Dirty Money

How Corruption Shapes the World

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Kickback: Exposing the Corporate Bribery Network
BY DAVID MONTERO. Viking, 2018, 304 pp.

There is an old joke about a drunkard searching for his keys under a streetlight. A passerby stops to help. After a few minutes of failing to find them, he asks the drunkard if he is sure that this is where he lost them. "No," the drunkard replies, "but it's dark everywhere else."

That is how humans approach many daunting tasks, not least of them writing about corruption. We know that it's a problem, we know that it's serious, but we are reduced to hunting for evidence in the light cast by the few countries willing and able to prosecute the crime. Darkness stretches all around: we are missing out on a whole world of evidence that remains completely obscure.

In a speech he delivered in 1996, James Wolfensohn, then president of the World Bank, likened corruption to cancer. "Corruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures, and deters foreign investors," Wolfensohn explained. It was a new, post–Cold War world, and he wanted to spearhead a push for cleanliness and corporate accountability now that it was no longer acceptable to ignore kleptocracy for reasons of geopolitical expediency. Two years later, Wolfensohn's counterpart at the International Monetary Fund, the economist Michel Camdessus, put a figure on the phenomenon: he estimated that between two and five percent of global money flows had criminal origins.

Anything involving that much money and doing that much damage to so many people should clearly become a public policy priority as well as a focus of detailed research. Activists, authorities, and journalists need data on the scope, dynamics, and causes of the problem to figure out how best to fight it. And yet, despite efforts by Wolfensohn, Camdessus, and others to sound the alarm, such clarity has remained elusive. Some additional light has been cast on the issue over the past two decades, mostly by legal proceedings brought under U.S. and British antibribery laws and by reports produced by nongovernmental organizations such as Global Witness and Transparency International. But on the whole, we know little more than we did 20 years ago.

Camdessus's figure was based on very rough estimates, but it has been fossilized by long usage. Those who have tried to improve on it have come up against an obstacle that has long prevented a clearer picture of global corruption: the opaque financial structures that corporations and wealthy individuals use to hide their assets. Academics such as the economist Gabriel Zucman have done excellent work to ascertain the volume of such secret wealth. Zucman has concluded that around eight percent of global financial

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assets are concealed in various offshore accounts. No one knows, however, what proportion of that money is criminal in origin, let alone how much comes from bribes.

This means that no reliable data exist to measure how widespread corruption is, which prevents systematic action against bad actors, including major corporations that routinely pay bribes in exchange for contracts, concessions, and other favorable treatment. Given the urgency of the problem, it is notable that governments, universities, and think tanks have not dedicated more resources to doing the basic research. The generous explanation for their failure is that journalists and academics have not succeeded in adequately conveying the urgency of the issue, which has thus not caught the public imagination. A less charitable explanation is that, around the world, powerful people worry that restricting dark and dirty cash will cost them, and so they have taken steps to keep the public ignorant of what is happening.

To make matters worse, much of the research that does get published is misleading. Transparency International's annual Corruption Perceptions Index (CPI) ranks how crooked each country is according to experts and business executives, and it underpins much of the journalistic and policy discussion of corruption. But the index considers only the public sector and focuses on "officials using public office for private gain." It explicitly does not consider, among other things, illicit financial flows, money laundering, and what Transparency International calls "enablers of corruption." In this limited view, when it comes to the act of bribery, the only party that contributes to corruption is the one who takes the bribe. That leaves out not only whoever pays the bribe but also the entire support mechanism for modern corruption, provided by, among others, the bankers in London and Zurich who accept the dirty money, the lawyers in New York who channel that money into real estate, and the officials in offshore tax havens who disguise its ownership behind shell companies. Thinking about corruption without reference to those players is akin to discussing the drug trade only in the context of an addict buying his fix and excluding the farms and factories that produce and process illicit substances, the cartels and dealers who distribute them, the governments that protect the distributors, and the banks that launder their money.

The consequences of this narrow scope are perverse. In the latest CPI, issued in January 2019, Denmark was ranked as the cleanest country in the world despite the fact that just months earlier its largest bank had confessed to laundering 200 billion euros—one of the largest money-laundering operations the world has ever seen. This is representative of a larger, systemic problem with the CPI: it covers only the aspects of corruption that take place in poorer countries and not those that help boost the economies of the wealthy Western countries. A true measure of corruption would give at least as much weight to the willingness of a jurisdiction to launder dirty money.

Fortunately, a growing body of work is challenging the traditional approach. David Montero's *Kickback* is a fine new addition to the genre. Like everyone else trying to get their arms around corruption, Montero must confine himself to the available data. But he adds caveats reflecting the limited nature of the material, avoids the inflated estimates that afflict more sensationalistic accounts, and points the way toward some new thinking about how to combat this global scourge.

"A SLOW-MOTION DISASTER"

Montero selects his evidence with care, and he correctly focuses not just on the recipients of bribes but also on the companies that pay them. These include some of the biggest names in business: Chevron, Halliburton, IBM, Pfizer, and many more. "Bribery, unlike other crimes, often plays out slowly, with secret payments flowing between a company and a government over the course of years," he writes. "The result is a slow-motion disaster, leaving economic, political and social damage that cannot be detected unless someone begins to look for it."

Montero analyzes a succession of scandals in order to draw out different lessons. He begins with the oil-for-food program that the UN ran in Iraq between 1995 and 2003, when the United States invaded the country. That deeply flawed initiative allowed more than 2,000 corporations to connive with the regime of the Iraqi dictator Saddam Hussein to avoid UN-imposed sanctions, and it serves as an example of the failure of global anticorruption conventions. The program was intended to ensure that the most vulnerable people in Iraq did not suffer for the actions of their government. Instead, it allowed insiders in Baghdad to profit by extracting kickbacks from companies hungry for oil, all the while denying ordinary Iraqis food, clean water, and basic medicines.

The scandal demonstrated how, when confronted by officials who demand bribes, corporations often put the interests of their shareholders ahead of those of their own governments. The reasons why are spelled out in perhaps the most interesting section of Montero's book, in which he contrasts the risks and rewards that come from engaging in corrupt behavior. He cites the work of the economist Jonathan Karpoff, whose research suggests that, on average, companies have little more than a five percent chance of getting caught if they pay a bribe overseas; meanwhile, each $1 they spend on bribes results in an average of an additional $5 in earnings. The reward far outweighs the risk. From this perspective, paying bribes is rational.

Karpoff's conclusions emerge from legal proceedings brought under the Foreign Corrupt Practices Act of 1977, a piece of U.S. legislation passed in the aftermath of Watergate that prohibits American companies from engaging in bribery overseas. FCPA prosecutions and the congressional investigations that sometimes accompany them are central to understanding how corruption works and remain the best resource available to anyone working on the problem. Montero uses them to great effect in his analysis of corruption in the Greek defense industry in the late 1990s and early years of this century, when American, Russian, and European arms companies paid off government insiders in order to win contracts, inflating their prices to cover the cost of the bribes. The higher prices naturally added to Greece's intractable public debt, which exploded into a crisis when the country went bust in 2009.

Montero also explains how, before Chinese authorities took action a few years ago, Western pharmaceutical companies exploited the fact that Chinese doctors' earnings were tied to the amount of drugs they prescribed. The payment system was intended to reward performance but ended up incentivizing overmedication. The results were predictable: middlemen bribed doctors on behalf of major pharmaceutical firms desperate to take advantage of growth that was no longer available in their home markets. This not only undermined trust in doctors but also had serious public health consequences. "China's pronounced overuse of antibiotics is responsible for the appearance of antibiotic-resistant strains of various diseases, such as tuberculosis and syphilis, as well as various superbugs," Montero writes. "Health officials have called the latter 'nightmare bacteria' because they remain resistant to all known antibiotics and can therefore be lethal."

Montero summarizes research showing that the higher the level of public dishonesty in a country, the lower its economic growth and the greater its income inequality. And that is just what can be measured: How do you quantify the loss of trust in public officials and institutions that results from pervasive bribery? If U.S. President Donald Trump's assault on the norms of governance has been traumatic for many Americans, how must the residents of a country such as Nigeria feel after decades of entrenched kleptocracy? How will Ukrainians, for example, be able to build true democracy when they have become so accustomed to public servants stealing rather than serving?

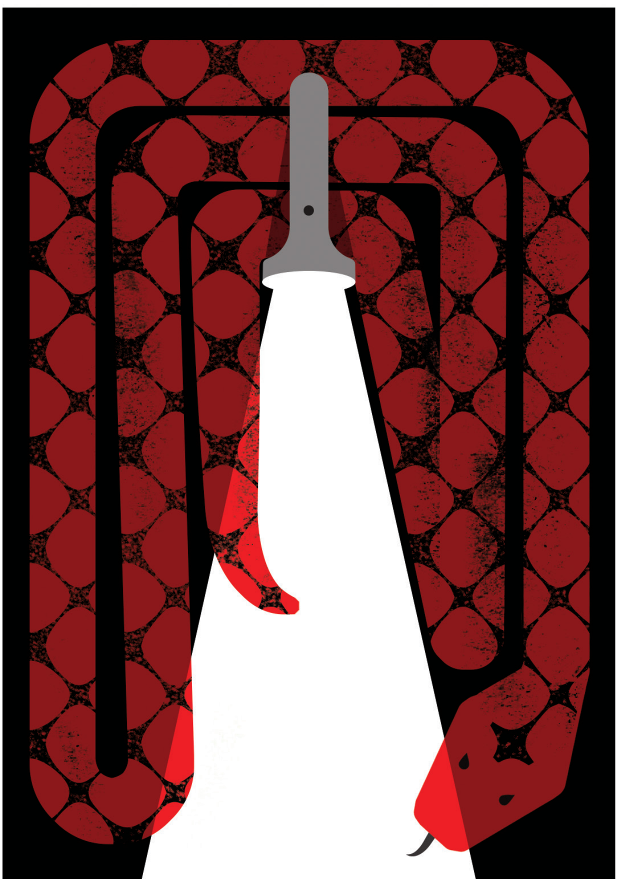
ILLUSTRATION BY THE HEADS OF STATE

CRACKING THE SHELLS

Everyone who writes about corruption finds it easier to diagnose the disease than to prescribe a treatment. This results partly from the lack of knowledge about the precise dimensions of corruption and also reflects just how stubborn the problem is. The modern epidemic of offshore-enabled venality, for example, is an outgrowth of globalization, and anything that restricted those financial flows would also limit the activities of powerful, well-networked, and tax-averse corporations and individuals. Such efforts would naturally struggle to gain political traction.

Many of Montero's prescriptions focus on the countries where bribes are solicited, and he advocates better funding for anticorruption agencies and the strengthening of independent judiciaries through higher salaries and better legal protections. He does not, however, address the problem of how to achieve those changes in countries that have become so corrupt that the entire political class is on the take. Why would anyone in the Kremlin, for example, agree to reforms that would undermine its entire business model? Even if ordinary Russians were to rise up in revolt, the elite would still get to keep its stolen wealth, which is stashed irretrievably offshore. The only solution is long-term, incremental efforts to force honesty on public servants and private citizens alike. But that is incredibly hard to achieve when the rewards of corruption are so high and the downsides are so few.

Looking beyond the countries where bribes are solicited and toward the places where bribes are paid and laundered, Montero is correct in calling for governments to work together more closely to combat what he calls "the global kickback system," particularly in countries such as Cyprus, the United Kingdom, and the United States, which are important nodes in the international banking system. He does not specify new ways in which they should act together, however, or how they can overcome the distrust that has infected politics all over the world—and made international cooperation less likely now than it has been for decades.

A critical solution that Montero does not tackle at great length is for governments to commit to corporate transparency. Every episode of corruption described in *Kickback* involves the use of anonymous corporate structures that allow crooked officials to put a layer of deniability between themselves and the bribes they have solicited and make it possible for corporations to claim that they were unaware that they were engaging in bribery. It remains easy and absurdly cheap to create a network of shell companies that will baffle even the best-resourced law enforcement agencies by making it virtually impossible to determine the true owners of any particular financial entity. History has shown that when given the option of committing a crime with impunity, humans tend to commit the crime.

Although there has been some movement in the European Union and among some lawmakers in the U.S. Congress toward forcing companies to declare their true owners, the effort remains patchy and underresourced and has barely started to apply to the trusts and foundations that hold a great deal of the world's wealth. If major wealth havens such as Switzerland, the United Kingdom, and the United States were to publicly declare the ownership of all real estate holdings and corporate entities, the space available for corrupt actors would shrink dramatically, and law enforcement agencies would find their jobs much easier.

Montero has done a good job of explaining why everyone should care about corruption. It is now up to politicians, academics, and government officials to make it a priority. Otherwise, the kind of authoritarian kleptocracy now ascendant in places such as the Philippines and Russia will become ever more the global norm. Consider how even relatively small amounts of murky cash have destabilized the U.S. political system. Fighting corruption is not just worth doing for its own sake. It is crucial to the defense of liberal democracy.