

# Less Corruption

bergsicht



CHAPTER 1

## Acceptable?

“Even with development aid, a financial consideration has to be provided every now and then to ensure that permits and general support are forthcoming from the authorities in a reasonable timeframe – or indeed at all.” Such was the pronouncement of an experienced Third World specialist to us, the trustees of a foundation, as we were mulling over a funding application for a water project in a Southeast Asian country. “It’s known as *grease*.” Sliding across a few thousand francs when you’re trying to explain the process of water disinfection in local schools or healthcare institutions; a television set here, a laptop there – little gifts are just the thing to create and cultivate friendships. Greenhorns that we were, we went on to ask the expert what the alternative might be. The aid would simply never arrive at its destination, he said. And, in the worst-case scenario, the aid personnel would wind up in jail for failing to obtain the correct permits or for inciting sedition (officially, the tap water emanating from the public water supply is spotlessly clean).

We were thus faced with the dilemma of granting *grease* from our foundation funds or scrapping the

project and denying hundreds, perhaps thousands, of children a cure for their chronic diarrhoea. The discussion took a difficult turn; moral arguments don’t cut the mustard in addressing the phenomenon of bribe money (and thus of corruption in its broadest sense). For one thing, in this specific situation, there was no intention to derive personal advantage (which is implicitly inherent in a case of active bribery), and the provision of *grease* from the foundation would not cause anyone any real harm either, anything but; ultimately, the foundation’s goals could only be genuinely achieved (and the funds at its disposal disbursed for the purposes for which they had been intended) through the deployment of *grease*. Thanks to this emollient, children would regain their health, be able to go to school and eventually earn a living. An open-and-shut moral case, wouldn’t you say? Moreover, let’s not forget that all this is taking place in a foreign country and local habits and customs should be respected, shouldn’t they? Any other approach would surely be neo-colonialist? The strait-laced Swiss in the room balked at the idea that a blatantly unjust regime might be propped up through gratuitous benefactions to the undeserving; they felt that such a course of action would be unambiguously immoral.

The “solution” consisted of delegating the entire operation – and thus innocently washing our own hands of the matter – by granting a lump sum to a local organisation, to be divided up as it sees fit. Such an approach might be dubbed “pragmatic”, which generally translates as “avoiding difficult decisions”. We suspect that such pragmatism is itself a form of *grease* that allows us to live, thrive and survive amid the practicalities of everyday life.

This edition of *bergsicht* looks at the problems surrounding corruption through an analytical lens. We

shall therefore be setting the question of values aside for the moment and waiting until our conclusion before discussing how to make the world a better place – something few would dispute is a worthy ambition. Current thinking appears to be obsessed with superficial morality, self-righteous rules designed to ensure “correct” conduct (“compliance”), and a desire for total transparency and untrammelled control. An entire economic sector of supervisors, auditors, inspectors, accountants, regulators, lawyers and yet more lawyers have carved out niches for themselves within this *zeitgeist* and are busy making sure their numbers swell as they become more indispensable and expensive by the hour – even as well-intentioned morality has long since been supplanted by double standards.

The question of values must be faced, certainly. But finding a definitive answer is no trivial undertaking, as the story in our introduction illustrates, because one set of values is in competition with another. Positing a particular view as an absolute results in the amoral elimination of other, perhaps more justified, concerns. Setting aside all ethical considerations, however, corruption is, in the first instance, an economic phenomenon, and it can be described and explored using the toolkit of this discipline. So let’s start with that.

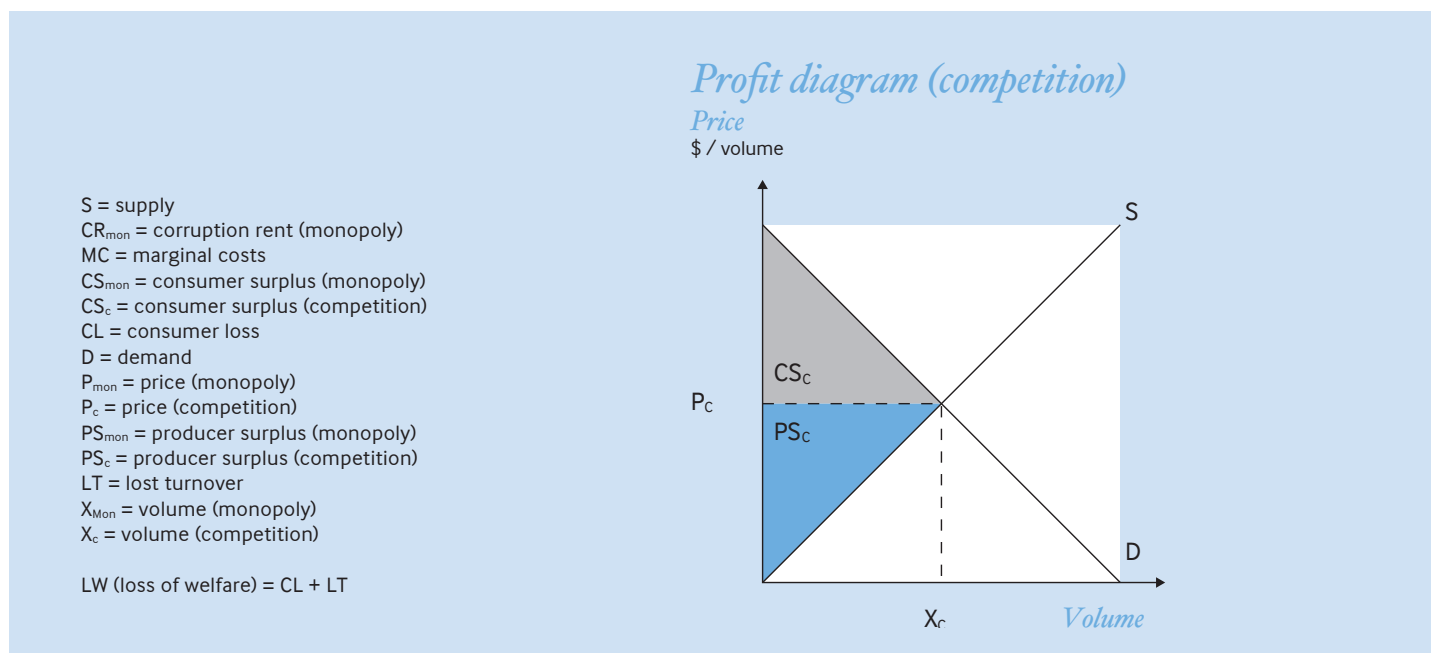
## CHAPTER 2

### The microeconomics of corruption

Let’s imagine a town in the Midwest of the United States – Donald’s Falls – in which there are a certain number of state-licensed liquor stores, retailing

wine and stronger alcoholic refreshments. On Sunday, the day of rest, only one of these establishments is permitted to open, and the authorities have granted this concession to O’Hara, an upstanding citizen who has made quite a name for himself through his charitable donations to the local church, the municipal library and the modest but well-appointed medical centre. A fact less well-known – indeed, vouchsafed only to the particularly thirsty who occasionally find their drinks cabinet bare of a Sunday – is that O’Hara’s price tags have two sides; one for workdays and one for the Sabbath, when the liquor vendor marks up his wares by some 30%. Ah well, think the great and the good of Donald’s Falls, working on a Sunday costs a little more, and anyhow, we are extremely appreciative of O’Hara’s beneficence.

The three charts below represent the microeconomic situation in the environs of Donald’s Falls. The first graph depicts the state of equilibrium that obtains during the week, when competition is permitted and prices for alcoholic beverages settle at a particular level. Supply (S) and demand (D) intersect at a certain level, at price  $P_c$  (with subscript “c” standing for “competition”) and volume  $X_c$ . The shaded areas (= volume times price)  $CS_c$  and  $PS_c$  represent the economic situation of consumers and producers (known as the consumer/producer surplus). “Surplus” sounds highly theoretical, as no one seems to be receiving anything directly, so what does it betoken? The consumer surplus is the difference between the price the thirstiest of all dipsomaniacs would still pay for a bottle and the price at which an occasional tippler might be tempted to treat themselves. That the general price level is located at precisely this lowest point brings an advantage (“surplus”) that benefits *every* consumer. Note the volume ( $X_c$ ) that is supplied/in demand; it is highest under competitive conditions, and this is one of the principal reasons why most



reasonable economists advocate competition: it allows economic output to be maximised. Equally, the producer surplus means that trade does not have to be transacted at the lowest imaginable price for which a supplier benefiting from many economies of scale might bring his goods to market, but instead at a higher price, which will generally cover costs.

The left-hand diagram below depicts the situation on Sundays. O'Hara ramps up his prices and a portion of his clientele accepts this, albeit grudgingly. O'Hara pushes his price hikes right to the very limit of what the non-teetotal citizens of Donald's Falls are prepared to pay – but no further; were he to exceed this threshold, his customers would start laying in their own supplies or set out on the hour-long trip to Mickey's Hills in the next town over, where there are no retail restrictions on alcoholic beverages and Sunday trading is permitted across the board. This price limit is  $P_{\text{Mon}}$  (with “mon” standing for “monopoly”); O'Hara's producer surplus rises by the area  $PS_{\text{Mon}}$ , although he achieves a lower turnover (represented by the triangle  $LT$ ) because of the higher prices. For O'Hara, the producer surplus manifests itself in the form of dollar bills – cold hard cash – and is thus anything but theoretical in nature! On the consumer side, by contrast, there is either an opportunity loss (a dry Sunday) or a cash loss (a bigger hit to the wallet).

So where's the corruption? Well, our Mr O'Hara is not only an upright member of the community, he is also a benefactor to his fellow citizens, a world away from, as it states in the Swiss Criminal Code, “giving a public official... an undue advantage... for an act... in connection with his official activity which is contrary to his duty or dependent on his discretion”. When he is not personally serving in the liquor store, you will find him making a joyful noise unto the Lord in chapel on Sunday mornings (“Praise is becoming to the upright”, as the Good Book suggests). However, the

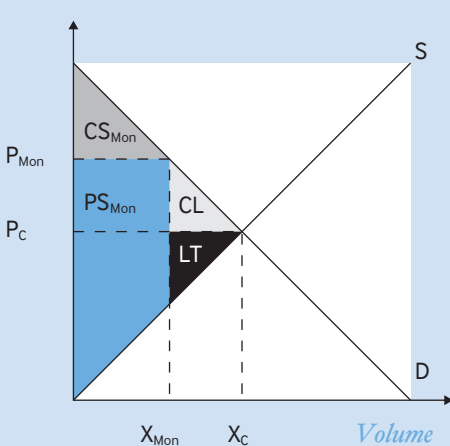
altruistic donations he distributes have their origins in the monopoly rent  $PS_{\text{Mon}}$  – O'Hara “purchases” his Sunday monopoly through his charitable works. The right-hand chart below shows that the amount  $CR$  (with capital “C” standing for “corruption”) available for these and other purposes is, in the most extreme case, equal to the monopoly rent.

The funds that can be drawn upon for corrupt purposes (a process that amounts to nothing more than the redistribution of a portion of the consumer and producer surplus) are substantial. As a redistribution, such funds flow back into the economy and are thus macroeconomically neutral. There is an economic cost, however – a loss of turnover on the part of the producer and a loss of welfare on the part of the consumer. In our opinion, the corruption encountered (and casually accepted) in practically every social system on Earth can be traced back to these non-homogeneous characteristics – redistribution on one side, a loss of turnover and welfare on the other – and to the link with natural and artificially contrived monopolies; the same is true of the fact that every attempt to eliminate, or at least reduce, corruption fails dismally. It is *a priori* not fundamentally wrong to redistribute monopoly rents – anything but! What is taking place in Donald's Falls, i.e. the generous endowment of church, municipal library and health centre, is comparatively harmless as well – one might, with some justification, aver that cultural and social life would largely come to a standstill without such mechanisms for the redistribution of monopoly rents.

And yet the basic problems relating to the loss of welfare (and thus the problem of sub-optimal output and growth) cannot be rationalised away, nor yet – of greater import still – the unholy interplay, eating away all morality from the inside, between politics as the locus of power and authority and as the

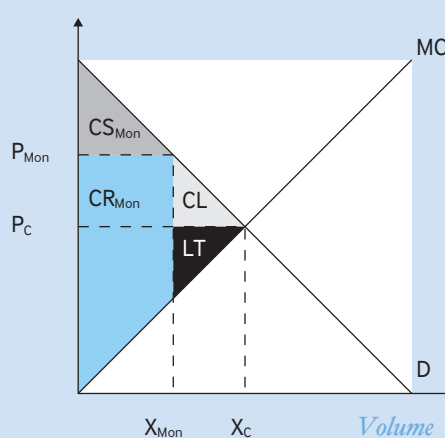
### Profit diagram (monopoly)

Price  
\$/ volume



### Production function of a monopolist

Price  
\$/ volume





agent of discrete (and indeed discreet) redistribution.

There are of course natural monopolies, and thus a corresponding necessity to levy and redistribute a rent. But the vast majority of monopolies and quasi-monopolies are man-made confections – indeed, there is a considerable incentive for the political system to create, through the *formation* of monopolies, a substrate of funds that is available for redistribution by means of corruption (and activities tantamount to corruption), as this enables those in power to enhance their own discretionary room for manoeuvre. We shall return to this point.

## CHAPTER 3

### A phenomenology of corruption

Now that we know what funds are available and under which circumstances these are generated (previously unallocated rent), we shall turn our attention, microeconomic toolkit in hand, to the ways corruption/borderline corruption can manifest itself. The most straightforward cases are the offences set down in black and white in criminal law, and in Switzerland's Criminal Code, Title Nineteen is devoted to the topic. Traditionally, a distinction is drawn between active and passive bribery, although the penalty for both is equally severe. A relatively recent differentiation (made since 2016) is that between bribing a public official and a private individual; the latter was hitherto merely an infraction under antitrust legislation that would have been prosecuted only upon complaint by the victim. Offering or promising an “undue advantage” (and its counterpart, “acceptance” of same) is an attenuated form of bribery not relating to a specific action or omission by a public official. Promising or procuring an advantage as a private citizen is not punishable by law; unlike a police officer, a bank CEO is at perfect liberty to accept tickets for the next Rolling Stones gig. Bribery of (and offering advantage to) public officials of foreign jurisdictions has also been an offence in Switzerland since 2006. Failure to take reasonable organisational measures to prevent the offences cited is now enshrined in corporate criminal law (Article 102), likewise an innovation from the legal reforms of 2016. A subset of the misdemeanours are considered predicate offences to money laundering, making it easier for the prosecuting authorities to seize illegally acquired assets and tie in an individual's business and/or family circumstances.

The striking elements here are both the high work-rate in producing anti-corruption laws and a certain porosity in their make-up, and Switzerland is not alone in this respect; Germany too has only defined such deeds as criminal offences in the narrower sense since 1997 and the non-deductibility for tax purposes of bribery payments abroad has been on the books only since 2002 (and with qualifications). Bribes to business

*owners* (abroad!) are not covered by the legislation, however. There is an interesting passage (para. 78dd-1(b)) in America's extremely comprehensive “Foreign Corrupt Practices Act” of 2004 whereby “facilitation payments” to foreign companies are indeed permitted under certain circumstances. We are informed (but have not corroborated the fact for ourselves) that the People's Republic of China boasts anti-corruption legislation that is eminently fit for purpose; day-to-day legal practice is another matter entirely, however, and the law is, we are told, often applied only selectively and/or arbitrarily. Nonetheless, while there does seem to be a general consensus at the top that corruption needs to be tackled (via *prohibition* and *criminalisation*) and a desire to close loopholes in the law that had intentionally been left open in the past, this willingness in principle seems to have translated into little more than *de facto* generalised provisions that allow the powers-that-be to take capricious action against *personae non gratae*.

It certainly makes sense for private undertakings (and thus of course an individual's business activities in particular) to be included in any microeconomic analysis of corruption. What would be at stake if Cliff Greasepalm, Mayor of Donald's Falls, or delegate Brian Backhander of a major international sporting association, were onto a nice little earner? Both enjoy a particular position of trust. Would it not be equally wrong to transgress this special role, which has been conferred by third parties?

However comprehensively criminal law might seem to be formulated today, the lines circumscribing legal forms of corruption as we have defined it (in a comprehensive, microeconomic rather than a selective, juridical way) are blurred; we have already mentioned Mr O'Hara and his altruistic conduct in Donald's Falls, which does not amount to active bribery of Mayor Greasepalm. *Patronage, clientelism, lobbying*: where do acceptable standards and palliness end, and offering undue advantage and active corruption begin? Your author vividly remembers his time as a board member, and later president, of the Swiss Private Bankers' Association. Once a year during a session of the Federal Assembly, we would try to persuade as many parliamentarians as possible to join us to discuss the profession's cares and concerns; the event typically took place on one of the few free evenings after a parliamentary session. A luxurious function room would be hired in the Hotel Bellevue, right next to the Federal Palace in Berne, and an invitation to feast like kings and quaff exquisite wine would be extended. The better-mannered of the elected representatives of the people/cantons who took up the invitation would at least honour their RSVP, but many would sidle from one room in the Bellevue to the next, from the private bankers to the pharmaceuticals crowd to the employers' association, to sniff out where the victuals on offer might be most lavish.

A venial sin (*così fan tutti*), as it were) or rather more than that? In principle, there is no reason why parliamentarians shouldn't stomp up for their own

*currywurst* at the sausage stand on Bärenplatz. But there was never even the remotest sense of wrongdoing amongst either bankers or honourable members; having eaten the fat of the land, everybody felt they'd done a good day's work(!). Looking back, however, it would be fair to say that such politicking failed to achieve anything at all, and that may well also be so in many other cases – the scatter losses of lobbying are swingeing. But why should that bother either the lobbyist or those lobbied – the main thing is to be involved in carving up the cake. We shall be revisiting this “agent” issue later on.

Where does lobbying end and flat-out vote-buying begin? What happens when the system *per se* has recourse to bribery? When particular target groups are granted tax incentives, for example? Or when *advantage is offered wholesale* by means of *subsidies* or other hard-to-quantify disbursements? We have observed this phenomenon at extremely close quarters in Switzerland in recent years, and are now seeing it taken to ever greater lengths in the form of the referendum on the “No Billag” initiative in particular.

This initiative concerns a part-public/part-private radio and television company (Swiss Broadcasting Corporation, SRG), which has always derived a large portion of its income from an *exclusive right* to impose a licence fee on the population; this arrangement is justified, claim the company's supporters, as the SRG provides a core public service that benefits the state and Swiss society as a whole. In the face of rapidly changing media consumption habits (especially among younger citizens) and the associated erosion of demand for public service broadcasting, the SRG attempted to get ahead of the curve by massively expanding its service offering. It also proposed giving private radio and television broadcasters a relatively generous slice of the cake (i.e. an interest in the “exclusive” right to impose a licence fee); this protected one of the SRG's flanks. The other flank, the army of content providers – principally politicians, intellectuals, creatives and sports event organisers – perennially dependent on the broadcaster's good favour had in any case always been secure thanks to the latter's monopoly and was only reinforced through its expanded service offering. However, to be completely sure of fending off an attack on the licence-fee privilege that had been mounted by a handful of young idealists, the SRG also resorted to outright vote-buying with a promise to cut this household (poll) tax substantially and make up the shortfall with a ludicrous corporation tax; households can vote, but companies can't, seemed to be the calculus.

Is this merely smart tactics (or rather, a sophisticated, perhaps even frivolous, media policy), or is this a case of *colossal corruption* gussied up in legal garb? We shall refrain from passing judgement at this juncture, but one point is clear: wherever the legal boundaries for exerting undue influence in a democracy may run, the whole scheme can be readily explained using our microeconomic model of corruption. In short, in any committee with half-decent governance,

those deriving advantage should *recuse themselves*. This approach is manifestly not considered necessary where levy-gathering rights in the gift of the state are concerned. Even poster-child democracies nod on occasion, it would seem, and the abolition of subsidies – a continuation of levy-gathering rights by other means – thus remains a pipe dream.

## CHAPTER 4

### In the beginning was the monopoly

Philosophising about the legitimacy of certain kinds of corruption, in the broadest sense, is a futile occupation; to our mind, and in line with our economically derived definition of the practice *as a structural phenomenon*, corruption is without exception harmful, whether it be criminal, semi-legal or entirely legal in nature. We also believe that, rather than solving the problem, the current trend towards greater criminalisation will simply spawn more and more sophisticated schemes and ever fatter corruption rents. While preparing this edition of *bergsicht*, we reviewed the most egregious bribery and fraud scandals of recent years. Whether with Odebrecht/Lula or Lava Jato/Petrobras in Brazil, Siemens, Genentech/Roche, FIFA world cups or common or garden match-fixing in German football's second division – besides the undeniable juridical curiosities, we find, in every case, an analogous systemic core that is far more intriguing. And why? Because it highlights that – at a fundamental, structural level – the interplay between business and politics (as well as between business and business) is flawed.

But what is the precise nature of this structural flaw – and where is it to be found? As our scenario in chapter 2 demonstrated, the greatest change and/or the greatest loss of welfare arises through a relentless tendency to create monopolies; clearly, nobody really sets much store by the competition that ensures the highest (and best-distributed) surplus on behalf of both consumer and producer. The propensity to create asymmetries, through advance knowledge, preferential treatment or exclusive rights (sometimes in perpetuity) is ubiquitous and unremitting. A society only really seems to be at peace with itself when some – usually the very few – *get complete control of the taps* and the vast majority have to *stand in line* for the few drops of water that are allowed to fall into the gutter. What's with all the operating permits, concessions, licences, non-tariff barriers, high barriers to entry for newcomers, certificates and company audits? The need to protect the consumer or society as a whole (whatever that might mean) could certainly never justify all of these.

No, at the heart of this – and this is inherent in the system, and not necessarily *a priori* a matter of bad faith – lies one simple fact: the creation of monopolies

and the skimming-off of a sizeable portion of the consumer/producer surplus ensures that the system always has *sufficient funds available for redistribution* under its self-arrogated rules. The causality goes like this: without the power – or the right, bestowed by power – to create a bottleneck and make others stand around and wait in line, no monopoly rent is generated; and without monopoly rent, there are no funds available for corrupt ends. And by the same token: where unfettered competition reigns supreme, there can be no corruption. “Power, or the right bestowed by power” – what we call natural or man-made monopolies are invariably underpinned by either the former or the latter. Classic monopolies include extraction rights (often unlimited either temporarily or materially) to a mine or oil deposit, a licence to operate a railway in a particular territory or the right to use a river’s hydropower. The allocation of the monopoly rent is crucial here; it is no coincidence that corruption runs rife and semi-legal clientelism is the norm in countries “blessed” with especially large deposits of natural resources. Additional monopoly situations that are man-made, i.e. created through regulatory constraints, are no less harmful than classic monopolies in terms of their socio-political impact: they too produce a monopoly rent – almost as a side-effect that *a priori* barely registers on the radar.

To illustrate this point, let’s return to our example of the little American town of Donald’s Falls. The idea of limiting the sale of alcoholic beverages to licensed liquor stores was dreamt up during Prohibition, itself a response to the fact that families and whole regions had been reduced to penury through rampant alcohol abuse. If only they had stopped at the relatively harmless restriction of retail outlets! For understandable reasons, however, the *zeitgeist* demanded “genuine” solutions and found these in a rigorous policy of proscription. We now know that Prohibition was causally linked to the advent of the Italian *mafia* in North America, with the mob allocating the monopoly rent generated by the ban according to its own self-arrogated rules; without Prohibition, there would have been no Al Capone. Fifty years later, and the same mistake was made again as a “war on drugs” was unleashed – finally making drug-dealing a worthwhile proposition, accelerating the invention of newfangled narcotics, pushing countries like Colombia and Afghanistan to the edge of perdition and beyond, filling the prisons and lending succour to a drug mafia whose tentacles clearly penetrate far and wide into the centres of political power.

This kind of misguided regulation is clearly highly problematic and is widely acknowledged as an existential threat. However, most people are far less aware that every regulation, however well-meant, may – indeed, must! – cause analogous secondary effects. *Regulation* and *bottleneck creation* or *waiting in line* are causally linked, and however trivial a regulatory intervention may turn out to be, a monopoly rent is sure to be created that the owner of that monopoly

can either consume himself or allow others to indulge in, a process we have termed “allocation according to self-arrogated rules”. Bar exams, notary licensing, the authorisation of new medicines, permits to run banks or casinos – you name it, all these and many, many more besides generate monopoly rents; and these are the substrate on which corrupt practices feed.

Granting the power to create a bottleneck so that others have to wait in line is by no means limited to the public sector; it is also a feature of private enterprise. Managing a company is inextricably intertwined with this systemic challenge, known as the “principal/agent problem”. In order to manage his company, the principal (owner) has to employ agents (managers, controllers, etc.), as he can’t take care of everything himself. Sooner or later, these agents will have greater knowledge (detailed knowledge, in particular) of the day-to-day running of the company than the principal. Knowledge is power, and for this reason, an asymmetrical constellation to the principal’s detriment will eventually develop, even if the latter has nominally retained all the decision-making power. If knowledge is power, and power results in a monopoly, then the misuse of power and the (moral) hazard of corrupt practices will not be far behind – where the apportionment of contracts to third parties or the commissioning of services from suppliers is concerned, for example; the rent – modest in size or indeed of rather larger proportions – that would actually be due to the owner of the company, will suddenly be allocated according to self-arrogated rules.

Managing a company is, to a large extent, about negotiating the right path through this systemically conditioned minefield – striking the right balance between trust and control, as well as agreeing smart compensation arrangements with agents. But the problem can never be entirely obviated, even with the best governance. Given *bergsicht’s* readership, we should emphasise the particular risks presented to a principal’s interests by the agents employed in family offices whose mandate often boils down to just such an allocation of contracts and purchasing of services from suppliers. In such structures, where the focus is rarely on individual performance, *abuse* has a habit of running rife. In most cases, the methods selected to manage the assets in question are, objectively, far too complex; such a circumstance fosters intransparency and hence knowledge asymmetry. The principal is thus put over a barrel by his staff and stung with exorbitant costs *qua* inflated structures. Most of the family offices of which your author is aware could be shrunk by 50% and still maintain the same service level; corrupt practices, in our microeconomic definition, come in every possible guise.



## There are ways out!

This *bergsicht* concludes that the causal chain of “natural monopoly > classic monopoly > corrupt allocation of monopoly rent” and the related string “competitive environment > regulation/bottleneck creation/waiting in line > creation and subsequent corrupt allocation of monopoly rent” are embedded in the system. It is naive to imagine that extreme deregulation could make monopoly rents a thing of the past, though. Bringing about genuine competition is easier said than done, and no society can survive without some degree of regulation, as other important values are in play. Quite apart from this, there are also scenarios in which neither demand nor supply can be estimated even halfway accurately, nor yet is there any prospect of reasonable price formation – the allocation of a football world cup, for instance. There is but one every four years, so there are no more or less homogeneous alternatives to serve as a benchmark. What such an event might be worth (and to whom...?) is also written on the wind. The only sure thing is that certain people are dead set on having it – and at any price, as it were. From the point of view of price theory, this presents an impossible situation.

For all the – arguably – sensible efforts to keep a lid on corrupt contrivances and conditions by means of the criminal courts, *systemic approaches* grounded in microeconomics should not be neglected or indeed deliberately shunned. Those aware of the systemic nature of this can of worms will also be in a position to envision and advocate strategies that strike at the root of the problem, thus taking significant steps towards reducing corruption instead of merely overcrowding the prisons and hitting companies with ever more punitive fines. Below we list five approaches that any sincere legislator should have written across their heart:

- *Intelligent regulation*: regulation should be kept to a minimum, or better still, applied only where it is truly indispensable. Prophylactic interventions are not required for each and every nugatory nuisance to the consumer; minor accidents are bound to happen and are a normal part of life. Regulatory intervention is really only justified where there is a danger to life or the system as a whole; the market, with its myriad options for substitution, should be able to take care of the rest. Where regulation is required, however, it should be enacted correctly, i.e. factoring in its ineluctable side-effect – a tappable monopoly return – whose socially acceptable (i.e. equitable) allocation must form part of the equation.
- Temporal and material limitations should be imposed on extraction rights when dealing

with classic monopolies such as mines, oil deposits and the like, but also in the case of artificially contrived, fiscal “mining rights” such as the Billag licence fee; the sense of entitlement, the self-satisfaction with which the SRG and its hangers-on have settled into their sinecures is central to its current tribulations. Putting the concession for imposing mandatory fees for public services *out to tender on a regular basis* has long been recognised as an effective way of preventing such (quasi-)monopolistic situations from getting out of hand.

- “Bidding wars” where monopolies are unavoidable: if there are temporal and material constraints to beneficial rights, the option to *auction off* the attendant prospects of a monopoly rent presents itself. This would preempt any allocation and thus pull the rug from under any corrupting connivance. Generally speaking, the auction process is used far too infrequently when awarding contracts; for some reason, people insist on compiling exhaustive proof that due diligence has been done and complex qualification criteria have been met – before making a decision that turns out to have been completely arbitrary anyway. It is the nature of the beast where agents are involved in awarding such commissions: they will use complex demands to exaggerate their importance, and if push comes to shove, they may also conduct a parallel application procedure involving entirely different criteria. Complex demands tend to undermine the transparency required for an auction process rather than enhancing it. Intelligent regulation, temporal limitations on any advantage offered, and the auction process can – and should – be linked in a process chain.
- Where an auction proves inexpedient, decision makers should consider allowing *pure chance* to prevail. Every boardroom should be equipped with a set of dice: one die to decide between two applicants, two dice to decide between three, three to decide between four, and so on. Knowledge of the existence of such dice would reduce the danger of corrupt intervention in the run-up to any decision to award a concession. Too little store is set by chance, alas. Managers typically have an exaggerated opinion of their own powers of judgement and are happy to attribute a positive business outcome to their own wisdom, even when, more often than not, chance and good fortune were at work. Dice-rolling is an expression of genuine modesty and would cut off corrupt machinations (whose negative effects far outweigh those of problematic decisions) at the knees. Most difficult decisions are in any

case taken under highly uncertain (“dicey”) conditions, and are consequently put off for as long as possible. Allowing chance to decide would speed this process up appreciably.

- In most cases, perfect competition is at best a theoretical construct – such a state exists rarely, if ever, in the real world. On the micro scale, every business owner attempts to be the sole service provider on his patch or within his field, or at least to attain (and retain) market leadership. Humans have an in-built desire to establish a “unique selling proposition” (USP) – a mini-monopoly, with its corresponding monopoly rent, which every entrepreneur is of course keen to keep for himself. The urge to protect rights to special features of goods and services, as well as image/brand management, are part and parcel of any such strategy to secure market leadership. There is of course nothing wrong with this, as long as political jiggery-pokery does not end up cementing this privileged position. From a wider, societal perspective, however, policymakers ought to push in precisely the opposite direction, incentivising *alternatives* that wage a relentless war on the (presumably) overpriced quasi-monopolist fare. Regrettably, real-world economic policy in many countries has entirely antithetical aims, with barriers to market entry kept high and the administrative outlay required of smaller service providers crippling; even in the case of non-homogeneous goods, alternatives would exert a positive influence, reducing monopoly rents. We feel sure that the recent legalisation of cannabis will have had a deleterious effect on Sunday demand for brandy at O’Hara’s liquor store...

In summary, there are options available in the fight against corruption, whether within the state, the public/private nexus or the private sector. There are indeed instruments and strategies that tackle this scourge at source, and there are also ways and means to absorb existing monopoly rents in a reasonably equitable fashion; these are in fact an open secret, although the incentives in the system, even in democracies, tend to militate against them.

Still, the situation is not without hope. Yes, you’ve guessed it – the latest developments in digitalisation are all chipping away at the information and transaction costs that have hitherto been chiefly responsible for the principal/agent asymmetry. We see platforms that are entirely free of corruption (e.g. ricardo.ch, eBay, Uber and AirBnB) as an encouraging sign, although once again, the old problem of natural monopolies (“winner takes all”) seems to be lurking not far from their door; there is a good chance this dilemma can be solved through antitrust legislation, however. These platforms, and many other new applications, have one thing in common: they are all

*peer-to-peer*. As there are only ever two parties to a transaction and a pair of people can’t bribe each other – a third party, at the very least (usually an institution) is always required for this – the rise of such technology is set to sideline middlemen or even eliminate them altogether. We therefore confidently predict: less corruption!

KH, 5 FEBRUARY 2018

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