Partnering Against Corruption Initiative (PACI) Spring Community Meeting

World Economic Forum

Business, Anti-Corruption and Public Trust.

Address by

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Introduction

Ladies and gentlemen I am delighted to have this opportunity to meet with you. Transparency International and PACI have partnered for many years and together we have worked to demonstrate that constructive engagement between civil society and business can yield positive results on the stage of anti-corruption.

I also appreciate the invitation to meet with both the team from the World Economic Forum and with the World Bank’s Integrity Vice President, Leonard McCarthy. He leads the INT group at the Bank, which is making an exceptional contribution to economic development.

Every time a bribe is extorted, the self-respect and dignity of an individual is affronted. The persistent extortion of bribes, which prevails in many countries, has robbed millions of people, or threatens to rob millions of people, of their dignity. Corruption is, above all else, an issue of human rights.

Across the world, Transparency International is driven by individuals of great courage, professionalism and patriotism, who seek more decent lives for their fellow citizens. At the core of their approach is to seek whenever possible constructive dialogue with government and business to build a world free of corruption.
In the mid-1990s, TI’s founder Peter Eigen engaged mining company executives at the World Economic Forum and that initiative led in time to the creation of PACI, based largely on TI’s Business Principles for Countering Bribery. At the same time in the World Economic Forum we worked with U.N. officials to help promote the Global Compact.

In the late 1990s, I played a role in a constructive effort with leading banks to launch what came to be known as the Wolfsberg AML Principles. At the start of this century, Peter Eigen played a leading role in establishing the Extractive Industries Transparency Initiative and he continues to promote new initiatives of a similar kind for other industries.

So it is as a constructive friend that I address you here today. At the outset it is important to underscore that I fully appreciate that multinational enterprises constantly face pressures in many countries to pay bribes and provide kick-backs. Congratulations to all those corporations – no doubt many are represented here today – who resist the temptations. The scale of the problem is highlighted by a recent World Bank Enterprise Survey that found that one in three companies surveyed said they faced bribery demands. The pressures on honest companies to engage in rotten and criminal deals remain intense in many countries and still greater efforts are needed to counter such abuse.

Panama Papers

The leaks of the Panama Papers to the International Consortium of Investigative Journalists (ICIJ) and a small number of major newspapers is just the most recent development to underscore to the world that corruption thrives and is universal. The availability now of a core database from one Panamanian law firm of millions of documents will provide us with more stories of scandals, more investigations and more prosecutions. It will lead to more business regulations and more compliance costs for business.

To understand what this latest set of financial disclosures really mean you have to look far more widely than the nuts and bolts of the individual stories coming from Panama. You need to look beyond the new regulations and compliance demands that the U.K., U.S. and a few other governments will make as a result of pressures to curb illicit financial flows. The core issues that need to concern you the most are those that reach beyond compliance.

Yes, compliance costs will rise and the Panama Papers will keep on serving as a source of fresh material for anti-corruption groups to use to maintain pressures. Troves of additional leaks of information on the hundreds of thousands of offshore holding companies are likely in coming years from the ICIJ and its associated media organizations.
For the most part these holding companies exist to support the money laundering schemes of criminals – from organized crime, tax evasion, government and business corruption. But, as we move towards a greater era of transparency and enforcement, it is important that business confronts far more effectively the core issue of its reputation – without a good reputation you are in trouble and the perceptions of business trustworthiness, so entwined with perceptions of corruption, are a matter you all need to consider more seriously.

Public Trust

Corruption is the abuse of entrusted power and the Panama Papers are just one more contribution to a major international phenomenon: sharply diminishing public trust in the major institutions of government and business and those who run those institutions. Lack of public trust is equated to a large degree with corruption.

This perception is having a profound impact on the political environment in which your companies operate and the new and far more intense challenges that you all need to face on the anti-corruption stage. First let us understand perceptions of corruption. The Pew Research Center’s survey of 34 emerging and developing countries found that corruption was second only to crime on the list of major problems cited by the public – 73% of the public saw political corruption as a key issue. A recent TI survey of citizens in nine countries in the Middle East and North Africa found one-in-three people paid a bribe for a basic service, which represents the approximate equivalent of nearly 50 million people.xi

A European Commission report found that three-quarters of Europeans said that corruption was widespread, and more than half said the level had increased in recent years.xii And a Pew U.S. study last November found that just 19% of Americans say they trust their government always or most of the time, which is among the lowest levels in the past half-century. Cynicism about politics also is reflected in the public’s attitudes regarding money in politics. Fully 76% say that money has a greater influence on politics and elected officials today than in the past.xiii

Income Inequality

The low levels of trust, the widespread perceptions of high levels of corruption are due to no small degree to income inequality, which may well be the defining political issue of our time across the world. Many people believe that the government/business system is designed to enrich the few at the expense of the many and this is seen as corruption. Big enterprises are seen as a major part of the problem.

Average levels of income, health and education in the approximately 20 natural resource rich countries of sub-Saharan Africa are atrocious.xiv In some of these resource-wealthy countries the levels of child mortality are the lowest in the world. Why? Because a tiny elite in each country has siphoned off staggering sums of cash received from major multinational corporations – the result has been scarce resources for health, education, sanitation and policing.

The outrageous corruption in countries such as Nigeria and Angola is facilitated by partnerships between major international corporations and senior politicians and public officials. Their transactions are opaque, their use of offshore corporations is widespread, and the resulting assets, thanks to many enablers in major financial centers and the largely welcoming environment provided by U.K., Swiss and U.S. authorities, have found safe havens in London, New York, Miami, Geneva and other such locations.

The exposure of grand corruption in state controlled enterprises – such as IMDB in Malaysia xv and Petrobras in Brazil xvi have unleashed powerful public protests and calls for justice, accountability and transparency. These vast public demonstrations are largely motivated by the conviction that the people holding the most powerful governmental and business positions have abused the public trust, enriched themselves and impoverished the broad
citizenry. The investigations of Petrobras not only involve domestic firms today, but many international corporations that traded with this enterprise, or banked the illicit funds pocketed by Petrobras officials and Brazilian politicians.

The rising popularity of extreme political parties in Greece, Britain, France, Spain and other European countries is largely due to the failure of post Great Recession economic policies to lift all boats – the wealthier have grown more prosperous, while average citizens are poorer in real terms than before 2008.

And in the United States, the rise of Donald Trump and Bernie Sanders is explicitly due to the vast gap in wealth and incomes that exists here today. As the Economic Policy Institute has noted: “had all workers’ wages risen in line with productivity, as they did in the three decades following World War II, an American earning around $50,000 today would instead be making close to $75,000. A hugely disproportionate share of economic gains from rising productivity is going to the top 1 percent and to corporate profits, instead of to ordinary workers—who are more productive and educated than ever. This rising inequality is largely the result of big corporations and the wealthy rewriting the rules of the economy to stack the deck in their favor. This has prevented the benefits of productivity growth from “trickling down” to reach most households.”

A recent report in The Financial Times noted that, “Globalization has been kind to CEOs and harsh on the average worker in all advanced economies.”

Top Pay and Average Pay

Part of the narrative relates to the soaring levels of senior executive pay in major corporations, which serves as a symbol of a corrupt system that perpetuates inequality and that results from the abuse of entrusted power for personal gain – in this case gain by top executives. My data to illustrate this is from Glassdoor Economic Research that noted that based on a survey of all Standard & Poors 500 companies the average CEO pay was $13.8 million per year, the average median worker pay was about $77,800, and the average ratio of CEO pay to median worker pay was 204. In other words, on average, CEOs earn around 204 times what his or her median worker earns.

Such a multiple is seen by many people as reflecting a fundamentally corrupt business culture that now is far too pervasive. Moreover, averages can be deceiving of course. For example, the CEO of Walmart, Douglas McMillon’s 2014 pay was $25.6 million, which was more than 1,100 times the average pay of a Walmart worker at $22,600. By the way, Forbes estimates the wealth of the six lead members of the Walton family, who control Walmart, at $149 billion – this is more than the total worth of the bottom 40% of the American people.

You will say that this is not corruption because there is nothing illegal here. My point to you is that the public at large believes that here in the U.S. and in many other countries the rules of the game, and often the law, have been reconfigured to allow what amounts to legalized corruption.

Our election laws in this country permit corporations to act as individuals and to provide campaigns with staggering amounts of cash – much of this goes unreported and you will not find it in corporate annual reports. Our laws with regard to the assets of offshore holding companies, not to mention no-questions-asked corporations that can be registered in many U.S. states from Delaware to South Dakota, facilitate business operations that cannot be viewed as serving the public interest, and which in many cases are corrupt.

In addition, people are understandably angered when they learn, for example, that at BP the chief executive was paid £14m for a year in which the company made record losses.” Or, to take another example, at J.P. Morgan Chase the CEO/chairman was given a significant pay rise by the board in a year when the firm paid absolute record fines running into billions of
dollars to the U.S. Justice Department for fraudulent activities. "The message from this bank is that paying giant fines for corrupt activities is just a cost of doing business. These kinds of actions are just additional elements in a picture of abuse of top executive corporate power.

**Business Integrity**

There was a time when business was concerned about such matters – when business leaders said the mission of their enterprises was to serve all stakeholders. There was a time when the most prominent businesses walked the integrity walk. Last week I was a breakfast with the CEO of Nestlé and he talked about how his vast firm is promoting the concept of “creating shared value” with society.

It sounds good. Nestlé may be the exceptional good guy. But, in today’s world such rhetoric seems to have a hollow ring. A couple of decades ago CEOs started to focus on just one stakeholder - the shareholder. Today, the focus of business, despite what executives say who are employed to work on corporate social responsibility, is on maximizing the returns, quarter-by-quarter for shareholders.

Sometimes, it seems that the purpose of the corporation is to serve just the top executives – we find them hand-picking the members of boards of directors and then opposing proposals at annual meetings, for example, that call for shareholders to have a say on pay. Earlier today, at the annual meeting of Goldman Sachs Group Inc., fully 30% of all shareholders in this leading bank voted against the recommendations of the board for major compensation packages for top executives (despite poor results).

Sometimes, in the U.S. in particular, it appears that top executives and activist investors, solely seeking relatively short-term corporate earnings growth, steer enterprises in ways that neither serve all shareholders let alone all stakeholders.

If you have any doubt about such perspectives, just watch the CNBC and Bloomberg TV channels, just listen to the hedge fund managers who take home pay of staggering sums, just watch the approaches of the private equity managers. The formula in business is cut costs, boost productivity and give senior executives a whopping bonus.

The result, for example, as Professor Robert Reich has pointed out is that: “the $26.7 billion distributed to Wall Street bankers in 2013 bonuses would have been enough to more than double the pay of every one of America’s 1,007,000 full-time minimum wage workers that year.”

And, to provide another example, in 2014 the CEO of Discovery Communications was paid $156 million – yes, 1,900 times the average pay of workers at his firm.

This narrow and myopic view is producing a backlash that business has, so far, failed to see. Business looks at corruption issues in terms of compliance and legal regulations, not comprehending that the decline in public trust in the establishment, including big firms, is due to forms of perceived corruption that are distinct from bribe-paying and quid pro quo under-the-table deals.

The power of the Panama Papers is that the revelations about individuals and firms cements a sense that the powerful and the wealthy enjoy impunity.

As Professor Reich notes in his book, “Saving Capitalism,” “Small wonder that confidence in the political institutions and actors continues to wane. In 1964, just 29 percent of voters believed that government was “run by a few big interests looking out for themselves.” But by 2013, that opinion had predominated, with 79 percent of Americans agreeing. …In 2006, 59 percent of Americans felt that corruption was widespread; by 2013, 79 percent of Americans felt that way.”
Excessive Business Influence

Business is seen to have far too much influence with politicians to the point where it privatizes public policy. It buys and corrupts politicians quietly. It deploys armies of influence-peddlers spending hundreds of millions of dollars to gain access to those at the helm of power. It uses expensive lawyers and other enablers to create offshore financial entities to avoid taxation. It pursues myriad schemes just this side of the law – and sometimes just the other side of the law – to create a world where income inequality has become the most politically destructive force of modern times.

Can you imagine a world where Donald Trump is President of the United States?

Can you imagine a world where UKIP in the UK succeeds with its Brexit campaign?

Can you imagine a world where France’s National Front and Marie LePen hold power?

We’ll, such a world is emerging because governments and big business are seen by the mass of our citizens as corrupt and because the leaders of business are largely silent on the major issues that I have highlighted.

There is some sort of denial within business when it comes to looking at these mega issues of economics and politics as relating to business corruption. The risk of such denial is that the political environment may change so forcefully that the business models that have served so well for decades may become redundant. The politicians who are exploiting the distrust and public perceptions of corruption, are, for example, opposed to globalization and open trade, which have been crucial forces for the growth of vast numbers of enterprises.

A New Enforcement Era

In the short-term, politicians and public prosecutors will combine to make life slightly more difficult. New regulations will be formulated and even more compliance costs will be imposed on your enterprises. In the short-term, a few more politicians and business people will go to prison and their prison sentences will be longer than previously was the case.

But there can come a time when the backlash is far, far harsher. We are seeing this in Brazil already. The head of the Odebrecht construction company has been jailed for 19 years for his firm’s complicity in bribery at Petrobras. That would never have happened had the judges and public prosecutors not become convinced that investigating grand corruption was something that the overwhelming mass of the population supported.

Civil society in Brazil and in a rising number of other countries have successfully mobilized citizens on a sustained basis and on a large scale to demonstrate in support of ending the era of impunity – ending systems that enable top public officials and their business associates to operate as if they are above the law.

Civil society is on the march in an increasing number of countries and creating calls for justice that are being heard across the globe. There are two kinds of reactions – negative and positive.

In some countries, such as Russia and Turkey and Egypt, there is a determined effort by the authorities to punish and intimidate civil society and the media and to ruthlessly crush all criticism and opposition. Too often, business is silent as these developments unfold. Too often
businessmen argue they must steer clear of politics – nobody believes them and their credibility falls further.

Let me say here that I commend World Bank President Jim Kim for stressing at the recent London anti-corruption summit how important it is to support and defend the anti-corruption voices in countries that are increasingly seek to silence them.xxvi

It would be good if you also spoke out against reducing civil society space and civil liberties – not just in developing nations but also in numerous advanced industrial and emerging market countries, from Hungary and Poland to Russia and Malaysia.

The other response – the positive response - was evident on May 12 in London when David Cameron hosted the first anti-corruption summit. A dozen heads of state issued national statements at that summit detailing new and enhanced policies to curb corruption. In sum, as the summit statement of principles stressed:

"Corruption should be exposed – ensuring that there is nowhere to hide; the corrupt should be pursued and punished and those who have suffered from corruption fully supported; corruption should be driven out – wherever it may exist."xxvii

Those are fine words, but will they make a difference?

Let me underscore a crucial point for your consideration. We are at the start of a new era in the anti-corruption cause.

The first era – now more than two-decades old - saw the establishment and growth of the anti-corruption civil society movement, a vast rise in research on the issue, sharply increasing media focus on the topic, the attention as a priority to good governance by official aid institutions, and a massive increases in regulation, law and compliance requirements.

The new era is the enforcement era.

The pledges have been made, governments have signed-on to all the conventions, business leaders have sworn to be compliant – now, we in civil society have to face the vast challenge of holding you to account, to see all who spoke now walk their talk, to see that the offshore havens for criminals are shut down, that the enablers of money laundering are prosecuted, that bribe-paying businessmen are jailed, that impunity is over.

**Business Actions**

The question for PACI and its members is: what concrete actions are you going to take as firms and advocates for business widely to demonstrate that you are walking the anti-corruption talk?

Actions must speak louder – much louder – than words because in a world of terrible income inequality the words alone of the one percent and big business do not have a real impact. Permit me to suggest that the time has come for the leaders of major companies to speak boldly and publicly about five issues – to start with:-

1. Will you publicly disagree with Donald Trump who has called the FCPA “a horrible law” and wants to roll it back?xxviii

2. Will you tell Putin in Russia and Erdogan in Turkey that the breakdown of the rule of law makes it possible for corruption to flourish, making business much more difficult and problematic?

3. Will you tell your auditors and lawyers to ensure that none of your affiliates and subsidiaries have offshore holding companies?

4. Perhaps you could consider that every single employee publicly stress to your shareholders that your company exists to serve all its stakeholders and society at large?

And, finally will you work to change the culture of your partners and employees ---
5. Will you ensure that every single employee of your company is given the TI Declaration Against Corruption which starts with the pledge: I will not pay a bribe and then “I will not seek bribes” and then concludes with giving your support to the statement that: “All forms of corruption must be ended to secure the basic rights of all people and ensure a world where everyone can live in dignity.”

Thank you.

Endnotes

i www.transparency.org

ii www.ptfund.org

iii http://www.transparency.org/whatwedo/publication/business_principles_for_countering_bribery

iv www.unglobalcompact.org

v www.wolfsberg-principles.com

vi www.eiti.org

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viii www.panamapapers.icij.org

ix https://panamapapers.icij.org/20160509-malefactors-criminals-offshore.html


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See Frank Vogl’s latest article on Donald Trump calling the FCPA “a horrible law” and demanding that it be rolled back – and the lack of a business response to this. http://www.theglobalist.com/trump-business-corruption-and-a-horrible-law/

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