CHAPTER 8

Corruption as a Feature of Governmental Organization

This is an exploratory paper, the purposes of which are to identify the principal variables having to do with corruption in governmental organizations in the United States and to point out some significant relationships among them. The paper begins by setting forth a conceptual scheme for the description and analysis of corruption in all sorts of organizational settings. This is applied first to the "typical" business and then to the "typical" governmental organization. (The reason for introducing the business organization into the discussion is to create a contrast that will highlight the characteristic features of governmental organization.) In the concluding section some dynamic factors are noted.

THE CONCEPTUAL SCHEME

The frame of reference is one in which an *agent* serves (or fails to serve) the *interest* of a *principal.* The agent is a person who has accepted an obligation (as in an employment contract) to act on behalf of his principal in some range of matters and, in doing so, to serve the principal's interest as if it were his own. The principal may be a person or an entity such as an organization or public. In acting on behalf of his principal an agent must exercise some *discretion;* the wider the range (measured in terms of effects on the principal's interest) among which he may choose, the

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broader is his discretion. The situation includes *third parties* (persons or abstract entities) who stand to gain or lose by the action of the agent. There are *rules* (both laws and generally accepted standards of right conduct), violation of which entails some probability of a penalty (cost) being imposed upon the violator. A rule may be more or less indefinite (vague, ambiguous, or both), and there is more or less uncertainty as to whether it will be enforced.

An agent is *personally corrupt* if he knowingly sacrifices his principal's interest to his own, that is, if he betrays his trust. He is *officially corrupt* if, in serving his principal's interest, he knowingly violates a rule, that is, acts illegally or unethically, albeit in his principal's interest.

Agents are in varying degrees *dependable*. The more dependable an agent, the larger the psychic costs to him of a corrupt act and accordingly the higher his reservation price for the performance of the act.

MINIMIZING CORRUPTION: CONSTRAINTS

As a means of showing the relationships among these and other variables it will be useful to imagine a situation every feature of which tends to minimize corruption. In such a situation agents are selected after an elaborate search on the basis of their exceptional dependability and lawabidingness, all of their other qualities being deemed of no importance as compared to these. The agents are given whatever kinds and amounts of incentives will motivate them to loyal service and whatever disincentives (for example, high risk of discovery followed by dismissal with loss of pension rights) will deter them from disloyalty. The principal's interest (ends, objectives, goals, purposes, etc.) is fully explicated, and agents are given discretion no broader than is judged necessary to fully serve that interest. Rules are definite (that is, neither vague nor ambiguous), and it is known whether or not they will be enforced. If an agent's duty requires him to try to attain mutually exclusive or competing ends his dilemma is resolved by his principal. An agent's performance is carefully monitored; if there is any doubt about his loyalty, he is dismissed forthwith. Monitors are themselves carefully monitored.

Obviously all of this implies centralized control: there must be an authority (that of a chief executive or "top management") capable of selecting dependable agents, establishing an effective incentive system, explicating the principal's interest, monitoring monitors, and so on.

It will be seen that the situation just described—one in which everything possible is done to minimize corruption—is in many respects highly unrealistic. The principal may be an abstract entity such as a corporation, labor union, or public, in which case some surrogate—a board of directors or chief executive—must explicate its interest and be a monitor-in-chief who cannot himself (or themselves) be monitored.[1] There may be no central authority capable of doing the things necessary to minimize corruption—for example, to dismiss agents whose loyalty is questionable. The rules may be indefinite,[2] and there may be much uncertainty as to whether they will be enforced.[3]

Perhaps the least realistic feature of the "ideal" situation is the implicit assumption that there exists only one objective—namely to minimize corruption. In the real world there are always competing objectives, a condition that makes it necessary to give up something in terms of one in order to get more in terms of another. Each of the measures that might be taken to reduce corruption entails cost. Getting the information upon which an estimate of the dependability of a prospective agent can be

[1]"Unfortunately," writes Frederick Andrews, "no one has devised a way to impose effective [internal] controls on the very top officers, those whose rank enables them to over-ride controls." *Wall Street Journal,* 12 June 1975, p. 1, col. 5.

[2]The recently enacted federal pension law "requires that fiduciaries follow the 'prudent man rule' which requires them to act 'with the care, skill, prudence and diligence' that a prudent man 'acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.' " *Wall Street Journal,* 14 Feb. 1975, p. 28, col. 1. The bribery conviction of former Senator Daniel B. Brewster was overturned by a U.S. Court of Appeals because the "trial court's instructions did not set forth a clear and comprehensive standard for the jury to make the distinction between receiving bribery payment in return for being influenced in the performance of an official act, receiving illegal gratuities and receiving legal, normal campaign contributions." *Philadelphia Evening Bulletin,* 2 Aug. 1974, p. 1.

[3]The uncertainties regarding enforcement of some rules may be seen from the following: "If the Public Officers Law [of New York State] were enforced, and those who accepted or promised a reward in return for a vote were actually incarcerated, few of the state's legislators would remain outside prison bars . . . the act of paying for a judgeship is, after all, an indictable offense, though never enforced.

"To survive politically, most congressmen must overlook the Corrupt Practices Act, which places a ceiling on campaign expenditures, and pretend ignorance on the subject of where their money originates." Martin Tolchin and Susan Tolchin, *To the Victim—Political Patronage from the Clubhouse to the White House* (New York: Random House, 1971), 94, 146, 246.

based is costly, and to secure the services of one who has this scarce, and hence valuable, quality is also costly—costly not only in money and other resources that are paid out but also, and perhaps chiefly, in terms of opportunities foregone, it being highly unlikely that the candidates standing highest in dependability will also stand highest in all other qualities (for example, intelligence, energy, willingness to take risks, etc.) which may be of value to the organization.[4] Similarly supplying the incentives and the disincentives necessary to secure loyalty is costly in resources and in opportunities foregone.[5] So is the explication of the principal's objective and the negotiation of an agreement between a principal and an agent.[6] So also is monitoring: it entails not only direct costs, such as

[4]Ancient Athens provides an interesting exception. These magistrates, whether chosen by lot or elected, were subjected to an examination not to prove capacity or talent but "concerning the probity of the man." Fustel de Coulanges, *The Ancient City* (Baltimore: Johns Hopkins, 1956), 330. For a close analysis of the costs of policing the agent see Barry Mitnick, "The Theory of Agency: The Concept of Fiduciary Rationality and Some Consequences." (Ph.D. diss., University of Pennsylvania, 1974). With regard to "indirect" costs of such policing, see his "The Theory of Agency: The Policing 'Paradox' " and Regulatory Behavior, *Public Choice* 24 (Winter 1975): 27–42.

[5]Gary S. Becker and George J. Stigler, "Law Enforcement, Malfeasance, and Compensation of Enforcers," in *Capitalism and Freedom, Problems and Prospects*, ed. Richard T. Selden (Charlottesville, VA: University Press of Virginia, 1975), 242. This article first appeared in *Journal of Legal Studies* 3 (1974):1. One of the methods proposed by Becker and Stigler to deter malfeasance or nonfeasance is "to raise the salaries of enforcers (agents) above what they could get elsewhere, by an amount that is inversely related to the probability of detection and directly related to the size of bribes and other benefits from malfeasance." However, malfeasance, Becker and Stigler say, can be eliminated without paying the enforcers lifetime salaries exceeding what they could get elsewhere by requiring them to post a bond which they would forfeit if fired for malfeasance. Ibid., 237.

In some jurisdictions an official who resigns before charges are brought may retain his pension rights. The Knapp Commission remarked on this and another practical difficulty in the way of making the threat of pension rights effective. "The result of the present [New York] forfeiture rule," it said, "has been that the courts on appeal have directed the reinstatement of patently unfit officers because they could not tolerate the injustice involved in the forfeiture of vested pension rights." New York City, *The Knapp Commission Report on Police Corruption* (1972), 26, 228–229 (hereinafter cited as *Knapp Commission*).

[6]"With some recent exceptions, police agencies have tended to keep the policies under which they act ambiguous and unwritten. The reasons may include the

the salaries of monitors,[7] but also indirect ones such as the lowering of morale that may occur when agents feel "spied upon." The same may be said of narrowing agents' discretion: it is costly to form, an estimate of the amount of the corruption that would be prevented by setting this or that limit; moreover, narrowing discretion may injure morale (the exercise of discretion being for many an important nonmonetary reward) and, while preventing the agent from doing (corrupt) things that are slightly injurious to the principal it may at the same time prevent him from doing (non-corrupt) ones that would be very beneficial to him. If simply to prevent corruption an agent is given a narrower discretion than would be optimal if there were no possibility of corruption, whatever losses are occasioned by his having a suboptimal breadth of discretion must be counted as costs of preventing corruption.[8]

It is evident that the costs of eliminating, or controlling, corruption may on occasion be greater than the gains from doing so. One can imagine a firm's spending itself into bankruptcy in an effort to end corruption or a labor union's sacrificing the advantage of its monopoly position by employing an honest but incompetent business agent.[9]

This being so, one might expect the management of an organization to try to discover: (a) what level of corruption is optimal for it—that is, the level at which the marginal cost of anticorruption measures equals the gain from them, and (b) what trade-offs among the variously "priced"

fear of articulating clear guidelines because of possible controversy and the difficulties in formulating rules for the varied situations police encounter." Police Foundation, *Toward a New Potential* (1974).

For a homely example see William A. Niskanen's account of his difficulties in inducing a selling agent to maximize his (N's) returns from the sale of a house, *Capitalism and Freedom, Problems and Prospects*, ed. Richard T. Selden (Charlottesville, VA: University Press of Virginia, 1975), 26.

[7]" 'If we examined every item over $100,000—which really isn't much for a huge corporation—that would drive our fees sky-high. There's a real cost-benefit problem here,' says . . . a top partner at . . . the largest audit firm." *Wall Street Journal*, 12 June 1975.

[8]For example, the cost to New York City of prohibiting a uniformed patrolman from making a gambling arrest unless a superior officer is present. New York City, *Knapp Commission*, 90.

[9]Cf. Simon Rottenberg, *A Theory of Corruption in Labor Unions*. American Association for the Advancement of Science, Symposia Studies Series, no. 3, 4 (National Institute of Social and Behavioral Science, June 1960). Reprinted in University of Chicago, Industrial Relations Center, Reprint Series, no. 96.

anticorruption measures will yield an optimal set, that is, one in which the marginal return from each measure is the same.

Because of technological factors the substitution possibilities may be severely limited. For example, in certain circumstances it may be impossible to substitute monitoring for dependability (the agent's work may have to be done in absolute secrecy); similarly, in certain circumstances it may be impossible to substitute a narrowing or discretion for dependability (the work may require the exercise of a very broad discretion).[10]

It should be noted also that the nature of corruption puts special difficulties in the way of getting information on the basis of which to make a rational allocation of resources. Thus, for example, a principal cannot know how much a third party may bid to secure a corrupt action from an agent and therefore he cannot know how much it will pay him (the principal) to invest in agent loyalty.

INSTITUTIONAL FORMS: BUSINESS

The concepts and relationships that have been set forth in the abstract will be useful in describing some of the main structural features of a concrete form of organization: the "typical" business (more precisely, the competitive corporation). The reason for discussing the business organization here is to provide a contrasting background, so to say, against which the characteristic features of governmental organization can be more readily seen.

1. In a business organization the principal's interest consists of one—or of a very few—objectives the parameters of which—for example, a satisfactory level of profit and beyond that the maximization of emoluments (including staff and expenses) to managers—are easily ascertained. The goods and services produced by the organization can generally be brought under the measuring rod of money and can be distributed via market competition, thus reducing, and to some extent eliminating, the

[10]Gary S. Becker and George J. Stigler, "Law Enforcement," 243, remark that the role of trust in an employment contract is larger: the less easily and quickly the quality of performance can be ascertained, the more diverse the activities of the enterprise, the more rapidly it is growing or declining, and the more unstable the industries in which it is operating in each case.

need to exercise discretion. If over time the revenues of the firm do not cover its costs it must go out of business.

2. The incentive system of a business organization is based very largely upon personal, material incentives, especially money. Although the employee may find his work intrinsically interesting and may get satisfaction from "associational benefits," money rewards, or the expectation of them, are in the usual case by far the most significant of the inducements which motivate him. Business executives whose attachment to the organization they serve is almost purely pecuniary are probably not at all uncommon.

3. There exists a highly integrated system of control through which a chief executive (sometimes a team: "top management") can: (a) reduce the objectives of the organization to lower levels of generality by defining "targets;" (b) select agents; (c) fix limits on their discretion; (d) give or withhold rewards and punishments; (e) arrange for monitoring the performance of agents (and also of monitors). The chief executive may himself be chosen and monitored by a board of directors.[11] So long as profits are satisfactory he is not likely to be disciplined or removed by his board. Frequently its monitoring of him is *pro forma* since it must depend largely upon him for information (although some boards have independent auditing committees), and he is likely to have selected most of its membership.

4. Since there exists in a business organization an ultimate authority (the chief executive or, in some matters, the board of directors), it is possible, in principle at least, for agents to get authoritative rulings as to the terms on which conflicts among ends should be settled. Questions which lie outside an agent's direction—for example, which of two mutually exclusive criteria of choice should be invoked in a concrete situation—are passed up the hierarchy to one who *has* discretion in the matter.

5. The chief executive of a business organization normally continues in office if profits are "satisfactory" until he reaches retirement age. That is, the one condition he must normally meet in order to maintain his control of the organization is business success.[12] Apart from a poor showing

[11]On the changing role of the corporate director see the article by John V. Conti, *Wall Street Journal*, 17 Sept. 1974, p. 1, col. 6.

[12]Union members not uncommonly tolerate corruption on the part of agents who win them advantageous contracts. Philip Taft, "Corruption and Racketeering in the Labor Movement," *New York State School of Industrial & Labor Relations Bulletin* 38 (1958): 6, 28. Similarly, voters sometimes prefer candidates whom they have reason to believe corrupt. Of a sample of 1,059 Boston homeowners

on the balance sheet, the principal danger to his tenure is from a hostile takeover or a merger; this danger exists only as outsiders believe they could operate the corporation enough more profitably to yield them a net gain over the costs of acquiring control—costs which the incumbent chief executive is usually in a position to make discouragingly high.[13]

6. The business organization may do whatever is not prohibited by law or government regulation. (Technically a corporation may do only what its charter allows, but as a practical matter it is usually possible to obtain a charter that allows almost anything lawful.) Within the limits set by law and regulation, the business organization may withdraw from one line of activity and enter upon another; it may hire and fire, reward and punish as it sees fit, and it may purchase what it pleases (including the services of consultants of all sorts) at whatever price it is able and willing to pay. Except as it must make disclosures in accordance with government regulations, its affairs are secret.

SOME IMPLICATIONS

These features of business organization have several implications relevant to a discussion of corruption:

(1) Its principal—perhaps its only—object being profit, the business organization will incur costs to prevent corruption insofar—but *only* insofar—as it expects them to yield marginal returns equal to those that could be had from other investments. Similarly, it will incur costs in order to corrupt (that is, to induce the agents of others to betray their trust) insofar—but again *only* insofar—as it expects them to contribute to profit.

(2) The business organization will invest heavily in search costs and in incentives to assure that its chief executive (a) will not be personally corrupt, and (b) will be officially corrupt insofar as may be necessary to secure the success, or at least avoid the failure, of the business. These qualities, although obviously not sufficient conditions of a good chief executive (ability is probably much more important), are surely necessary

(taken in 1966), 41% agreed that "a mayor who gets things done but takes a little graft is better than a mayor who doesn't get much done but doesn't take any graft." Unpublished data gathered by James Q. Wilson and the writer.

[13]See Henry G. Manne, "Mergers and the Market for Corporate Control," *Journal of Political Economy* 73 (1965): 110. Also, "Company Executives Shore Up Defenses against Take-Overs," *Wall Street Journal*, 21 Oct. 1974, p. 1, col. 6.

ones, and in the effort to secure them the board of directors may choose someone who has close family or friendship ties with a principal (large stockholder) or who has "come up through the organization"—that is, whose "loyalty" has been tested over a long period in positions of successively greater responsibility. In order to identify the interest of the chief executive even more closely with that of his principal the board may give him not only a high salary and generous pension rights but also bonuses in the form of stock or stock options.

(3) The task of the business executive being to optimize rather than to minimize corruption, he may follow a policy of "leniency" in dealing with certain types of personal corruption (for example, petty pilfering of supplies) because to do otherwise might create disaffection among employees who object to being "checked up on." What Dalton calls "unofficial rewards"—in plain language, petty graft—is sometimes a significant element in an incentive system.[14]

(4) In dealing with personal corruption at a high level of hierarchy the chief executive is likely to shun publicity; rather than prosecute an offender he may transfer him, force him to resign, or if there is no other way, arrange for his early retirement. To acknowledge that there was personal corruption in a high place would be "bad for the organization": it might produce unfavorable publicity and, worse, encourage a takeover bid, that sort of corruption being widely regarded as indicative of poor management. (Insofar as the chief executive chooses to ignore or "cover up" such corruption because the revelation of it would reflect on his own work he is of course personally corrupt.) On the other hand, personal corruption at the bottom of the hierarchy in excess of the permitted limit may be dealt with harshly, for the exposure of such corruption is generally taken as a sign of good management.

(5) Obviously to be effective a monitoring system in a business organization must operate selectively; its mission is: (a) to keep corruption at the lower levels within permitted levels and, (b) to inform the chief executive about corruption at the higher levels but in a manner that does not oblige him to let its existence become generally known.

(6) Although the structure of the business organization makes possible the resolution of the dilemma faced by an agent who is required to

[14]Melville Dalton, *Men Who Manage* (New York: Wiley, 1959), Chapter 6. See also Alvin W. Gouldner, *Patterns of Industrial Bureaucracy* (Glencoe, IL: Free Press, 1954), 87, 159–62, 176.

attain mutually exclusive objectives, in practice it may fail to do so. When "top management" insists—presumably unwittingly—that agents do what they cannot possibly do without violating rules (that is, without being officially corrupt) the monitoring system is likely to be by-passed, or if it is not, to adapt itself to the situation by "turning a blind eye" on all except the most flagrant rule violations. There will be a tendency also for colleague groups and perhaps monitors as well to define the situation so as to reduce the psychic costs of rule violations (for example, it was "against the rules" but "not really wrong or unethical").[15]

(7) Arrangements which allow for the by-passing of monitors or for selective monitoring may easily become dysfunctional by withholding, sometimes for a monitor's own corrupt purposes, information that a chief executive wants and expects to have. A situation which produces rule violation in the line of duty (that is, official corruption) in effect taxes dependable agents (that is, those for whom rule violation entails psychic costs) and subsidizes the undependable. One would expect that under these circumstances the undependable would eventually replace the dependable.

(8) If its sole purpose is the maximization of profit, the business organization may have an incentive to corrupt the agents of other organizations—competitors, labor unions, government agencies, and the like.[16] Its only disincentives are in the nature of business risks—for example,

[15]For an account of a business organization (GE) in which "disjointed authority" led to men being required to do what was illegal see Richard Austin Smith, *Corporations in Crisis* (New York: Doubleday, 1963), Chapters 5–6. Striking parallels are to be found in Joseph S. Berliner, *Factory and Manager in the USSR* (Cambridge, MA: Harvard University Press, 1957), Chapters 11 and 12.

[16]Taft found that racketeering in labor unions tends to appear in industries that are highly competitive and have a highly mobile labor force, and that when these conditions coexist some corruption is "almost inevitable." Philip Taft, "Corruption and Racketeering," 33. The Knapp Commission found the second largest source of police corruption in New York City (the first was organized crime) to be "legitimate business seeking to ease its way through the maze of City ordinances and regulations. Major offenders are construction contractors and subcontractors, liquor licensees, and managers of businesses like trucking firms and parking lots, which are likely to park large numbers of vehicles illegally. If the police were completely honest, it is likely that members of these groups would seek to corrupt them, since most seem to feel that *paying off the police is easier and cheaper than obeying the laws or paying fines and answering summonses.*" (Italics added) New York City, Knapp Commission, 6, 68.

loss of reputation within the trade, unfavorable publicity, and fines and other legal penalties (until recently criminal sanctions have rarely been imposed upon officers of corporations which violated the law). The expected disutility of these will presumably be weighed against the expected gain of successful corruption.

(9) One would expect the tendency to corrupt other organizations to be the strongest among those profit-maximizing businesses which must depend upon a small number of customers or suppliers (whether of capital, labor, or materials) and whose profit margin in the absence of corruption would be nonexistent or nearly so. These might fail if they indulged in any form of "social responsibility."[17] Oligopolistic businesses, having ample "slack," although avoiding the vulgar *quid-pro-quo* forms of corruption, probably tend to be lavish in entertainment, consultants' fees, and other expenditures intended to "create goodwill," "maintain good working relations," and "make friends." Insofar as such expenditures cause corruption, it is likely to be of a kind difficult or impossible to identify clearly as such.

INSTITUTIONAL FORMS: GOVERNMENT

The structural features of "typical" American governmental organization differ strikingly from those of business.

1. Fragmentation of authority both within and among federal, state, and local jurisdictions, a conspicuous and distinctive feature of the American political system, gives incentive to the formation and energetic activity of a multitude of pressure groups. Accordingly, American governmental organizations characteristically have objectives that are numerous, unordered, vague and ambiguous, and mutually antagonistic if not downright contradictory.[18] The product (services generally) of a governmental organization is frequently of such a nature as not to be susceptible to being

[17]Arrow has remarked that an ethical code "may be of value to the running of the system as a whole, it may be of advantage to all firms if all firms maintain it, and yet it will be to the advantage of any one firm to cheat—in fact the more so, the more other firms are sticking to it." But he concludes that the value of maintaining the system "may well" be apparent to all and that "no doubt" ways will be found to make ethical codes a positive asset in attracting consumers and workers. Kenneth J. Arrow, "Social Responsibility and Economic Efficiency," *Public Policy* 21 (1973): 315–316, 330.

[18]These points are elaborated in Edward C. Banfield, *Political Influence* (Glencoe, IL: Free Press, 1961), especially Part 2.

priced in a market or perhaps to quantitative measurement of any kind. Almost all government regulation is of this character.[19] Governmental products that might be priced usually are not, and if they are, the price is usually set so low as to subsidize the consumer and (if the supply is short) to create a rationing problem which necessitates exercises of discretion on the part of governmental agents.[20] As Robert C. Brooks wrote early in the present century, "as soon as regulation is undertaken by the state a motive is supplied . . . to break the law or bribe its executors."[21] When, as is often the case, the governmental organization has a monopoly a strong incentive exists for third parties to seek to influence the agent's exercise of discretion by offering a bribe—that is, to pay a monopoly price, the money going not to the government but to the agent.

The governmental organization's existence is not jeopardized by selling its products at prices that are below the cost of production since typically it gets some or all of its revenue by taxation. If there is any threat to its existence, it is likely to arise from its having failed to distribute

[19]These features of governmental organization are illustrated and analyzed by James Q. Wilson, *Varieties of Police Behavior* (Cambridge, MA: Harvard University Press, 1968).

[20]See Arnold J. Meltsner, *The Politics of City Revenue* (Oakland: University of California Press, 1971), 33–35.

[21]Robert C. Brooks, *Corruption in American Politics and Life* (1910; reprint, New York: Arno, 1974), 166. The construction industry provides a case in point. New York City has a 843-page building code; a builder is required to get at least 40–50 permits and licenses (for a very large project as many as 130) from a maze of city departments. "Each stage," John Darnton writes in the *New York Times,* 13 July 1975, p. 5, sec. 4, col. 3, "is an invitation to a payoff. By withholding approval, or concentrating on a minor infraction, or simply not showing up at all, an inspector can cost a builder dearly or delay his recouping a multi-million-dollar investment." In practice, the Knapp Commission found, "most builders don't bother to get all the permits required by law. Instead, they apply for a handful of the more important ones (often making payoff to personnel at the appropriate agency to insure prompt issuance of ther permit). Payments to the police and inspectors from other departments insure that builders won't be hounded for not having other permits." New York City, *Knapp Commission,* 125. Recently two-thirds of the construction inspectors in Manhattan were suspended without pay on bribery charges. None of the charges seems to have resulted from a builder's effort to get around the requirements of the building code. What was being bought and sold, an official said, was time. Robert E. Tomasson, in the *New York Times,* 18 July 1975, p. 5.

enough in subsidies to get the support it needs in the legislature or at the polls.

2. Although the incentive system of the governmental organization is based mainly on money and other personal material incentives, other types of incentives usually bulk larger in it than in the incentive system of business organization. At the lower levels of government hierarchy, job security is an important incentive. At the middle levels the satisfactions of participating in large affairs, "serving in a good cause," and of sharing (albeit perhaps vicariously) in the charisma that attaches to an elite corps (for example, the F.B.I.) or to a leader (for example, J. Edgar Hoover or Robert Moses) are also of importance. At the top level, power and glory are among the principal incentives (for example, Hoover and Moses). It would probably be hard to find in government a very high level official whose attachment to his job is purely pecuniary.[22]

3. From a legal-formal standpoint and often in fact, control of a governmental agency is in many more hands than is control of a business. Normally a chief executive or a small team ("top management") has authority over all of the operations of a business. A governmental agency, by contrast, is usually run by a loose and unstable coalition of individuals each of whom has independent legal-formal authority over some of its operations. Not only is there separation among legislative, judicial, and executive functions, but the executive function is itself divided. In the federal government, for example, there are numerous independent bodies (for example, the Federal Reserve System) which exercise an authority independent of the president's. In state and local government, executive authority is much more widely distributed.[23] The mayor of a moderate-sized city, for example, has no control whatever over at least a dozen bodies whose collaboration is indispensable. The comptroller and district attorney, for example, are usually independently elected, and there are numerous bodies, notably the civil service commission, in which the

[22]Moses, Caro writes, found "a hundred ways around" civil service pay and promotion rules. But his men were mainly attached to him because they were "caught up in his sense of purpose" and because they "admired and respected" him. Moses himself, Caro asserts, came to be motivated solely by an insatiable lust for power and glory. Robert A. Caro, *The Power Broker, Robert Moses, and the Fall of New York* (New York: Knopf, 1974), 273.

[23]See Edward C. Banfield and James Q. Wilson, *City Politics* (Cambridge, MA: Harvard University Press, 1963), Chapter 6.

mayor has little or no voice. The governmental chief executive appoints his principal subordinates (subject usually however to their confirmation by a separate authority), but the incentive system is fixed by law and regulation and is as a rule of such a nature as to preclude competition with business organizations for executive talent. Moreover the governmental chief executive and his principal subordinates, having no control over the tenure or pay of lesser ("career") executives, have not much more than nominal authority over the lower levels of bureaucracy. For example, the mayor of New York, according to Sayre, has few levers to move the several hundred bureau chiefs; he works "at the margins of bureau autonomy" by creating and staffing new bureaus and by praising or attacking those who are or are not responsive to him, but "his victories are temporary and touch only a few bureaus."[24]

4. Whereas the business organization may hire, promote or demote, and dismiss salaried employees at will (subject to civil rights and other such laws), the governmental one is severely restricted by civil service regulations. The governmental executive cannot dismiss a career civil servant whom he considers untrustworthy; instead he may prefer formal charges supported by evidence before a trial board from the decision of which the employee may usually appeal. The procedure is so time consuming and dismissals so hard to get that it is invoked only in cases so flagrant as to make it unavoidable.[25]

5. The fragmentation of formal authority in government is overcome to a greater or lesser degree by informal arrangements: officials exchange favors (for example, voting support, jobs, opportunities to make money by legal or other means) with other officials and with interest groups and

[24]Wallace S. Sayre, in *Agenda for a City*, eds. Lyle C. Fitch and Annemarie Hauek (Beverly Hills: Sage, 1970), 576.

[25]General Motors' procedure in dismissing salaried employees is in sharp contrast to that of the New York Police Department. When there was reason to believe that some of them were accepting favors and "kickbacks," GM marched salaried employees, some of whom had been with the company for more than twenty-five years, through an "assembly line" for questioning by two company investigators. Forty-three who admitted taking gifts of more than nominal value were fired on the spot. *Wall Street Journal*, 24 April 1975, p. 1, col. 1.

In the New York Police Department, on the other hand, an officer under indictment for a felony may not be suspended; instead he is placed on "modified assignment," retaining his salary, fringe benefits, and gun until final disposition of his case, which may take three or four years. *New York Times*, 19 July 1974, p. 39, col 1.

voters in order to assemble the authority they require to maintain and if possible increase their power.[26] In the extreme case the result is a stable structure in which control is as highly integrated as in the business organization; this is the "machine," the chief executive of which (who may or may not be the chief executive of a governmental organization) is the "boss."[27] One difference between the machine and the business organization requires particular notice: the business executive's control, resting as it does on a solid legal-formal base, is stable as compared to that of the boss, which arises from extralegal, if not illegal, arrangements, is *ad hoc*, and must be continually renewed by "deals" in order to prevent it from collapsing.

6. The agent of a governmental organization is both likely to be required to serve objectives that compete or are mutually exclusive (this is because, as noted, the objective function of a government organization is characteristically vague, ambiguous, and unordered) and unlikely to get the dilemma that he faces resolved by passing it up the hierarchy: there is hardly ever a chief executive with authority over all the matters involved in the conflict, and, if there is and if the conflict is passed up the hierarchy to him, the answer that will come back to the agent will probably be "Maximize *all* objectives."[28] The fundamental fact of the situation is that the electorate or some set of interest groups (that is the principal) *demands* states of affairs that are mutually exclusive.

7. The chief executive of a governmental organization normally serves

[26]For an account of the patronage, favors, and "honest graft" distributed in a relatively "clean" medium-sized city (New Haven) see Raymond E. Wolfinger, *The Politics of Progress* (Englewood Cliffs, NJ: Prentice-Hall, 1974), Chapter 4.

[27]On the machine, see Edward C. Banfield and James Q. Wilson, *City Politics*, Chapter 9.

[28]In the Federal bureaucracy, Kaufman writes, subordinates may have to pick and choose among many directives for justification. "This obligation may be thrust upon them by the inescapable ambiguities as well as inconsistencies of the instructions to them." Herbert Kaufman (with the collaboration of Michael Couzens), *Administrative Feedback: Monitoring Subordinates' Behavior* (Washington: Brookings Institute, 1973), 2.

In Oakland, California, the city manager sends a guidance letter to officials involved in the budget process. "The important thing to understand about the manager's letter is that it contains nonoperational guidance, or decision rules that are not decision rules." Arnold J. Meltsner, *Politics of City Revenue*, 165, 171.

a two- or a four-year term after which he must face "takeover" bids first in a primary and then in a general election; in many jurisdictions he may not succeed himself more than once or twice. As compared to his opposite number in business, his tenure is uncertain and brief.[29] Although as an incumbent he has a decided advantage, much of what he does or fails to do in office is with a view to increasing the probability of his reelection.

8. Unlike the shareholder, the citizen cannot easily disassociate himself from a corrupt organization: to escape it he must incur the costs of moving to another city, state, or country. Nevertheless, in the usual case he will have no incentive to invest in its reduction because it, or rather the absence of it, is a "public good" the benefits of which will accrue as much to "free riders" as to others.[30] There are, however, institutions, notably the media and the ambitious district attorney, that stand to gain by searching out and making much of corruption, whether real or seeming.

9. From a formal standpoint, a governmental organization may do *only* what the law expressly authorizes, and it *must* do what the law expressly requires. In fact, when public opinion permits, it sometimes withdraws from tasks assigned by law which expose it to corruption.[31] Its freedom to avoid exposure to corrupting influences is small as compared to that of the business organization however.

10. A governmental organization may have few secrets. To a large and increasing extent, its affairs (for example, the salaries of employees, the number of widgets bought and the price paid, etc.) are matters of public record. Generally, public hearings must be held and public participation secured before a governmental undertaking may get under way. Sometimes there must be a referendum. Meetings at which decisions are to be made must often be open to the public. In many instances officials are required to disclose their property holdings and business connections. As "public figures" they are for all practical purposes unprotected by laws against slander and libel.

[29]On turnover of mayors, see Raymond E. Wolfinger, *The Politics of Progress*, 394–395.

[30]See Mancur Olson, *The Logic of Collective Action* (Cambridge, MA: Harvard University Press, 1965).

[31]The New York Police Department announced that as an anticorruption measure it would not arrest low-level figures in gambling combines or enforce the Sabbath laws (except upon complaint) or the laws pertaining to construction sites (unless pedestrians are endangered or traffic impeded). *New York Times*, 19 Aug. 1972, p. 1.

CONSEQUENCES OF THESE DIFFERENCES

Obviously the structural differences between business and governmental organizations have consequences affecting corruption:

(1) In governmental organization the costs of preventing or reducing corruption are not balanced against gains with a view to finding an optimal investment. Instead, corruption is thought of (when it comes under notice) as something that must be eliminated "no matter what the cost." Even when no deterrent effect could be expected, a governmental organization—the IRS, for example—would not act uncharacteristically in spending, say, $50,000 to uncover and punish a misdeed which could not possibly have cost the government more than, say, $500.

(2) In the absence of central control there is no real (as opposed to nominal) chief executive or "top management" which can make substitutions among anticorruption measures (for example, more investment in dependability and less in monitoring) in an effort to "balance the margins."

(3) In the absence of central control, an agent whose duties are mutually incompatible cannot get a resolution of his dilemma by administrative action; therefore—unless he resigns—he must act corruptly. As Rubinstein remarks in *City Police*, "a policeman cannot escape the contradictions imposed on him by his obligations."[32]

(4) Where authority is highly fragmented, there is no centralized system of monitoring or, more generally, of control. Under these circumstances corruption is likely to occur "because the potential corrupter needs to influence only a segment of the government, and because in a fragmented system there are fewer centralized forces and agencies to enforce honesty."[33] Although there may be officials in roles specialized to perform monitoring or other anticorruption functions—typically an independently elected district attorney—these frequently fail to perform vigorously when doing so would be contrary to their political or other interests; in any case no chief executive can *require* them to—that is, there is no effective provision for monitoring the monitors.

(5) Because of the inflexibility of government pay scales and promotion rules, a government executive is often unable to offer an agent incentives (monetary and nonmonetary) equal to those he could earn elsewhere. One consequence is that the government agent is likely to be

[32]Jonathan Rubinstein, *City Police* (New York: Ballantine, 1973).
[33]Raymond E. Wolfinger, *Politics of Progress*, 114.

less dependable and less able than his business organization counterpart. Of more importance, perhaps, the government agent has less to lose from dismissal.[34]

(6) The nature of governmental activity often precludes precisely stating or narrowly limiting the breadth of an agent's discretion.[35] If the objective is no more definite than to "improve the qualify of life," the agent's decisions must necessarily be on grounds that are highly subjective. The monitoring of such decisions presents obvious difficulties: almost any can be given a plausible rationale.

(7) When output standards cannot be made definite, the organization may try to compensate by making input specifications very detailed. The effect of this, however, is to reduce the number of competitive suppliers, thereby making collusion easier between sellers and corrupt purchasing agents. Sometimes an agent establishes specifications that only one supplier can meet.

(8) Both because of the relatively open (not secret) nature of most government activities and because of the fragmentation of control, monitoring agents from *outside* the organization is probably more common in government than in business. "Unplanned feedback" (that is, information and clues that come to the organization from clients, competitive agencies, the mass media, public prosecutors, civic groups, etc.) may be of special importance in governmental organizations because of the lack (due to fragmentation) of *planned* feedback.[36] Selective monitoring (that is, the

[34]As Becker and Stigler remark, "Law Enforcement," 242, "Trust calls for a salary premium not necessarily because better-quality persons are thereby attracted, but because higher salaries impose a cost on violations of trust." The principle was applied by New York Police Commissioner Murphy who limited the "exposure [to temptations offered by gambling and narcotics interests] to officers of higher rank who presumably have a greater stake in maintaining their reputations." New York City, *Knapp Commission*, 238.

[35]Recently the General Services administrator took steps to monitor some of his own necessarily subjective decisions by delegating the choice of architects to a panel of career civil servants which will rate candidates in writing on the basis of published criteria. Final decisions remain the administrator's responsibility. *Wall Street Journal*, 11 June 1974, p. 7. For an account of the difficulties police administrators have in managing the discretion of policemen see James Q. Wilson, *Varieties of Police Behavior*, 64–65.

[36]Herbert Kaufman, *Administrative Feedback*, 10, writing about the Federal bureaucracy, describes the sources of "unplanned feedback" as follows: "Clientele or customer objections, the normal interactions of organization with each

filtering out of information damaging to certain "higher ups" or posing a threat to the successful functioning of the organization) is difficult to manage when there is much "unplanned feedback."

(9) Governmental organizations are much less likely than business ones to be permissive about petty corruption ("unofficial rewards"). For one thing, the governmental organization, which is not seeking to maximize profit, is willing to accept whatever loss of productivity may result from employees' disaffection at being closely watched. For another, no one in the organization has authority to permit "stealing from the government." Such petty corruption as exists within a governmental organization reflects a failure of management, not, as it might in a business organization, a cost deliberately incurred to avoid a still larger one.

(10) Insofar as government executives are motivated more by nonpecuniary values (for example, power, participation in large affairs, "serving in a good cause," etc.) than are business executives, they are probably less susceptible to pecuniary inducements to corruption. By the same token, they are probably *more* susceptible to nonpecuniary inducements such as "the good of the organization."[37]

(11) Because the opportunity to exercise wide discretion in important matters (that is, to wield power) normally comprises a larger part of the "package" of incentives offered to government executives than of that offered to business executives, close monitoring is probably more disruptive of management in government than in business.

(12) The existence of governmental organizations in which authority is highly fragmented presents an opportunity for a political entrepreneur to "purchase" pieces of authority (that is, to bribe or otherwise influence

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other, for example, staff agencies such as budget personnel, administrative management, audit, legal counsel, and public relations can be expected to turn up some information for line executives about the behavior of line subordinates. Competitive agencies may reveal a good deal about each other's field activities. Some individuals and organizations thrive on exposing shortcomings in public agencies employing sensational investigatory commissions. Subordinates themselves give clues about their own activities when they seek clarification of policy announcements, overlapping circles of acquaintances, membership in clubs and community groups, gossip and humor." See also, Ibid., 35, 41, 74.

[37]Barnard believed corrupt acts such as falsifying books "for the good of the organization" to be rare in industrial organizations "but undoubtedly have occurred not infrequently in political, governmental, and religious organizations." Chester I. Barnard, *The Functions of the Executive* (Cambridge: Harvard University Press, 1938), 277.

the possessors of authority to use it as the "purchaser" requires) and thus to create a highly integrated system of control (machine).

(13) Where the formal decentralization is not overcome by an informal centralization (that is, a machine) corruption is likely to be widespread, there being no mechanism capable of regulating it. "Prudential considerations restraining corruption," Brooks wrote early in the present century, "are apt to be much more keenly felt by a thoroughly organized machine than in cases where corruption is practiced by disorganized groups and individuals each seeking its own or his own advantage regardless of any common interest."[38]

(14) To the extent that there is a machine, that is, to the extent that the formal fragmentation of authority has been replaced by an informal centralization, the governmental organization will resemble the typical business organization. Its chief executive ("boss") will have reasonably secure tenure, a well-defined objective function (to maintain and enhance the organization), and the ability to exercise control.[39] He will invest heavily in the dependability of his principal subordinates (one "comes up through" a machine by demonstrating loyalty over time),[40] regulate their

[38]Robert C. Brooks, *Corruption*, 107. See also Raymond E. Wolfinger, who writes, *Politics of Progress*, 114: "John A. Gradiner's study of the notoriously corrupt city of Wincanton provides evidence for the proposition that decentralized political systems are more corruptible, because in a fragmented system there are fewer centralized forces and agencies to enforce honesty. The Wincanton political system is formally and informally fragmented; neither parties nor interest groups (including the criminal syndicate) exercise overall coordination. The ample partronage and outright graft in Wincanton are not used as a means of centralization. Indeed, governmental coordination clearly would not be in the interests of the private citizens there who benefit from corruption, nor of the officials who take bribes. Attempts by reformers to stop graft or patronage founder on the cities commission form of government, which is both the apotheosis of local governmental fragmentation and a hospitable environment for machine politics."

[39]Early in the present century an observer found New York state's formal administration "a drifting, amorphous mass, as helpless as a field of seaweed in the ocean" with power dispersed among nearly 170 units and "no head, no manager, no directing will *legally committed* to preside." At the same time the extralegal side—that is, the political parties— had "no loose ends, no irresponsible agents"—that is, "authority is clearly defined, obedience is punctiliously exacted; the hierarchy is closely interlinked, complete, effective." Quoted in Clifton K. Yearley, *The Money Machines* (Albany, NY: State University of New York Press, 1970), 254.

[40]Writing of James Marcus, a high official of the Lindsay administration who was convicted of bribery, Moscow remarks: "Marcus could not have happened in a

breadth of their discretion, maintain an incentive system that motivates machine workers (especially job patronage, legal fees, the purchase of insurance, construction contracts, etc.), and monitor them to check unauthorized corruption.

SOME DYNAMIC FACTORS

In the nature of the case it is impossible to know how much corruption there is at any given time. On theoretical grounds, however, it seems safe to say that for several decades corruption has been increasing in the United States and that it will continue to do so.

Adam Smith remarked that those who trade often with each other find that honesty is the best policy.[41] For traders, mutual adherence to rules constitutes a public good. If the traders are fewer than some critical number, each will find it to his advantage to abide by the rule and even to contribute to its enforcement upon others. But if they exceed the critical number, each may find it to his advantage to violate the rule, and none will voluntarily contribute to its enforcement because each will know that the situation will be essentially the same no matter what he does and that therefore it will pay him to be a "free rider."[42]

It is easy to point out instances in which honesty is still the best policy (the Chicago grain pit is one example and the Chicago political "machine" another). Nevertheless, it seems likely that for several decades the proportion of situations of the large-number type, in which dishonesty is likely to be the best (that is, most profitable) policy, has been increasing. Certainly there are relatively few executives who think of their organization as an entity (for example, a "house") that will exist in essentially the same environment for generations to come. This being so, there is

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Tammany administration, in which a man of loose morals might have been appointed, but not without full knowledge of his weaknesses." Warren Moscow, *The Last of the Big-Time Bosses* (Briarcliff Manor, NY: Stein & Day, 1971), 202–203.

[41]Quoted from Adam Smith's *Lectures* by Edwin Cannon in his introduction to *The Wealth of Nations* (New York: Modern Library, 1937), xxxii.

[42]For a general discussion see James M. Buchanan, "Ethical Rules, Expected Values, and Large Numbers," *Ethics* 76 (Oct. 1965): 1–13 and his further remarks on The Samaritan's Dilemma, in *Altruism, Morality and Economic Theory*, ed. Edmund F. Phelps (New York: Russell Sage, 1975).

now relatively little incentive to invest in acquiring reputation ("character," to use Smith's word), something which, unlike an "image," can only be had by consistent adherence to the rules over a long period of time.

A second factor tending to increase corruption in the United States has been the dramatic enlargement of the scope and scale of government, local, state, and national. Doubtless this enlargement has been to some extent a response to problems that have arisen because of the inability of traders who interact in large numbers and over short periods to maintain the rules that could be taken for granted when most traders interacted frequently and over long periods of time. As honesty gradually ceased to be the best policy, there were more demands that government offer incentives and disincentives to make it so once again. Moreover, the American passion for equality has always encouraged the replacement of the invisible hand of competition by the visible—and supposedly fairer—one of bureaucracy. (As Tocqueville remarked, "equality singularly facilitates, extends, and secures the influence of a central power" and every central power "worships uniformity [because] it relieves it from inquiry into an infinity of details.").[43] But uniformity was bound to leave many individuals dissatisfied—the infinity of details could not be ignored without cost—and thus to create pressures for special treatment.

Whatever their causes, every extension of government authority has created new opportunities and incentives for corruption. Over the long run this has helped to make it appear normal, tolerable, and even laudable.[44]

Had the growth of government been accompanied by the centralization of control and certain other structural changes, the increase in corruption would doubtless have been less. But the structural changes that occurred were mainly in the "wrong" direction: executive control has been reduced by merit system practices, recognition of public employee unions, civil rights legislation, laws requiring "citizen participation," "sunshine" laws, and the like. At the same time, the extralegal arrangements through which control was informally centralized in a "machine" which, sometimes at least, found it advantageous to moderate and limit corruption

[43] Alexis de Tocqueville, *Democracy in America* Vol. 2 (New York: Knopf, 1945), 295.

[44] Indeed, as has been frequently noted, corruption frequently serves socially desirable functions—for example, it may make a grossly unfair tax more nearly equitable, it may keep the government going in a time of hyperinflation, it may deter a policeman from beating an innocent person, etc.

have in most instances been wiped out or rendered less effectual by "good government" reforms.

A third factor, closely related to the second, has been the imposition upon business organizations of constraints much like those under which government operates. Public opinion (including often that of businessmen!) more or less obliges the business organization to subordinate the profit criterion to other objectives—ones which, as in government, are vague and conflicting. Like government organizations, businesses are more and more expected to tolerate, even to encourage, participation in their affairs by outsiders ("public interest groups") and to give the public details of dealings the success of which requires secrecy. Frequently courts and regulatory agencies play leading roles in making business decisions.[45]

If these are indeed the trends, one may well ponder what their outcomes will be. Presumably the culture that is being formed today contains a much smaller stock of dependability than did that formed a generation, or two, or three ago. Substitutes (for example, monitoring) can take the place of much dependability, but they will surely be relatively costly, and there is doubtless some "technological" limit to the amount of substitution that is feasible: it is hard to believe that complex social organizations can exist in the complete absence of dependability.[46] In any case there are more important questions. In a society in which *dishonesty* is the best policy, will not the individual feel contempt for himself and for his fellows, and will he not conclude—rightly perhaps—that he and they are "not worth saving"?

[45]Consider, for example, the rules by an administrative law judge of the National Labor Relations Board that a newspaper may not prohibit its reporters and editors from accepting gifts ("freebies") from news sources. *New York Times*, 17 Jan. 1975, p. 43, col. 4. Weidenbaum has written recently of a "second managerial revolution" involving a shift "from the professional management selected by the corporation's board of directors to the vast cadre of government regulators that influences and often controls the key decisions of the typical business firm." Murray L. Weidenbaum, *Government-Mandated Price Increases* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1975), 98.

[46]Cf. J. S. Mill: "There are countries in Europe, of first-rate industrial capabilities, where the most serious impediment to conducting business concerns on a large scale, is the rarity of persons who are supposed fit to be trusted with the receipt and expenditure of large sums of money." *Principles of Political Economy*, 5th ed. (London: J. W. Parker), 151. See also Edward C. Banfield, *The Moral Basis of a Backward Society* (Glencoe, IL: Free Press, 1958).

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