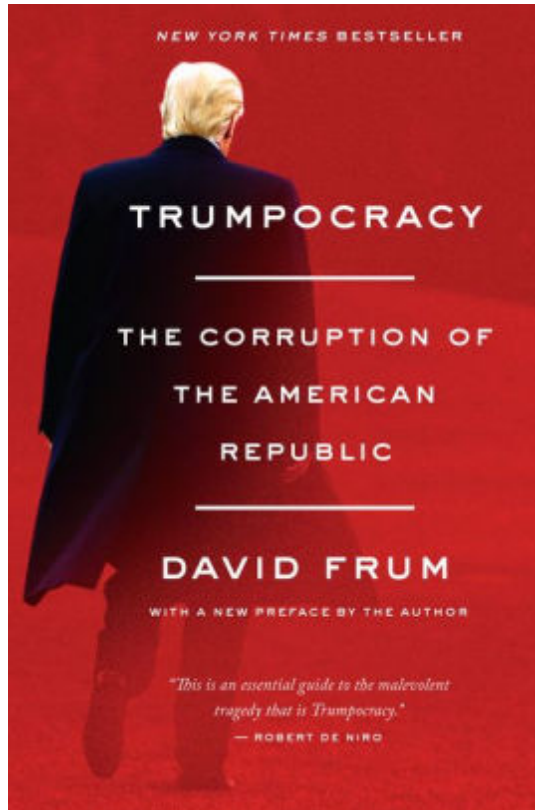
Course Assessments



- Examinations.
 - Mid-term
 - Final

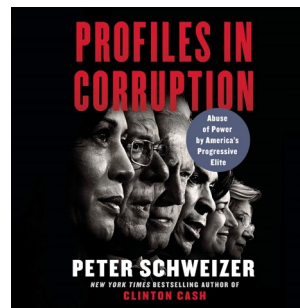
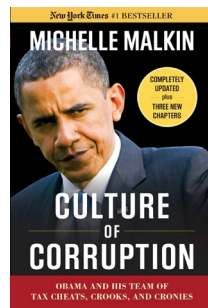


Introductory Lecture



What Are We Talking About?

- “Corruption” is often used loosely to describe many kinds of conduct by many types of actors.
 - The term is not always used with precision and sometimes is little more than a political epithet.
- We will return to definitions shortly, but the next page provides a description of what this course is concerned with.



Primary Forms of Corruption with which We're Concerned in this Course

(Broadly Speaking)



Embezzlement

Theft of public funds by government leaders, senior public officials, and their cronies.



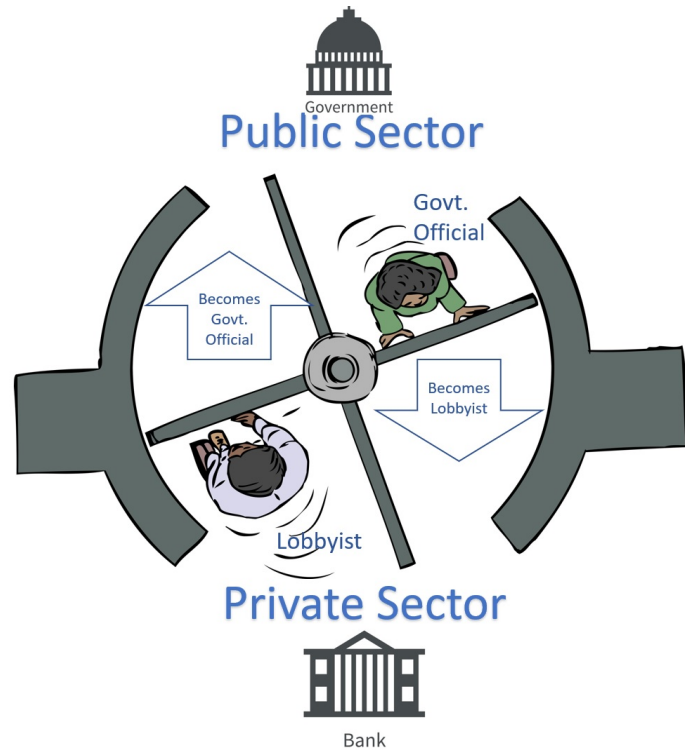
Bribe

Bribes paid to public sector employees by those seeking special favors.



Extortion

Extortion by politicians and civil servants to obtain illicit payments by threatening actions against individuals or businesses or withholding services from them.



The Revolving Door

Not Covered in this Course

- This course does not primarily address morally or ethically questionable practices that, while unseemly, are not prohibited by law.
 - E.g., conflicts of interest on the part of government officials, when they do not rise to the level of a crime.
 - E.g., the “revolving door” from government to business to government.

Issues Related to Our Concerns

(not all are covered in significant detail)



International economic sanctions.



Money laundering.



Financing of terrorism.



Tax evasion.



How Prevalent
is Corruption?

The Past 7 Days



How the US became the center of global kleptocracy

The US has become the key cog in the machine of modern kleptocracy worldwide. But it didn't start with Trump.

By Casey Michel | Feb 3, 2020, 7:20am EST

f t e SHARE

Critics of President Donald Trump frequently use the word “**kleptocracy**” to describe his leadership, administration, and imprint on American policy writ large.

Before 2016 — before Trump's election and presidency flipped assumptions about America's liberal democratic project on its head — the word, which literally means “rule of thieves,” was mostly only used by academics and foreign policy wonks.

Thanks to Trump's reign, though, “kleptocracy” is having an unprecedented moment.



President Trump and Russian President Vladimir Putin arrive for a meeting in Helsinki, Finland, on July 16, 2018. | Brendan Smialowski/AFP via Getty Images



f SHARE
t TWEET
e EMAIL

POLITICS
Unmasking 'Crooked, Illinois' as nation's top corrupt state



EMBED MORE VIDEOS
“A dark cloud” of corruption hangs over Illinois’ state capitol in Springfield, according to new figures compiled by the ABC7 I-Team.

By Chuck Goudie and Barb Markoff, Christine Tressel and Ross Weidner

COUNCIL on
FOREIGN
RELATIONS

Trending

Mideast Plan

Brexit

Coronavirus

Election 2020

Ukraine

Member Login



from [Africa in Transition](#) , [Africa Program](#) , and
[Preparing for Leadership Transitions in Africa](#)

Learning What We Always Knew: Corruption in Angola

Blog Post by Michelle Gavin

January 30, 2020

f t in e



Isabel dos Santos speaks during a Reuters Newsmaker event in London, Britain, October 18, 2017 Toby Melville / REUTERS



- Airbus SE is a publicly traded company incorporated in the Netherlands & headquartered in France.
- Last Friday, 31 Jan. 2020, US Department of Justice announced Airbus has agreed to pay combined penalties of more than **US\$3.9 billion** to resolve foreign bribery charges with authorities in the United States, France and the United Kingdom.
- Airbus engaged in a “scheme to offer and pay bribes to foreign officials, including Chinese officials, in order to obtain and retain business, including contracts to sell aircraft.”
- Airbus entered into a “non-prosecution agreement” to settle charges under the U.S. Foreign Corrupt Practices Act and the Arms Export Control Act.

Airbus SE

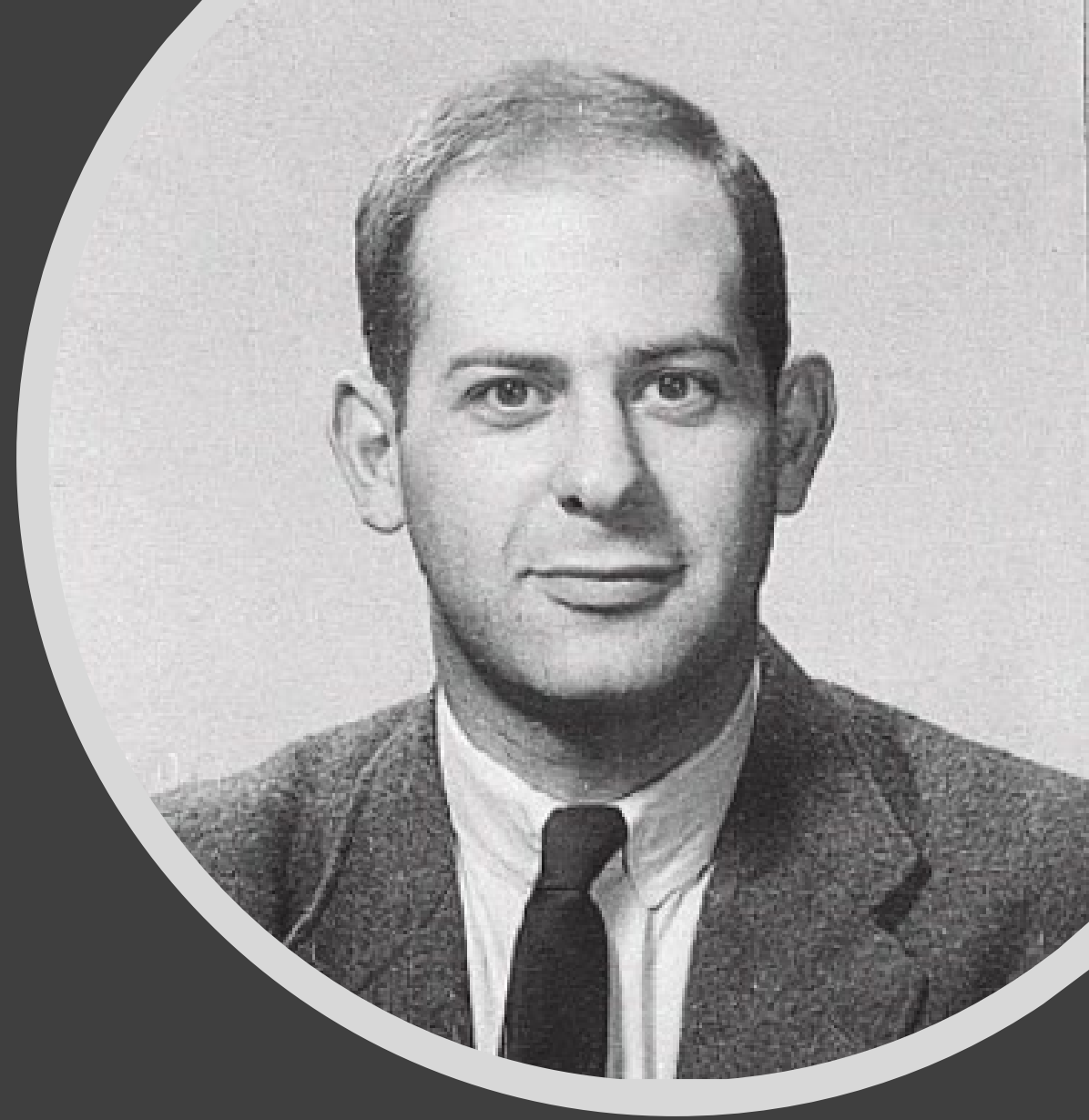
<https://www.justice.gov/opa/pr/airbus-agrees-pay-over-39-billion-global-penalties-resolve-foreign-bribery-and-itar-case>



Why Study
Corruption & How
to Respond to It?

The “Efficient Corruption” Theory

- Not so many years ago, some economists theorized that corruption—in the sense of inducing public officials to break the law—was often a good thing.
- One of the arguments:
 - Laissez faire theory: markets work best when there is little or no government intervention such as regulation, privileges, imperialism, tariffs and subsidies.
 - Governments often intervene in economies in ways that are counterproductive.
 - Corruption, or at least bribery, enables circumvention of anti-market interventions by the government, permitting ordinary people to remove unnecessary obstacles placed in their way by government.
- For a time, these theories were influential at the World Bank & other institutions focused on development.



Above: Economist Nathaniel Leff authored “Economic Development Through Bureaucratic Corruption” and other influential papers arguing that corruption often has benign or even positive economic effects.



“Efficient Corruption” Theory Today

- Largely rejected because—
 - The theory overlooks the corrosive effects corruption has on democratic processes, as well as other factors that aren’t purely economic.
 - Data show that highly corrupt governments are typically extremely inefficient because their official decisions are made, not based upon the merits of a proposal, but on what is most beneficial for the decision maker or his/her family/tribe/party.
 - The efficient corruption theory practically assumes that regulation is always wrongheaded & offers no compensating benefit for any inefficiency it introduces.
 - There are some forms of regulation that almost everyone believes are good and necessary for public health and welfare—such as drug safety regulations.
 - Consider the case of Zheng Xiaoyu, Director of the Chinese Food and Drug Administration from 2003 to 2005.



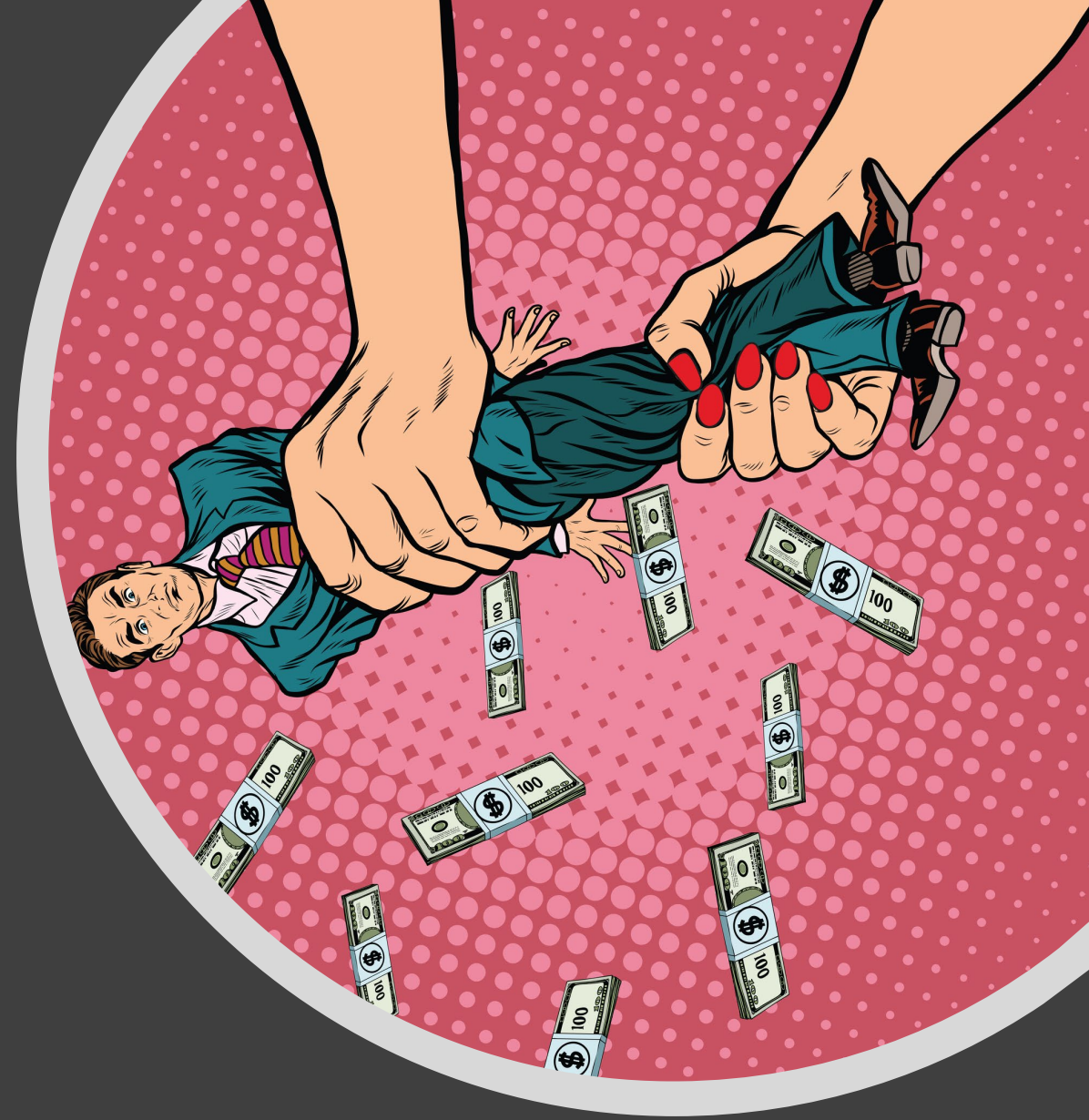
Zheng Xiaoyu

Director of the State Food and Drug Administration
of the People's Republic of China from 2003 to 2005

- Took approx. US\$850,000 in bribes from pharmaceutical companies to approve unsafe medicines.
- Personally ordered approvals of more than 150,000 new medicines in an 8 year period. By comparison, U.S. FDA approves about 140 new medicines per year.
- Believed to have caused more than 100 deaths.
- Convicted by a Beijing court on 29 May 2007.
- Executed by lethal injection in Beijing on 10 July 2007 (6 weeks after conviction).

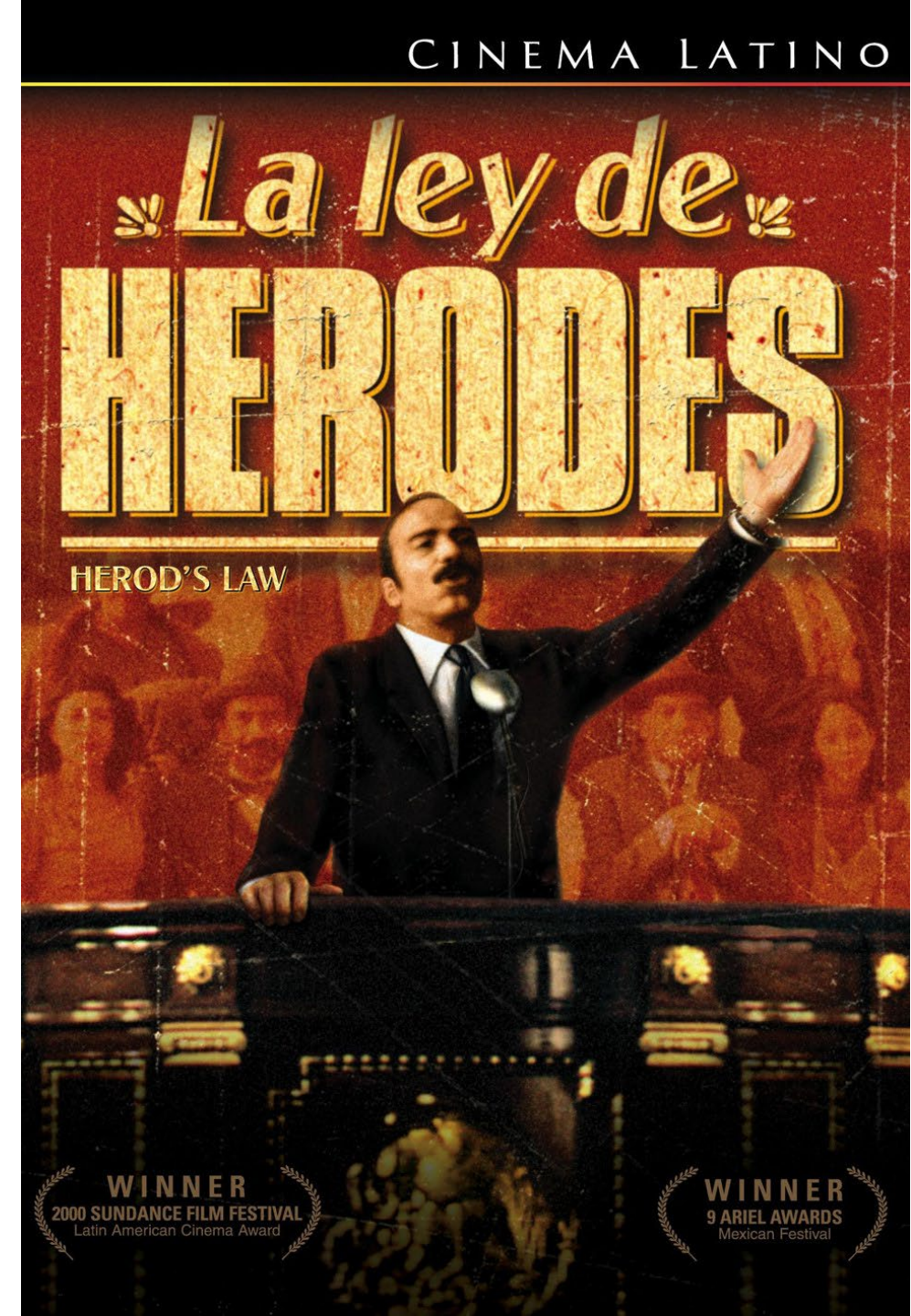
Corruption as a Cause of (not a Solution to) Unnecessary Government Intervention

- Where corruption is prevalent, government officials may be encouraged to enact more, not less, regulation, or to misuse the laws and rules that already exist.
- The reason: in order to create “pressure points” — where bribes may be extracted.
- This is illustrated in the following clip from the 1999 Mexican film *Ley de Herodes* (*Herod's Law*).



- From 1929 to 2000, the Institutional Revolutionary Party (the “PRI”) controlled most of the political offices in Mexico.
- The Peruvian Nobel Prize winner Mario Vargas Llosa once referred to the PRI’s control of Mexico as “the perfect dictatorship.”
- The 1999 Mexican film *Ley de Herodes* (Herod’s Law) is set in the 1940s.
- Residents of the village of San Pedro de los Saguaros murder their mayor because of his corruption.
- The PRI governor of the state appoints a low-level party member, Juan Vargas (Damián Alcázar), as temporary mayor of the town.
- Vargas wants to do good for the village but learns that it has no money. He visits the governor to ask for funds, but the governor refuses. Instead, he gives Vargas a compendium of Mexico’s federal and state laws and tells him, “If you know how to use it, you’ll see how to get something from anyone.”

(This film is not suitable for children.)





-Well, there you have it... now with the law and the gun,
go and exercise authority!



The Rest of the Movie

- The once-honest Vargas becomes enthusiastic in his use of law and regulation to squeeze money from people of the village.
- From there, he moves on to more ambitious and more serious forms of corruption.

4 If something is corrupted, it is damaged or spoiled in some way. Some of the food types found in some areas are corrupted by cheap, popular computer games. The... They can ensure that traditional cuisines are not totally corrupted by commercial practices...corrupted data.

corruption /kəˈrʌpʃən/ **corruptions**

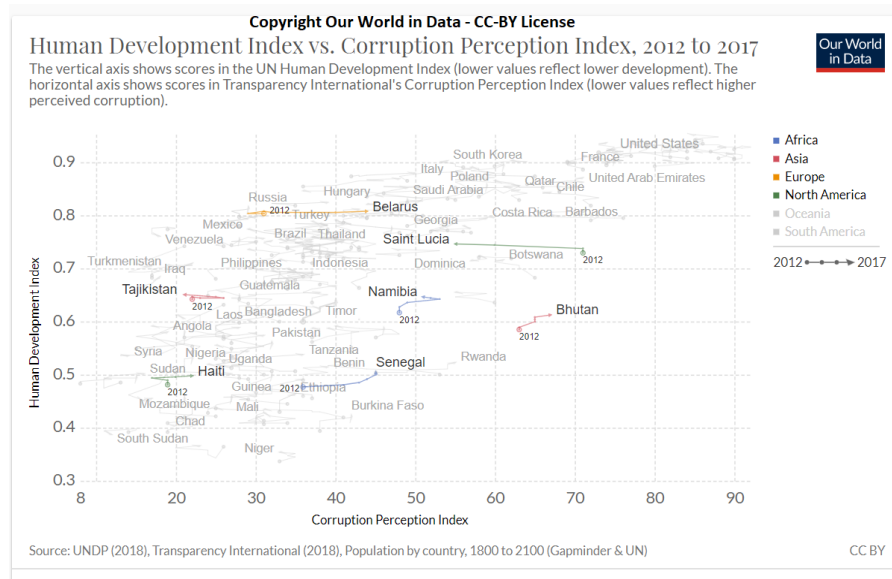
1 **Corruption** is dishonesty and illegal behaviour by people in positions of authority or power. The President faces 54 charges of corruption and tax evasion... Distribution of food throughout the country is being hampered by inefficiency and corruption....bribery and corruption.

2 A **corruption** is a word that is derived from an earlier word, but which has become changed in its technical use in linguistics. Morris is a corruption of the word 'Moria' meaning North.

Returning to the Definition of Corruption

- A controversial issue.
 - Does it include only wrongdoing in which public officials are involved?
 - Or does it also include purely private corruption (i.e., without the involvement of public officials)?
- Transparency International Definition:
 - “Corruption is the abuse of entrusted power for private gain.”

Why Does Corruption Matter?



- The costs of corruption are borne not just by the payer of bribes or by the government body whose funds are embezzled.
 - When corruption becomes commonplace, society itself adapts to the distortions corruption causes.
 - Government jobs attract candidates interested in personal gain rather than those interested in the common good.
 - Politicians may become dependent on bribes to fund reelection campaigns.
 - Governments may project greater costs for infrastructure projects to allow for kickbacks and bribes.
- Development suffers because honest investment (especially foreign direct investment) becomes less attractive.
- Citizens lose confidence in the democratic process & become less likely to participate.

The Equilibrium Theory - A Vicious or a Virtuous Cycle

“[C]orruption happens as a result of interactions among individuals in which, given the choices others make, no one person can make herself better off by choosing any other course of action.”

Contingent behavior: “How you’ll act depends on how you think everyone else feels about corruption and what you believe everyone else will do about it.”

“In a society where corruption is common, few dare to speak against it on their own.... [Y]ou need a critical mass of disapproval to be effective.”

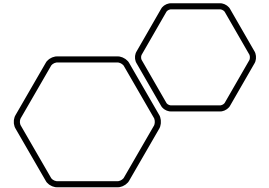
“[N]o single individual finds it’s worth it to stay honest—she’ll find herself too often shut out of contracts, good schools, and even basic government services.”

In a society where corruption is prevalent, official coercion usually is unnecessary, because peer pressure ensures conformity.

“For corruption to be tackled effectively, people who are opposed to it have to coordinate their efforts.”



- Poverty as the cause of corruption.
 - It doesn't help, but not all poor countries are more corrupt than rich ones.
 - Where this does hold true, it's worth noting that although the bribe taker may be in a poor country, the bribe payer is often in a rich country.
- Corruption caused by authoritarian governments.
 - Not necessarily.
 - Consider the anti-corruption efforts of Lee Kuan Yew, PM of Singapore.
- Corruption caused by regulation.
 - Probably not in most cases.



Other Views of Corruption as a Social Phenomenon

The End.

