

# **HIS 209/ECO 257/AAS 240: Corruption and the Global Economy in Historical Perspective**

**Fall 2020**

**Joseph E. Inikori (Professor)**

**Zoom, Wednesday 2.00-4.40 pm**

**Office Hours: Tuesday 10.00 am-12.00 noon, Zoom**

## **I Course Scope and Focus**

The economic, social, and political consequences of corruption (defined broadly to include the public and private sectors) have become a major global issue. Two recent titles aptly convey some sense of what is involved in the activities of the corrupt individuals: *Economic Gangsters: Corruption, Violence, and the Poverty of Nations* (2008), and *Financial Serial Killers: Inside the World of Wall Street Money Hustlers, Swindlers, and Con Men* (2010). The corrupt individuals organize their activities in networks that are truly global, including financial institutions spread across the globe, with some of the best accountants and lawyers in the world to handle the international accounting and legal complexities. While the consequences for long-run development are greatest in the developing economies, the adverse effects are felt throughout the global economy. Hence, in 2003, the United Nations instituted the United Nations Convention against Corruption (UNCC) to provide the instrument for a concerted global effort to combat corruption. This junior seminar offers students the opportunity to research and discuss the operation and consequences of widespread corruption in the global economy and the complex historical processes – economic, social, and political – which help to explain the phenomenon.

Corruption has been broadly defined as “the abuse of trust in the interest of private gain” (Roby Arya Brata, *Why Did Anticorruption Policy Fail?* 2014, page 11). This definition captures a variety of corrupt acts: 1) duping private individuals or organizations to rob them of their money or property is one form of “abuse of trust”; 2) the misappropriation of public funds by state officials (including bureaucrats and politicians) is another form of “abuse of trust”, in this case, abuse of public trust; 3) offering, accepting, or demanding bribe is also a form of “abuse of trust, which can happen in the public and private sectors.

The required course readings show the magnitude and complexity of the corrupt activities across the globe and over time. The narrative centers on nine individuals (in five countries, USA, Nigeria, Indonesia, China, Peru), operating as the masterminds, and their organized networks. The narrative also focuses on the societies within which the operations of the individuals and their organized networks were located at a given point in time — in particular, the socioeconomic and political institutions in those societies at the time. We study the individuals and their activities separately and comparatively over time and across countries and regions in the hope of discovering generalizable patterns.

One major problem in causality is to determine whether corruption contributes positively to economic development, and development ultimately reduces the incidence of corruption, or corruption impedes economic development. Analytically related to this problem is the issue of persistence: Why is it so difficult to root out corruption once it is deeply entrenched in a country's socioeconomic system? A long-run historical perspective may improve our understanding of these issues. The other problem is the role of the individuals. What can we learn from the character traits of the masterminds? Do some societies have a disproportionate number of individuals with corruption tendencies or do socioeconomic and political institutions in some societies at a given point in time permit the operations of individuals with corruption tendencies? Again, a long-run historical perspective and comparative study may offer some answer.

The course also focuses on the role of trans-national corporations that employ corruption (bribes given to state officials) to secure a competitive edge in their global operations. Other corporations of interest are global financial institutions located in the major financial cities of the globe (New York, London, and, particularly, Swiss banks) and offshore financial institutions. We are particularly interested in Swiss and offshore banks in their role as havens for corruptly acquired wealth. While these financial institutions encourage corruption by helping to hide corruptly acquired funds, they also make it difficult to investigate acts of corruption, hold the culprits accountable, and return the looted funds to the rightful owners — the people of the victim countries.

We begin with a discussion of the conceptual issues in the literature and proceed to a general discussion of the magnitude and nature of corruption in the selected countries across the globe, the contextual socioeconomic and political conditions, and the consequences for individuals, national economies, and the global economy. We move on to study and discuss the corrupt activities of selected individuals in our chosen countries — their personality traits, their times, their organized networks, the nature and scale of their operations, the consequences of their activities, and their comparison, one with the others, across time and country.

The discussions will be based, in part, on one general short-essay question (5-page essay) and one long essay (12-15 pages) on a chosen individual from among the selected individuals. Students will present their short essays to the class for discussion, revise them (if necessary) in the light of the discussions, and submit them to the professor for grading — **maximum mark, 30**. The following is the general short-essay question:

*Using the available historical evidence on corruption in the public and private sectors, show the relative empirical validity of the competing theoretical arguments on the causal connection between corruption and long-run socioeconomic development.*

**The essays will be presented and discussed in class on November 10, 2020; revised copies will be e-mailed to the professor for grading on November 15, 2020.**

Students will present to the class their study of the chosen individuals in two installments — their personality traits, their times, their organized networks, the nature and scale of their operations (**first installment**); the impact of their activities, and their comparison, one with the others, across time and country (**second installment**). The presentations will be made in two consecutive weeks, one week for the first installment, and the second week for the second installment. Students are expected to incorporate the benefits of the presentations and discussions in the production of the final drafts of their essays to be emailed to the professor for grading in the week following the last presentation and discussion (**November 30, 2020**) — **maximum mark, 60**. The following are the selected individuals:

**USA**

*Alphonse Capone*  
*Charles Ponzi*  
*Bernie Madoff*

**NIGERIA**

*General Sani Abacha*  
*James Onanefe Ibori*  
*Abubakar Atiku*

**INDONESIA**

*President Suharto*

**CHINA**

*Lai Changxing*

**PERU**

*Vladimiro Montesinos Torres*

The Zoom office hours are Tuesday, 10.00 am-12 noon; 8 slots of 15 minutes each (10-10.15, 10.15-10.30, 10.30-10.45, 10.45-11.00, 11.00-11.15, 11.15-11.30, 11.30-11.45, 11.45-12 noon). Each Wednesday, the professor will ask students who want to utilize the office hours for the week that follows to state their chosen slots. The professor is available during office hours to work closely with the students at every stage in the production of their essays. Working consistently with the professor may improve the quality of the essays considerably. Students are expected to attend all classes and do so punctually. We will keep a record of attendance. **The maximum mark for attendance and class discussion is 10.**

**II A Required Course Textbooks to be purchased by Students:**

- 1 Raymond Fisman and Edward Miguel, *Economic Gangsters: Corruption, Violence, and the Poverty of Nations* (Princeton: Princeton University Press, 2008).

- 2 Jonathan Eig, *Get Capone: The Secret Plot That Captured America's Most Wanted Gangster* (New York: Simon & Schuster, 2010).
- 3 Mark Pieth (ed.), *Recovering Stolen Assets* (New York: Peter Lang, 2008).
- 4 Tom Ajamie and Bruce Kelly, *Financial Serial Killers: Inside the World of Wall Street Money Hustlers, Swindlers, and Con Men* (New York: Skyhorse, 2010).

### **I I B Recommended Textbooks Placed on Library Print Reserve:**

- 5 Edward J. Balleisen, *Fraud: An American History from Barnum to Madoff* (Princeton: Princeton University Press, 2017).
- 6 Leonardo S. Borlini and Marco Arnone, *Corruption: Economic Analysis and International Law* (Cheltenham, UK, Northampton, MA, USA: Edward Elgar, 2014).
- 7 Adefolake O. Adeyeye, *Corporate Social Responsibility of Multinational Corporations in Developing Countries: Perspectives on Anti-Corruption* (Cambridge: Cambridge University Press, 2012).
- 8 Tamar Frankel, *The Ponzi Scheme Puzzle: A History and Analysis of Con Artists and Victims* (Oxford: Oxford University Press, 2012).
- 9 Bobby Arya Brata, *Why did Anticorruption policy Fail? A Study of Anticorruption Policy Implementation Failure in Indonesia* (Charlotte, NC: Information Age Publishing, 2014).
- 10 Bruce E. Baker and Barbara Hahn, *The Cotton Kings: Capitalism and Corruption in Turn-Of-The-Century New York and New Orleans* (New York: Oxford University Press, 2016).

### **I I I Course Outline**

#### **1 August 26, 2020:**

This opening class is devoted to a discussion of the course objectives and the mechanisms for achieving them, as laid out in the preceding pages. To help students have a well-focused reading of the course textbooks, this introductory class includes preliminary general comments on their main features. *To prepare for this class, students need to read closely the entire course syllabus.*

#### **2 September 2, 2020:**

*Issues in the conceptual literature on corruption:* Generally speaking, the theoretical literature contains two competing, logically plausible arguments on the causal connection between corruption and socioeconomic development. One logically plausible theoretical argument presents corruption as a positive factor in

socioeconomic development, while a competing theoretical argument views corruption logically as an impediment to socioeconomic development. We discuss these competing theoretical arguments in the second class of the course to lay the foundation for the historical investigation and empirical analysis in the rest of the course. To have the full complexity of the theoretical discussion, we introduce the generally observable fact that the incidence of corruption is much higher in developing countries than in the more developed countries. The following quotes may help focus our attention in the reading and discussion of the theoretical literature:

i) *Markets characterized by widespread corruption are . . . dominated by operators with the least entrepreneurial capabilities, who need to break the rules, illegally impose their will, use (or be used by) political power to avoid competition. These operators may be good at rent-seeking, while they seek resources and parasitic advantages, but are not entrepreneurs as such [Borlini and Arnone, 2014: 28].*

ii) *A set of rules common to all economic actors, and their enforcement, is an essential precondition for the functioning of competitive markets, with their outcomes of efficient distribution and utilization of resources and optimal individual choices [Borlini and Arnone, 2014: 27-28].*

iii) *the expected cost of bribery [to the bribe giver and the bribe taker] is ‘the probability of being caught times the probability of being convicted times the punishment levied’ [Borlini and Arnone, 2014: 24].*

### **Required Readings:**

i) Leonardo S. Borlini and Marco Arnone, *Corruption: Economic Analysis and International Law* (Cheltenham, UK, Northampton, MA, USA: Edward Elgar, 2014), pages 13-18.

ii) Mushtaq Husain Khan, “Corruption and Governance,” in Jomo K.S. and Ben Fine (editors), *The New Development Economics: After the Washington Consensus* (New York: Zed Books, 2006), pp. 200-221.

### **3 September 9 & 16, 2020:**

The problem of corruption in the United States of America from the 1920s to the present: To facilitate a focused discussion, we divide this long period into two — the 1920s; the 1980s to the present.

The 1920s constitute a major period in the history of corruption in the United States. For this period, the main focus is on: 1) corruption associated with the economics and politics of the Eighteenth Amendment which prohibited the sale and consumption of alcohol; 2) the rise of financial serial killers whose manipulation of stock prices contributed immensely to the stock market crash of 1929, leading to the Great Depression; 3) the rise of financial serial killers who operated large-scale fraudulent schemes which ruined hundreds and thousands of investors. The main characters for the period are Alphonse Capone and Charles Ponzi. Fraudulent schemes like the one

operated by the latter came to be known as Ponzi scheme. Our study of the period includes the socioeconomic and political institutions of the United States at the time, the main personalities involved, and the consequences. Among our several issues of interest is the effort of the Federal Government to “Get Capone”. Did President Herbert Hoover break the law in the process?

The period since the 1980s saw further manipulation of stock prices, mortgage fraud, and Ponzi schemes of unprecedented magnitude. The period also saw the involvement of US corporations in large-scale corruption at home and abroad. The main character for this period is Bernie Madoff.

**Required Readings:**

- i) Jonathan Eig, *Get Capone: The Secret Plot That Captured America’s Most Wanted Gangster* (New York: Simon & Schuster, 2010).
- ii) Tom Ajamie and Bruce Kelly, *Financial Serial Killers: Inside the World of Wall Street Money Hustlers, Swindlers, and Con Men* (New York: Skyhorse, 2010).
- iii) Tamar Frankel, *The Ponzi Scheme Puzzle: A History and Analysis of Con Artists and Victims* (Oxford: Oxford University Press, 2012), pages 3-56, 110-159.
- iv) Edward J. Balleisen, *Fraud: An American History from Barnum to Madoff* (Princeton: Princeton University Press, 2017), pp. 1-40, 353-383.

**4 September 23 & 30, 2020:**

The problem of corruption in Nigeria, largely associated with revenue from petroleum and natural gas. The revenue is collected and managed by the Federal and State Governments. Corruption in the country, therefore, involves the misappropriation of public funds by state officials (bureaucrats and politicians). The socioeconomic and political conditions to be studied include, among others, the role of ethnic politics in the context of the power structure created by British colonial rule. The role of transnational corporations and global financial institutions (particularly off-shore and Swiss banks) is critical. The main personalities are General Sani Abacha, James Onanefe Ibori, and Abubakar Atiku.

**Required Readings:**

- i) Joseph E. Inikori, “Ethnicity and Economic Development in Sub-Saharan Africa: A Case Study of Nigeria,” Paper Presented at the Conference, ‘New Frontiers in African Economic History,’ The Graduate Institute, Geneva, Switzerland, September 9-13, 2012;
- ii) US Senate Report on Foreign Corruption, pp. 174-243, Abubakar Case Study: (<http://www.scribd.com/doc/26403239/Keeping-Foreign-Corruption-Out-of-United-States-Four-Case-Histories>)
- iii) Collection of Media Reports and Written Pieces on Corruption in Nigeria
- iv) Mark Pieth (ed.), *Recovering Stolen Assets* (New York: Peter Lang, 2008), pp. 29-37, 41-61, 63-78.

**5      October 7, 2020:**

The problem of corruption in Indonesia centered on private companies bribing state officials as the most effective way to conduct business: Two important aspects of the Indonesia case study should be emphasized. First, the case of a fraudulent company, Bre-X Minerals Ltd, floated in Canada for the mining of gold in Indonesia, using Indonesia to defraud global investors. Second, despite the well-known large-scale corruption in Suharto's Indonesia, the economy sustained an annual growth rate of 6 percent for the 32 years of Suharto's rule (from 1967). Suharto's Indonesia raises important questions concerning causality between corruption and socioeconomic development. The main personalities in the Indonesia case are President Suharto and the members of his family, and David Walsh of the Bre-X Minerals Ltd.

**Required Readings:**

- i) Raymond Fisman and Edward Miguel, *Economic Gangsters: Corruption, Violence, and the Poverty of Nations* (Princeton: Princeton University Press, 2008), pp. 22-52;
- ii) Tom Ajamie and Bruce Kelly, *Financial Serial Killers: Inside the World of Wall Street Money Hustlers, Swindlers, and Con Men* (New York: Skyhorse, 2010), pp. 49-65 (David Walsh's Bre-X Minerals Ltd).
- iii) Bobby Arya Brata, *Why did Anticorruption policy Fail? A Study of Anticorruption Policy Implementation Failure in Indonesia* (Charlotte, NC: Information Age Publishing, 2014) pages 1-45.

**6      October 14, 2020:**

The problem of corruption in China: Corruption among state and party officials is widespread in China; trans-national corporations doing business in the country know corruption is an important part of their business. We take the smuggling enterprise of Lai Changxing to illustrate the scale and complexity of corruption in China. The main personality in the narrative, of course, is Lai Changxing.

**Required Reading:**

- i) Raymond Fisman and Edward Miguel, *Economic Gangsters: Corruption, Violence, and the Poverty of Nations* (Princeton: Princeton University Press, 2008), pp. 53-73; (comparison with the United States, pp. 73-75).

**7      October 21, 2020:**

The problem of corruption in Peru: The case of Peru contains several of the elements that generally characterized the scale and nature of corruption in Latin America from the post-war Import Substitution Industrialization (ISI) era (1950s to 1980s) to the Neo-Liberalization period from the 1990s. The details come from the administration of President Alberto Fujimori (1990-2000), and they center on one man, President Fujimori's main adviser, Vladimiro Montesinos Torres, who, like US President Nixon, recorded videos of his corruption operations, videos that became known as "vladivideos". The details show a chain of financial institutions across the globe (especially in Switzerland, the United States, and Cayman Islands) where Peruvian

economic gangsters lodged assets looted from Peru. The main personalities in the narrative are Vladimiro Montesinos Torres and Alberto Fujimori.

**Required Readings:**

- i) Guillermo Jorge, “The Peruvian Efforts to Recover Proceeds from Montesinos’ Criminal Network of Corruption,”  
[http://www.baselgovernance.org/fileadmin/docs/pdfs/Bali/Guillermo\\_Jorge.pdf](http://www.baselgovernance.org/fileadmin/docs/pdfs/Bali/Guillermo_Jorge.pdf)
- ii) Mark Pieth (ed.), *Recovering Stolen Assets* (New York: Peter Lang, 2008), pp. 111-132. The paper in this section of the edited volume is by the same author (Guillermo Jorge) as that of item (i) above; the latter is more detailed.

**8 October 28, 2020:**

Multinational Corporations and the Global incidence of corruption.

**Required Readings:**

- i) Mark Pieth (ed.), *Recovering Stolen Assets* (New York: Peter Lang, 2008), pp. 3-37, 79-110, 135-192, 219-230.
- ii) Adefolake O. Adeyeye, *Corporate Social Responsibility of Multinational Corporations in Developing Countries: Perspectives on Anti-Corruption* (Cambridge: Cambridge University Press, 2012), pages 1-4, 41-74.
- iii) *Bribe Payers Index 2011* (Transparency International: the coalition against corruption, 2011).

**9 November 4, 2020:**

Presentation and discussion of short (5-page) essays.

**10 November 11, 2020:**

Presentation and discussion of long essays (12-15 pages), **first installment.**

**11 November 18, 2020:**

Presentation and discussion of long essays (12-15 pages), **second installment.**

**Thanksgiving Recess (November 25, noon-27, 2020)**

**12 December 2, 2020:**

Concluding summary discussion.