



Public Services International
Internationale des Services Publics
Internacional de Servicios Públicos
Internationale der Öffentlichen Dienste
Internationell Facklig Organisation för Offentliga Tjänster
國際公務勞連

Corruption and public services

By David Hall, PSIRU (November 2012)

Executive summary

Corruption is a poison that destroys people's faith in public institutions, governments, and democracy itself. True democracy requires respect, and fair and equal standing for every citizen. This is impossible to achieve when people have to pay bribes to obtain health care, fair policing or clean water. Even worse, the payment of bribes to obtain contracts perverts public policy decisions, diverting public monies to the corrupt.

Petty corruption occurs when people are expected to pay bribes in order to get the service they are entitled to from a public employee. The employee is misusing his or her position to obtain extra income, at the expense of citizens and the service itself. Typical examples are the payment of bribes to water workers to record false meter readings; to health workers for providing treatment at an earlier date; or to customs officials to allow goods to be smuggled without paying duties.

In many states, people have anything but good experiences with the authorities when it comes to securing their and their families' basic needs. In these countries people are often forced to give and receive assistance from relatives, friends, or members of their community. Without good governance, without functioning, transparent public services equally accessible to all, giving gifts or money is often the only way people can obtain health care, building permits, court decisions and so on.

Petty corruption seriously damages public services. Citizens are cheated. It breaks the principle of fair and equal treatment. It undermines the integrity of public servants. What should be a public service is converted into another commercial transaction. It also weakens public resolve to tackle large-scale corruption. It must be eradicated.

There is strong evidence that the most important factor affecting the extent of petty corruption is the pay of the workers concerned. When pay is too low to provide the necessities of life, or where it is significantly lower than the pay of other people with similar qualifications, then corruption is used as a way of making extra money. Studies in countries as diverse as Madagascar and Ukraine show that inadequate civil service pay is linked to petty corruption. In a number of Asian countries, water meter readers demanded bribes when their pay was below subsistence levels, but not after their pay was increased substantially. This has been known for a long time – customs officials in 18th century England were accepting bribes from smugglers because they were paid so little.

Grand corruption – large scale fraud by politicians and companies – is an even more serious problem. It perverts the state itself.

The concept of 'state capture' was introduced by two World Bank researchers to describe the situation in some of the former communist countries of Eastern Europe. They found that firms were deliberately setting up networks to influence government officials and politicians to change laws and regulations in their favour, and partly accomplished this through corrupt payments.

One example of this kind of network developed in Italy in the 1990s. Politicians from various parties, on the one hand, and groups of companies on the other hand, agreed to allow the companies to share out the contracts amongst themselves, and decide on the prices. The companies agreed to pay enough money to

keep the politicians happy, and for the money to be shared amongst all the parties involved. Middlemen were brought in to launder the money and keep the payments secret. The whole system was a way of gaining and sharing power and money, at the expense of democracy, transparency and public accountability.

These networks use illegal payments (bribes), but also build 'networks of influence' through legal payments – donations to political parties, or employing lobbyists to convince politicians to adopt certain policy positions.

For the companies, it is a rewarding business strategy. It involves efforts on the part of private interests to rent access and influence within well-institutionalized policy processes, often through political figures acting as middlemen. In developing countries, firms which spend money on lobbying get a bigger boost to their profits than firms which simply pay bribes. In the USA, companies with political connections get more contracts after an election in which they backed the winner. In the UK and USA, banks have spent tens of millions on lobbying to prevent tighter regulation.

Privatisation provides great incentives and opportunities for corruption and state capture.

The sale of state-owned industries is a one-time opportunity to buy a profitable business, so investors have an incentive to pay bribes to increase their chances of getting it, and for a lower price.

A long-term concession for water services, or a power purchase agreement for a private power station, or a PPP, is also a one-off chance to win a stream of government-backed revenue lasting 25 or 30 years, creating the same incentives to pay bribes.

In all forms of outsourcing, whether it is refuse collection, construction, cleaning or medical services, contractors may pay bribes or form cartels or both in order to win profitable business.

Bribes or political donations form the currency with which these benefits are obtained, as summarised by the Nobel-prize winning economist Paul Krugman (talking about the USA): "As more and more government functions get privatized, states become pay-to-play paradises, in which both political contributions and contracts for friends and relatives become a quid pro quo for getting government business... a corrupt nexus of privatization and patronage that is undermining government across much of our nation."

The effects of corruption and influence peddling reach far and wide, affecting public decisions and services in local communities and internationally.

The influence of the pharmaceutical companies on political processes is visible at global and national levels. This has a direct impact on health services. The effect is to divert large sums from public budgets for healthcare, and to undermine democratic policy-making.

Privatisation by outsourcing has become widespread in central government, and in the process increased the problem of corruption. The size of many central government contracts, especially in defence procurement and construction, creates greater incentives for companies to operate corruptly in order to get business. There is extensive corruption associated with USA contractors in Iraq in relation to security contracts funded by the USA federal government.

Local government is also vulnerable to corruption by multinational companies. The largest USA retail multinational Wal-Mart is subject to a number of court cases and investigations over corruption of local government planning officials in Mexico. According to the New York Times: "Wal-Mart de Mexico had orchestrated a campaign of bribery to win market dominance. In its rush to build stores the company had paid bribes to obtain permits in virtually every corner of the country."

International institutions have failed to seriously tackle corruption and its effects on ordinary people. By promoting privatisation, they are actively creating more opportunities for corruption to take hold.

This paper recommends a different, more comprehensive approach to eliminate corruption, prevent state capture, and ensure that public services are available to all citizens.

Conclusions and summary of recommendations

Defending public services against corruption and capture

This analysis of corruption finds different conclusions from the official international bodies. Instead of being concerned with creating a low cost 'level playing field' for international business, the focus should be on creating quality public services and preventing public policy from capture by commercial interests.

Fragmenting, minimising and under-funding the public sector is part of the problem of corruption in service delivery. The solution involves recognition of the value of civil and public services and the workers who provide these vital services.

The 'culture of corruption' which is so prominent in the minds of international businesspeople is angrily rejected by the majority of public opinion everywhere. It is privatisation, and the uncritical support for it by donors and development banks, which systematically creates unnecessary opportunities and incentives for corruption and policy capture. In addition, the commercial capture of the state through 'legal' corruption via political donations, influence trading, lobbying and infiltration of public institutions, undermines the power of democratic decision-making. It corrupts public policy decisions and public resource allocation.

Exposing corruption requires extra powers and autonomy for public audit bodies, strong freedom of information legislation to empower civil society organisations, and concerted campaigns for democratic financial decision-making, transparency and accountability. Relying on individual whistle-blowers or an improved gender balance, or self-regulation by the corporate sector or its private accountancy firms are not viable solutions on their own.

National courts should be able to apply powerful legal sanctions – including imprisonment and debarring from tendering – against corrupt elites and local and multinational companies alike, rather than simply excluding northern companies from the rule of law in countries where they operate, permitting companies to buy off prosecutions by making donations, or suppressing information of value to the public interest by confidential court settlements. International bodies and donors should support these powers by closing down the tax havens that protect the corrupt and the public monies they have stolen.

Finally, technical solutions are not the full answer. The effectiveness of combined actions against corruption depends on strengthening democratic and community organisations within every country, and developing strong links between unions and allies who support strong public services.

Recommendations

Public service workers and political integrity:

- All public service workers should be paid a decent living wage sufficient to remove incentive for corrupt exploitation of their position.
- Appointment, career progression, discipline or dismissal of civil and public service workers should be immune from political decisions,
- All public employees should be subject to a disciplinary code which includes strong sanctions against corrupt practices.

Commercial capture of public interests:

- Public policy-making should not be outsourced to consultants. Private consultants or business interests should not be appointed to bodies responsible for public policy decisions or assigning public contracts, such as PPP units.

Privatisation, outsourcing and procurement:

- International banks and donors should not require any form of privatisation as a condition of aid or loans.
- Procurement processes for goods or services should be completely public and transparent.

- A company should be banned from tendering for any public contract if it, or its parent or subsidiaries or associates, has been convicted of corruption in any country, or uses tax havens.

Public audit and freedom of information:

- Public audit bodies and their staff should have strong protection from political or commercial interference.
- Public audit bodies should have strong powers to require disclosure.
- Public audit bodies should be enabled and required to publish and publicise their findings and encourage public responses.
- Freedom of information legislation should require disclosure to all citizens of all categories of information about public finances, including civil service salaries and the terms of all contracts.

Legal sanctions:

- National courts should have power to sanction any multinationals operating in the country.
- Sanctions for corruption should include long-term barring from contracts of companies and any parents, subsidiaries, associates or successors, for long periods of time.
- The use by nationals or companies of tax havens should be banned, and/or any company which is part of a group that uses such tax havens should be excluded from future tendering.
- All corruptly-gained monies should be recovered and returned to the public treasury.

Democracy and community:

- Open interaction between public service workers and communities and civil society organisations should be encouraged and promoted.
- Increased public participation should be systematically developed to promote gender equity and financial accountability in public service budgeting and policy decisions.

Some of these strategies can be pursued at the international level, including:

- Demanding that the World Bank, IMF and other development banks and donors drop all privatisation conditions.
- Supporting international initiatives e.g. member states of the OECD to facilitate prosecution of multinational companies for corruption offences, including prosecutions in home countries such as USA or Netherlands.
- Working with campaigns such as those led by ATTAC and the Tax Justice Network to close down tax havens.
- Joining with national and international campaigns to implement strong whistle-blower protection legislation.

The global trade union federation Public Services International (PSI) commissioned this report from the Public Services International Research Unit (PSIRU) at Greenwich University. For the full version of this report, please see www.world-psi.org or contact communications@world-psi.org.