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The Key Role of Ethical Business in contributing to a reconciled and healed society
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Corruption as a symptom of a diseased social system

In everyday language, “corruption” means decision-making in public office in return for payment (mainly, although not exclusively), or such an influence on public decisions which is advantageous for the payer. In the common understanding, corruption has the same meaning as “bribery”, in other words, taking through a hidden payment control of something which is meant to be impartial and independent. “Corruption” derives directly from the Latin *corrumpere* - to break, to spoil. The French dictionary *Petit Robert* specifies matters further: “corruption is the breaking down of a substance”, whereas the English *Webster New Dictionary* provides the following synonyms: contamination, spoiling, destruction.

Reference to the etymological roots of “corruption” helps to grasp the wider meaning of the concept. In consequence, corruption appears as only one of many modalities potentially spoiling or destroying social institutions and the fabric of society.

This piece looks at corruption as one of the most serious threats to the modern, liberal, free-market order. The first part is devoted to the analysis of concepts and dwells on the different forms of corruption and their meaning. The second part looks at the social system free-market liberalism as composed of various spheres of human activity and discusses the mutual relations of these spheres. The third part presents the threats and cracks which are becoming increasingly visible within the free-market liberal system, and which are a result of internal tensions.

1. Corruption as a form of treason or betrayal

Corruption, in moral terms, is first and foremost a betrayal i.e. an abuse of trust. Betrayal can be simply an internal attitude, without tangible material symptoms. This is the case when the betrayer temporarily or permanently severs the loyalty and trust which had, up until now, tied him to the betrayed party. Everyday life is so full of such situations that they seem to require no further description here. For betrayal to take the form of corruption, a third actor is necessary in this drama: the paying client. The payee is induced by the payment to break rules of loyalty and trust that link him to others. By doing so he acts on behalf of the payer and reaps the corresponding, usually material, benefits. Such an induced betrayal has a clear external cause: the temptation of payment. Looking at it this way, the figure of Judas appears as a prototype not only of betrayal, but also of corruption.

Betrayal, just like corruption, may only appear where there is room for trust and loyalty. The fact that under most legal systems attempted escape from slavery or prison is not a punishable offence in itself, shows that it is not a betrayal, as loyalty to the prison is not expected from the prisoner. Neither is he granted any trust. The legendary "word of honour" is a completely different case. Being part of the ethos of chivalry (called also sometimes aristocratic ethos), it sets up an unbreakable tie of loyalty and trust, expected to resist any external circumstances. If betrayal or treason is the breaking of oath or loyalty, corruption is treason in return for material gain.

Trust signifies that each party to a relation is certain that, in the course of its activities, the other party will act in its best interest. Trust extends beyond only financial interests and has a wider meaning. This attitude will hold, whatever the circumstances under which the person must act. In other words, trust is a certainty that my interests (or our common interests), in the wider sense, will be protected and developed by the one that I trust. Trust, therefore, is inseparably tied to a certain way of looking at the future: if I trust, I do not take into account any risk associated with a potential betrayal.

Trust is one of the basic components of every type of social tie, for instance, co-munity, co-operation, co-llaboration both in the private sphere (friendship, family), as well as the political or economic sphere. However, trust is not always a perfectly symmetrical and returnable relationship. For instance, parents' trust towards their children may be stronger or weaker than that of the children towards the parents. A similar lack of symmetry can be seen between business partners or neighbours. Trust usually concerns a certain range of affairs, e.g. trust in someone's professional competence, judgement or taste. Very rarely is it complete and unreserved, as for instance, in a true and deep marital relationship. In the social realm, complete and lasting one-sided trust is seldom the case. This is however the way in which the God of the Christians entrusts each person, regardless of the individual's behaviour¹.

Human trust, as a particular social fact, is very difficult to measure and highly unstable over time. Common knowledge tells us that trust takes years to grow, but can disappear within a few seconds. Over the last twenty years, scholarly interest in the subject of trust has grown considerably. It has become the subject of much research and analysis, by sociologists, political scientists, as well as lawyers and economists. Despite the difficulties involved in grasping trust as a phenomenon, its role has been recognised by

¹ An interesting, although not entirely convincing analysis of theological corruption is proposed by Shenone, Osvaldo & Gregg, Samuel, *A Theory of Corruption*, Acton Institute, Grand Rapids, 2003, 53 p

many sociologists and economists attempting to unravel the mysteries of money.²

Trust can be classified into two types: interpersonal trust, the trust between individuals, and institutional trust, trust in institutions or even in an entire institutional system. Undoubtedly, trust in a given institutional order is of a different nature than trust in family, a clan or neighbours. The first case concerns an identification with a certain organizational setting e.g. through the ages this has been personified by a prince, a king or an emperor. In the second case, it relates to people or certain tangible management rules in small groups. In consequence, trust within an enterprise, depending on its size, may be either institutional trust (in the case of a large enterprise), or interpersonal trust in a group (in the case of a small or medium enterprise).

In each of the above-mentioned configurations of trust, there is a place for betrayal as a certain internal attitude. For a potential case of betrayal to become one of corruption, one final condition must be fulfilled. The breach of loyalty must be of sufficient interest to a third party, for that party to be prepared to pay for it.

2. Spheres of activity in the liberal system

Following Tönnies' classic distinction between *Gemeinschaft* and *Gesellschaft*, between a community and a society, elements of which can be found in the Popperian distinction between the "open society" and the "closed society", it is worth noticing the forms taken on by trust in each of these societies.

In a "closed society", relationships are long-term, and these are mainly interpersonal relationships. Such is trust itself, or the lack of it. Betrayal or the lack of loyalty are relatively easy to discover and to punish. As the society is closed, and the relationships are long-term, a breach of trust in return for money only becomes worthwhile when the perpetrator is finally ready to leave the particular society, after carrying out the deed. In any other case, by committing an act of betrayal or corruption, the perpetrator is, firstly, risking punishment, and secondly, his opportunities to make use of the proceeds will be restricted by the curiosity of his fellows.

² A classic work in this area is: *Trust: Making and Breaking Cooperative Relations*, Gambetta, Diego, editor, Oxford, Basil, Blackwell, 1988; Fukuyama, Francis, *Trust – the social virtues and the creation of prosperity*, Penguin Books, London, 1995, 460 p; de Foucauld, Jean-Baptiste & Piveteau, Denis, *Une société en quête de sens*, Paris, Odile Jacob, 1995, 300p; Sprenger, Reinhard K., *Vertrauen führt*, Frankfurt, Campus Verlag, 2004; Dembinski, Paul H. & Perritaz, Christophe "The Break-up of Money" in *Finance & the Common Good/Bien Commun*, no 4, summer 2000, pp 6-13.

In an "open" social system, which we can simply call a society (as does Tönnies), interpersonal relations are more varied and, to a large extent, anonymous. This state of affairs has four important consequences:

- Firstly, certain relationships are short-term, for instance, transactions of exchange where contractors trade - are in touch one with the other - only for the instant of exchange. These transactions are purely technical; the identity of each of the contractors is something entirely secondary.
- Secondly, in such transacting societies, diffuse identities increase even further anonymity among members. Personal identities disappear beneath the cover of "masks" connected with the individual's function or functions in society.
- Thirdly, the content of the anonymous relationships and transactions is less important than the form and rules, for the sake of which they are carried out.
- Fourth and finally, institutional trust - trust in the form and working of institutions - becomes the condition necessary for the development and survival of a society in which social cohesion has been replaced by technical performance.³

Within contemporary open societies, which are based largely on transactions, many levels of trust and loyalty coexist: the level of trust in institutions and the rules of play, the level of trust in the group or the micro-society (the one or many to which each individual belongs), and finally the level of interpersonal trust. The multiplicity of levels in which trust is an issue multiplies the potential for conflicts of loyalty. The more complicated the society, and the more functions - or masks - which can be carried out by an individual, the more possibilities there are for potential influence or pressure. In other words, the working of such a social fabric depends on how clear, shared and transparent is the hierarchy between the different levels of trust. If this condition is not fulfilled, the society may become prone to corruption; all the more so because money plays in such society an increased role, and its possession provides great opportunities, while anonymity reduces the risk of discovery and punishment of betrayal, although it does not rule it out entirely⁴.

The socio-economic system of free-market liberalism is based on a coexistence of three different spheres of activity: the public or political sphere, the transactional sphere and the private sphere.

³ Walzer, Michael, *Spheres of Justice*, New York, Basic Books, 1983; Dembinski, Paul H. "From Crack in the Liberal Edifice to the Rediscovery of the Common Good" in *Markets and Morality*, vol. 7, no 2, 2004 pp 423-439

⁴ *La corruption Internationale*, Colloque du Nouvel Observateur, Paris, Maisonneuve & Larose, 1999, 130p.

The private sphere is the mainstay of his personal identity, development and self-fulfilment. There, protected by ownership, from the threats of other citizens or from the state, each individual can enjoy moments of true happiness at the hearth and home. This is made possible by activities in the public sphere and the transactional sphere. The private sphere is where family ties and friendships are developed, where religious practices and charity work can take place. This is where a person is born and dies, the source of their values and happiness.

The premise for the existence of the free-market liberal system is to develop the private sphere and to protect it from external appetites. From a doctrinal point of view, it means that this system is based on very clear anthropological postulates. The two remaining spheres are, in a certain sense, subservient to the sphere of private life.

The rationale behind the political sphere, known sometimes as the “architectural” sphere, in which the overall rules of how to live together are designed and implemented, comes from the need to coexist in society.

The founding fathers of liberal principles, Hobbes and Locke, clearly saw the need for minimal rules to allow for a peaceful coexistence and a social order to be maintained. Without these, the private sphere would be in constant danger from external aggression. The entire organisation of the system is made of a subtly designed construct of checks and balances: democracy, justice and the free market. Such checks and balances are the best security against the appearance of a force, be it a dictator or tyrant, which could be tempted to destroy or conquer the private spheres of his fellows-citizens. In other words, the purpose of everyone operating in the public or political sphere is to establish and enforce those rules which guarantee the permanence of the private sphere.

Within the structure of free-market liberalism, the transactional sphere has a position directly between the political sphere, which establishes norms and ensures their implementation, and the private sphere, which is the final recipient of any wealth produced. The role of the transactional sphere is simply to enable the most efficient use of available means, in order to produce the greatest amount of goods and riches demanded by the private sphere. In the name of checks and balances, the rules of operating within the transactional sphere are based on the principle of free competition, which, in theory, make it impossible for anyone to take a dominant role. The idea of the free market derives from that particular concept.

The coexistence of three separate but interlinked spheres of activity provides the stage for all citizens to play three different functions or roles. As a citizen, in the political sphere, he is expected to have his say in caring for the coherent functioning of the entire system, as well as working out such rules of play that would guarantee the autonomy of each sphere. These

would give the whole of society the optimum possible living conditions within the private sphere. As an actor in the transactional sphere, he should take care to ensure that he and his family have the best possible access to resources. Finally, as a member of his family, clan or community, he should take care to guarantee that each of his kin have the conditions necessary for happiness and personal development.

Each of these three spheres relies on different forms of trust: in the private sphere it is a clear trust and interpersonal loyalty (in certain cases this is founded on common family or local traditions). In the transactional sphere loyalty is related to the rules of play established for all, whereas in the public sphere loyalty is directed towards the idea of the "common good". In each of the three spheres discussed, the points of reference for trust and loyalty are different.

Whether or not the system of free-market liberalism achieves its desired results depends ultimately on the cohesion between the principles of activity which each of these spheres imposes on the functions connected to it. The cohesion of principles is not simply a question of theory or abstract doctrine, whereby an equilibrium, once achieved, will continue forever. Rather, it is a matter of an equilibrium independently worked out by each individual, and affirmed each day by his behaviour. Ultimately, the problem is that of the existence of overall moral principles, without which one person cannot carry out, in a coherent, way all of his functions. If such overall principles are lacking, no sustainable equilibrium can be achieved, as functions in one sphere happen more often than not to collide with those in other spheres. Only temporary betrayal of one set of "local" principles, i.e. connected with a given sphere or function, in favour of another set can decrease the level of tension. However, this quasi-equilibrium is, by definition, unstable.

If a member of such a multi-sphere society fails to work out a coherent hierarchy of principles and acts according to them, or if such behavior does not bear the expected material fruits, the individual compelled to act under a variety of masks loses their trust in the purpose of the whole system. This, in turn, may threaten the permanence of the multi-sphere system.⁵

At the level of the individual, an incoherence of "local" principles or the impossibility of reconciling them with each other can lead to four typical reactions:

- (a) the individual abandons his activities in one or two spheres, instead concentrating exclusively on the "local" principles of the remaining

⁵ Médard, Jean-François, "La corruption politique et administrative et les différenciations du public et du privé; une perspective comparative" in *La corruption - l'envers des droits de l'homme*, Borghi, Marco & Meyer-Bisch, Patrice, editors, Fribourg, Editions Universitaires, 1995, pp 37-47.

sphere. As a consequence, society disintegrates into specialised groups, each acting solely within a single sphere. The individuals with such a limited sphere of activity cease to notice the general lack of coherence, as it does not harm their everyday activities. However, such an evolution deprives - in the medium run - the whole system of its fundamental source of its general coherence. This further underlines the specialist and "local" nature of the role of each sphere, which in the middle-term may turn out to have tragic results for the whole system;

- (b) the second type of reaction against this impossibility of reconciling the "local" principles of the various spheres under a unified moral core is a growing dualism of behaviour. This manifests itself in a loss of a moral sense or of a feeling of responsibility in particular situations, through an unthinking yielding to orders and pressure. Such a state of affairs may lead to the appearance of psychological problems (in the wider sense), "civic" schizophrenia, widening depression or cases of "burn out", and thereby a growing need for psychological and psychiatric advice;
- (c) an individual or a group faced with a discrepancy of "local" principles may be tempted by the instrumentalisation of one sphere in favour of another. The reaction of this kind simply means the betrayal of the principles of one sphere in favour of benefits achieved in another sphere. Typical corruption is the most obvious, though not the only example of such instrumentalising behaviour;
- (d) the fourth possibility is the widening of the boundaries of one sphere in such a way as to *de facto* marginalize the role of the other spheres as part of the whole system. In this way, one set of principles can "conquer" the remaining ones, by absorbing their scope of influence.

The above-described four reactions to a lack of coherence of the "local" or sphere-specific operating principles complement, rather than exclude each other. Broadly speaking, the attitudes described here are a manifestation of the same process: under hard to reconcile multiple pressures, members of society gradually lose trust (or fail to understand) in the general design of the multi-sphere free-market liberalism. The latter is supposed to provide the necessary framework for the harmonious cooperation of the three separate, highly specialized but complementary, spheres of activity. To the fathers of free-market liberalism, the necessity of the existence of a coherent overall umbrella of moral values, as well as an equilibrium between spheres, was so obvious, that they paid them relatively little attention. Nowadays, when moral matters are denied almost any place in public life, the need for a pedestal of values shared by all three spheres - as the survival condition for the system as a whole - comes remorselessly into view⁶. The

⁶ This problem is closely analysed in the final part of the book by Father Maciej Zieba, *Papierze i Kapitalizm* (Popes and Capitalism),

problem is both local, for instance on a EU level, as well as global, in relation to other cultures or traditions of faith and politics.

3. Three examples of a threat to the system

The final part presents three examples taken from everyday life of threat to the coherence of the system. They demonstrate situations in which actors within the free-market liberal system are entangled in the discrepancies between the principles of activity governing the various spheres of social life. The growing number of such situations, together with unclear behaviour, weakens the level of trust granted to the whole system, which then further increases the number of cases of divergent behaviour. Once such a vicious circle is set in motion, it may shake the social and philosophical foundations of the entire system, thereby threatening its order and weakening the chances of sustaining it.

Within the political / public sphere, the actions of the individual citizen have the purpose of creating a legal and institutional framework, which would allow for the achievement of the greatest happiness for the greatest number of society's members. Within the transactional sphere, the governing principle is the search by anyone for the maximum end result. Within the private sphere, on the other hand, the governing principle - in the somewhat idealistic perspective - is the good of close friends and family, which can be called the "local common good".

A conflict of interests

A conflict of interests exists when an individual who is held in trust, and is under obligation to be loyal to his client or partner, betrays their interests, in order to receive material benefits. In other words, in the case of a conflict of interests, we are dealing with betrayal for material benefits, i.e. corruption.

Situations presenting a potential conflict of interests are very common in today's world, and they have their roots mainly in the transactional sphere. Many services are carried out on the basis of trust (for instance by a doctor, by the owner of a garage or an asset manager) and expected loyalty. Nevertheless, a doctor may prescribe unnecessary treatment or medical tests, simply because he is a shareholder in a particular company; the owner of a garage, depending on his interests, may find it more profitable to recommend replacing a bumper rather than straightening out the existing one; and it is easier for a banker to sell the investment funds of his own bank, rather than those managed by his competitor, even though those ones may be more suited to the needs of the client. Nevertheless, the existence of a potential temptation or conflict of interests does not necessarily mean that a betrayal of loyalty to the client or the partner has actually taken place.

Krakow, Znak, 230 str.; in French *Les Papes et le capitalisme*, Editions St. Augustin, St Maurice, 2004.

The avoidance of betrayal depends, firstly, on awareness of the problem; and secondly, on moral rules of behaviour which roots transcend the "local" transactional sphere. The awareness of the person choosing one or other course of action, that he is in a situation of potential conflict of loyalty, means that he understands the divergent interests and is capable of separating the influence of the "third party" (the management board, the banker's employer or the dealer of spare parts), from the interests of the client or patient. The second condition preventing conflict is to reach beyond the principles of the transactional sphere, and to apply the moral principles of interpersonal trust, even if disloyalty would be more profitable. However, the principle of interpersonal loyalty and trust is not part of the transactional world, but rather that of the private sphere⁷.

The systematic attempt to shift the ties of trust from the interpersonal level to the institutional level, as seen these days, e.g. advertisements asking us to "trust our phone, our television, or our hairdressing salon", have the effect of a loosening of ties of interpersonal trust (or perhaps they are aiming to do this). As a result, the bank or garage employee or doctor employed by a hospital, is set free from a feeling of personal loyalty towards the client as a person. By eliminating the inter-personal dimension, by making the relation cold, rule-based and professional trust becomes the problem managed by a face-less institution, which mechanically defines its boundaries using the wording of an ever thicker and less readable contract. By ceasing to be a problem of interpersonal trust, a lack of loyalty becomes a legal problem.

Corruption of market principles in business

Activity in the transactional sphere is clearly geared towards maximizing results, at the same time as abiding by the formal regulations. Any kinds of moves against the competition - entry barriers, making access to the market difficult for competitors, aiming to achieve crypto-monopolistic positions, industrial espionage, etc. - have become "normal" aspects of business nowadays. However, they are at odds with the spirit of the system, with the spirit of the legislation.

The legal framework of the market order, as established within the political sphere, results from the desire to maintain a market which is open to competition; these wishes are supported by doctrine. However, when it comes down to the details, this spirit is broken by the letter of the law and by the behaviour of particular businesses; via lobbying activity as well as cases of real corruption. In such cases, the divergence of principles between the two spheres is obvious.

⁷ *Enron and the World of Finance: a Case Study in Ethics*, Dembinski, P., Lager, C., Cornford, A, Bonvin J-M, editors; London, Palgrave, 2005, 250 p.

The issue of Corporate Social Responsibility in business

Nowadays, much is said about “corporate social responsibility”. This is a clear issue of adding strands of “the common good” to the principles governing the transactional sphere while the common good is already characteristic at the core political or public sphere. The business community reacts to such suggestions without enthusiasm, and generally submit to them as a result of pressure. They agree to introduce social principles, after pressure not only from shareholders, but also from the financial markets, who may react not only to profits; under pressure from consumers, who may boycott a particular company; and finally, under pressure from state regulation, which could, for instance, impose a tax on environmental damage, i.e. it adds additional elements to its cost calculations.

Without exaggerating the final effect of today's attempts, CSR, as seen from the civic and public angle, aims to reduce the level of alienation between the principles of the transactional and public spheres. Up until now, the reply from companies, the entities operating within the transactional sphere, has been one: we can widen the parameters of our decision-making process, by adding additional elements, such as an environmental tax; however we cannot change the basic decision-making principles themselves, as they are specific to this sphere. This demonstrates the limits of integration between the rules governing the transactional sphere and those governing the public sphere.

It is not difficult to list further examples of discrepancies between sets of “local” operating rules. All these examples show firstly, that the current specialization of particular rules multiplies the points of their mutual tension and incompatibility. Secondly, the problem is only superficially solved by the current multiplication of legal norms, regulations, rulebooks and codes. The growing level of proceduralization in all areas of life does not solve the underlying conflicts, it simply distracts us from them. Thirdly and finally, such a situation places the multifunctional individual under huge moral pressure, as he is forced to operate according to ever more incoherent principles. As a result, trust, being the foundation of the entire system, is gradually replaced by suspicion spreading in all directions.

This state of affairs gives rise to two consequences: firstly, an ever-growing role for legal forms and control, and secondly, the increasing loss of trust in free-market liberalism as a systemic solution. Corruption, in the narrow sense, has become the most visible, but sadly not the only symptom of this situation.