

Want to Squelch Corruption? Try Passing Out Raises

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In recent years charges about corrupt public officials have toppled or weakened governments in many nations. There is no surefire way to stop corrupt behavior, but certain steps would reduce the temptations.

Elected and appointed officials sometimes betray the public trust in their regulation of companies and labor unions, or when they arrange the purchase and sale of goods and services. Temptations arise because government employees are usually low-paid, and some may be willing to accept bribes. When such temptations exist against a backdrop of complex regulation, the opportunities for corruption multiply.

Extensive and continuing scandals in Mexico, Colombia, Cuba, Panama, and parts of Asia are related to payoffs from drug cartels and other distributors of illegal drugs. But most instances of corrupt actions involve bribes or other illicit payoffs to officials to obtain government contracts, for laws to keep out competition, for loans on favorable terms, or to ease the enforcement of pollution regulations and other costly rules.

If regulations are inefficient and government management of banks and other enterprises is extensive, corrupt officials may unknowingly serve a useful function by reducing arbitrary public decisions, and by helping businesspeople and others get around harmful legislation and regulations. But widespread corruption leads to a mistrust of all officials and discourages honest and able persons from working for the government. It also directs the energy of talented entrepreneurs toward gaining access to government power instead of engaging in directly productive activities.

DEREGULATORY MOVEMENTS. The only way to reduce corruption permanently is to drastically cut back government's role in the economy. High priority should go to eliminating the thousands of nuisance regulations and laws in most countries that do more harm than good and that also encourage attempts to influence officials. Corruption scandals have in fact strengthened the deregulation movements in South Korea and Japan.

Unfortunately, in the short run it is seldom politically feasible to reduce the number and effect of undesirable laws and regulations. However, less drastic reforms might reduce the incidence of corruption.

Government officials are generally badly paid, especially in Latin America and Africa. Even in Europe and the U.S., officials in higher-level jobs usually earn much less than persons with comparable skills and responsibilities in the private sector. In all nations, many officials are highly dedicated and honest, but low pay does attract into government service some rotten apples who are willing to raise their incomes by accepting bribes and engage in other corrupt practices.

Years ago, the late economist George J. Stigler and I published an article that proposed a way to reduce malfeasance among government employees. We suggested, among other things, that officials in vulnerable and important positions receive higher, not lower, salaries than comparable workers in the private sector. An earnings premium would reduce wrongdoing by imposing a potentially large economic cost on corrupt behavior. Officials who lose their jobs for accepting bribes or other illicit payments would be automatically punished through forfeiture of their earnings advantage.

FREE PRESS. Magistrates in imperial China of centuries ago were said to have been paid an extra allowance to "nourish their honesty." Both Singapore and Hong Kong carry on this ancient tradition by paying officials well in order to discourage wrongdoing. These economies have not only grown rapidly but they rank favorably low in international comparisons of the prevalence of corrupt practices.

Although neither Singapore nor Hong Kong are democracies, contested elections and democracy also help reduce malfeasance because voters can turn corrupt governments out of office. Sometimes totalitarian administrations appear to have little corruption only because a controlled press and the single political party make little effort to discover and publicize corruption. In countries like South Korea, corruption did not surface as a political issue until a free press and contested elections were permitted.

Over the past couple of decades, dramatic instances of corruption helped defeat influential politicians in the U.S., Spain, Italy, Mexico, Ecuador, and Japan. It is no accident that in all these nations opposition parties were able to ride corruption charges against incumbent parties to impressive wins. Corruption of officials is an inevitable by-product of Big Government. But public officials are less apt to succumb to illegal inducements if they are paid well, and in proportion to their duties and opportunities for malfeasance.