

CORRUPTION IN PUBLIC OFFICE IN IRELAND: POLICY DESIGN AS A COUNTERMEASURE

*Colm McCarthy**

1. Introduction

In common with most Northern and Western European countries, Ireland had until recently reassured itself that political corruption was not widespread, an aberration that could adequately be tackled through the detection and punishment of what was presumed to be infrequent wrongdoing. But the scale of the revelations from the McCracken, Flood and Moriarty tribunals¹ has occasioned a sharp rise in media and public sensitivity to the issue of political corruption in Ireland. Internationally, Ireland has dropped rapidly down the Transparency International Index of perceived political probity.

The extensive international literature on the economics of political corruption is focused in part on the design of the political and administrative system, arguing that some structural features make decision-making particularly susceptible to corruption by appointed or elected public officials. The features in question frequently revolve around carelessly designed incentive mechanisms and consequent abuses of principal-agent relationships. Specifically, systems which place in the hands of officials the discretion to arbitrarily create or destroy private economic value are more likely, holding constant the prevailing level of public virtue, to stimulate corruption. Thus an anti-corruption programme can go beyond hand-wringing and an exclusive reliance on *post factum* investigation and punishment. It can also re-engineer the incentive structure of

* Colm McCarthy is M.D. of DKM Economic Consultants. The author would like to thank, with the usual disclaimer, Terry Corcoran, John Fitz Gerald, John Lawlor, Danny McCoy, Conall MacCoille, Pat Massey and Feargus O Raghallaigh for helpful comments on an earlier draft.

¹ These are a series of eponymous Tribunals of Inquiry whose Chairpersons are investigating allegations of payments to politicians and public representatives.

participants in collective decision-making, with the intention of minimising the incidence of opportunity for corrupt behaviour.

While the law criminalises corruption as undesirable in itself, the economics literature goes further and suggests that a perception of widespread corruption, even if exaggerated, can have adverse economic impacts on items such as inflows of foreign direct investment. Ireland now has a problem in this regard even if a sanguine view about the incidence of actual corruption turns out to be justified.

The proclivity of political, business and bureaucratic actors to exploit opportunities for corruption has been extensively studied by political scientists and sociologists, and the recent monograph by Collins and O'Shea (2000) contains an instructive review of Irish experience in the context of this literature. There has, however, been little discussion of the extent to which design features of the Irish economic policy system make it prone to corruption, or at least to a heightened perception of corruptibility. As a result, the Irish response to revelations of corruption has, at the policy level, been largely of the hand-wringing variety.

Much of the impetus for anti-corruption programmes has come from the World Bank and the International Monetary Fund, whose programmes in developing countries have experienced diminished effectiveness because of corrupt practices. The OECD and the Council of Europe have also been active, and these multinational institutions have been the principal sponsors of economic research in the area. The next section reviews selectively the international literature on the economics of corruption. Section 3 discusses recent trends in the measured perception of corruption in Ireland, and Section 4 examines such proposals for reform as have been made. The concluding sections recommend that a number of areas of public policy could usefully be redesigned with the twin intentions of minimising the potential for the corruption of public decision-making and of reducing perceptions of corruptibility.

2. Economists on Political Corruption

There is an extensive theoretical and empirical literature on the economics of corruption, as well as numerous studies from the political science and sociology perspectives. Corruption is not confined to the public sector, as is clear from recent corporate scandals in the United States and elsewhere. But economic research has focused mainly on political and bureaucratic corruption, in recognition of the greater prevalence of incentive problems, particularly information asymmetries and principal-agent abuses, as well as the proliferation of rent-seeking opportunities in the government sector. Much of the economics work has been stimulated by a realisation that corruption is a major inhibitor of economic development in poorer countries, and that the prevalence of corruption constrains the efficacy of foreign aid efforts. Tanzi (1998) surveys the recent economics literature dealing with the causes and consequences of political and bureaucratic corruption around the world, and assesses the experience of different countries with the various countermeasures taken.

INCIDENCE OF CORRUPTION

A non-exhaustive list of policy areas in which corrupt practices are likely to emerge includes:

- (i) Customs, tariffs and quotas: Governments which operate an active commercial policy will have a collection system for customs duties and tariffs which will usually check compliance with quota systems as well. There are opportunities for corruption of the bureaucracy in order to avoid payment, or to import in excess of quota. There are also risks that the policy process will be subverted by those seeking tariff protection, or access to quota allocations.
- (ii) Regulations and Authorisations: Officials or agencies with the exclusive monopoly to issue needed permits may seek payment for so doing. This area includes the zoning of land for development, a recurring problem area in both rich and poor countries.
- (iii) Taxation system: tax collection can be subverted through bribery of officials. The design of the tax code can be influenced through, for example, so-called 'designer' tax breaks, with a narrow set of beneficiaries, who pay for the privilege.
- (iv) Public appointments: can simply be bought and sold, and will have positive value where, as in many developing countries, pay rates exceed those available generally. Public offices where there are opportunities for illicit earnings from corruption may be particularly valuable.
- (v) Contract awards: skimming off the top of State contract awards is a prevalent form of corruption in many parts of the world, with cases recorded in poorer and in economically advanced countries. In developing countries, it has been alleged that projects have even been selected ahead of superior alternatives because of corruption possibilities.
- (vi) Policy favoritism: national product specifications can be designed so as to preclude all but the bribe-paying producer. This is also a popular form of non-tariff barrier.
- (vii) State banks: can direct credit to politically favoured borrowers and fail to seek repayment.
- (viii) State companies: can award contracts or simply jobs to those favoured, possibly in exchange for corrupt payments. Corruption at State banks and companies may not be confined to developing countries; extensive investigations are ongoing in France, for example, into Credit Lyonnais, a bank, and Elf, an oil company.
- (ix) Privatisation: has been a major vehicle for corruption, indeed for the wholesale transfer of national wealth, in a number of former Communist countries, notably Russia.
- (x) Straight stealing: simply lifting funds from the Treasury seems to have been popular in Iraq, and slightly more sophisticated variants including diversion of oil or

mineral revenues, or crooked dual markets in foreign exchange, have been documented in many countries.

- (xi) Provision of Goods or Services at Below-Market Prices: The State can subsidise products (petroleum is an example in some developing countries) which can be exported at full price. The allocation of available supplies to domestic distributors can then become highly corruptible. In Ireland, export credit insurance was supplied below market price, although no corrupt practices were identified in the report of the Beef Tribunal.

Governments pursue policies, and bureaucracies employ administrative practices, under all of these headings which might better be classed as patronage rather than corruption. Thus if Ministers favour their own electoral districts in deciding the location of Government facilities, a practice rampant in advanced democracies including the United States (and Ireland!), this should perhaps be classed as patronage unless the politician/bureaucrat is actually in receipt of monetary or equivalent reward. Actions which favour narrow interest groups who pay in political support rather than in cash may be far more pervasive in European-type political systems than straight brown-envelope corruption. The World Bank definition *the abuse of public power for private benefit* is arguably so broad as to risk the equation of corruption with politics as conventionally practised in most countries. Indeed, the distinction between patronage and corruption is venerable; witness Edmund Burke, on late eighteenth century Britain:

...it would be far less mischievous to the public, and full as little dishonourable to themselves [politicians], to be polluted with direct bribery, than thus to become a standing auxiliary to the oppression, usury, and peculation of multitudes, in order to obtain a corrupt support to their power. It is by bribing, not so often by being bribed, that wicked politicians bring ruin on mankind.

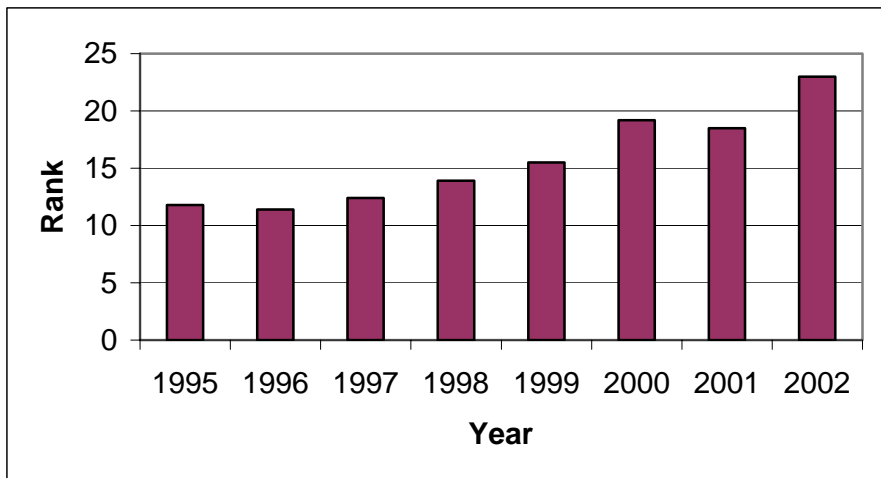
From the economist's standpoint, noncorrupt patronage may of course misallocate resources just as much as corruption, but the two phenomena are surely worth distinguishing. In economically advanced countries, patronage in this sense, and its consequent diminution of economic welfare, may be a far more widespread problem than corruption proper. We will argue below that corruption countermeasures will, in many cases, reduce the scope for business-as-usual patronage, and that this may be a principal source of political reluctance to introduce them. Of course, political or bureaucratic incompetence will also diminish economic efficiency and national welfare, but this is a distinct issue, although anti-corruption measures which increases transparency will coincidentally address one of its sources.

EMPIRICAL STUDIES OF THE IMPACT OF CORRUPTION

The growing empirical literature on the economic impact of corruption is surveyed in Tanzi and Hamoodi (2000), who note that a benign view of some corrupt practices has from time to time had

perceptions into a ranking and an index number for over 100 countries around the world. No country is included unless it is covered in the year in question by a minimum of three such polls. Those polled tend to be mainly managers in multinational companies, staff of international accounting firms and financial journalists. The first TI poll, in 1995, ranked 41 countries, a figure which had risen seven years later to 102. New Zealand came first (least corrupt) in 1995, with Ireland joint 11th, which is scored in Table 1 as 11.5. By 2002, Finland had taken top spot, with Ireland sliding to 23rd.

Figure 1: Ireland's Ranking in the Transparency International Corruption Perceptions Index



Source: The Transparency International Index www.transparency.org

Note: A rising score in this chart is 'bad' (perceived as getting further away from the least corrupt winner).

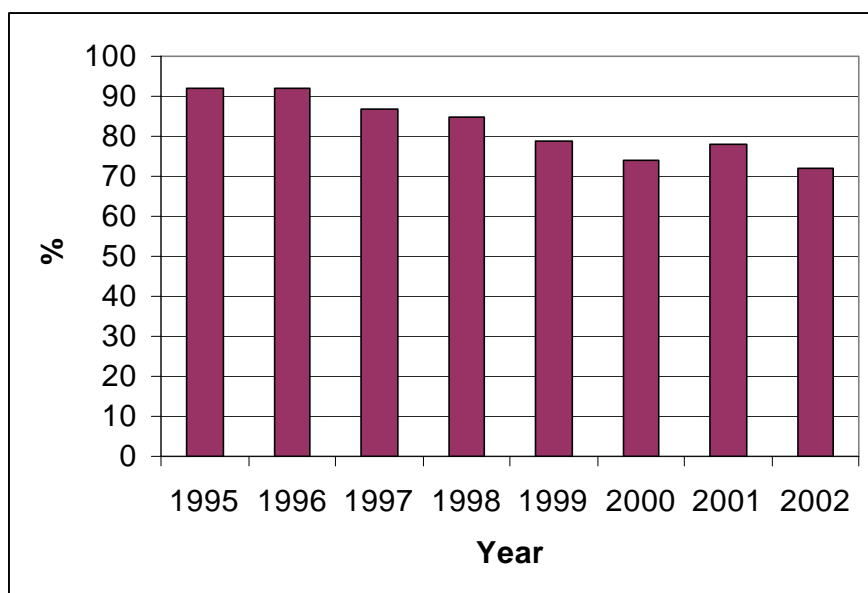
Three of the countries below Ireland in 2002 were not ranked in 1995, so the rise in Ireland's ranking is somewhat overstated. To address this problem, Table 1 shows the scores and rankings in 2002 for just those 40 countries which were also included in the first TI poll in 1995. The only drop-out is Belgium/Luxembourg, treated as a single entity in 1995 but identified separately in more recent polls. On this fully comparable basis, Ireland's rank fell from joint 11th to 19th.

Between 1995 and 2002, Ireland's absolute score slipped from 8.57 to 6.90, the second largest drop after Argentina. In TI's system, scores range from 0 to 10. A score of 10 means complete absence of corruption. The average country in Table 1 saw its score rise slightly, from 5.90 to 6.05, over the period. Ireland's drop in rank, from joint 11th to 19th, was also second-worst in this group of forty. No other EU country experienced a drop in score or in rank close to the Irish decline, and the other twelve ever-present EU countries gained both score and rank on average. In 1995, just four of these twelve EU countries ranked ahead of Ireland. This figure had risen to eight in 2002.

Table 1: Scores and Rankings for Forty Ever-Present Countries on the Transparency International Corruption Perceptions Index, 1995 to 2002

Country	Score 95	Score 02	Chg Score	Rank 95	Rank 02	Chg Rank
New Zealand	9.6	9.5	-0.1	1.0	2.5	-1.5
Denmark	9.3	9.5	0.2	2.0	2.5	-0.5
Singapore	9.3	9.3	0.0	3.0	4.5	-1.5
Finland	9.1	9.7	0.6	4.0	1.0	3.0
Canada	9.9	9.0	0.1	5.5	6.5	-1.0
Sweden	8.9	9.3	0.4	5.5	4.5	1.0
Australia	8.8	8.6	-0.2	7.0	9.0	-2.0
Switzerland	8.8	8.5	-0.3	8.0	10.5	-2.5
Netherlands	8.7	9.0	0.3	9.0	6.5	2.5
Norway	8.6	8.5	-0.1	10.0	10.5	-0.5
Ireland	8.6	6.9	-1.7	11.5	19.0	-7.5
United Kingdom	8.6	8.7	0.1	11.5	8.0	3.5
Germany	8.1	7.3	-0.8	13.0	16.0	-3.0
Chile	7.9	7.5	-0.4	14.0	15.0	-1.0
USA	7.8	7.7	-0.1	15.0	14.0	1.0
Austria	7.1	7.8	0.7	16.0	13.0	3.0
Hong Kong	7.1	8.2	1.1	17.0	12.0	5.0
France	7.0	6.3	-0.7	18.0	20.5	-2.5
Japan	6.7	7.1	0.4	19.0	17.5	1.5
South Africa	5.6	4.8	-0.8	20.0	26.0	-6.0
Portugal	5.6	6.3	0.7	21.0	20.5	0.5
Malaysia	5.3	4.9	-0.4	22.0	24.5	-2.5
Argentina	5.2	2.8	-2.4	23.0	35.0	-12.0
Taiwan	5.1	5.6	0.5	24.0	22.0	2.0
Spain	4.4	7.1	2.8	25.0	17.5	7.5
South Korea	4.3	4.5	0.2	26.0	27.0	-1.0
Hungary	4.1	4.9	0.8	27.0	24.5	2.5
Turkey	4.1	3.2	-0.9	28.0	33.5	-5.5
Greece	4.0	4.2	0.2	29.0	28.0	1.0
Columbia	3.4	3.6	0.2	30.0	30.5	-0.5
Mexico	3.2	3.6	0.4	31.0	30.5	0.5
Italy	3.0	5.2	2.2	32.0	23.0	9.0
Thailand	2.8	3.2	0.4	33.0	33.5	-0.5
India	2.8	2.7	-0.1	34.0	36.0	-2.0
Philippines	2.8	2.6	-0.2	35.0	37.0	-2.0
Brazil	2.7	4.0	1.3	36.0	29.0	7.0
Venezuela	2.7	2.5	-0.2	37.0	38.5	-1.5
Pakistan	2.3	2.6	0.4	38.0	38.5	-0.5
China	2.2	3.5	1.3	39.0	32.0	7.0
Indonesia	1.9	1.0	0.0	40.0	40.0	0.0

Figure 2: Ireland's Score as a Percentage of the Mean Score of Top Three Countries, TI Corruption Perceptions Index 1995 to 2002



Source: The Transparency International Index www.transparency.org

If we take the mean score of the top three countries in the TI index as a target at which an economically advanced country might aim, the pattern over 1995 to 2002 is as shown in Figure 2. Expressed as a percentage of the top three, Ireland's score fell from 91 per cent in 1995 to 72 per cent seven years later. Thus Ireland was fairly close to the benchmark in 1995, but is now a considerable distance behind.

The absolute scores and ranks are averages from the TI 'poll-of-polls'. It is fair to ask whether the TI index measures an actual increase in corrupt activity in Ireland over this period, and TI's own answer is that it does not. Corrupt activity is not directly measurable, and the TI index purports to measure perceptions only. It is entirely plausible that corrupt activity is in reality no different from what it was in 1995, but that awareness of corruption has risen, as a result of media exposure and the activities of the various tribunals. While there is no way of telling, it is interesting that both score and rank have improved considerably in Italy, which has had a similar experience of awareness-raising inquiries and publicity about corruption over the same period. Perhaps in Italy a long-established perception of corruption was tempered by a realisation that finally something was being done about it, while in Ireland the tribunals have shattered a too-comfortable illusion that there was no problem.

4. Anti- Corruption Measures in Ireland

Whatever the (unmeasurable) trends in the actual level of corrupt activity, it is clear that perceptions of corruption in Ireland have worsened dramatically in recent years, according to the most widely reported international index. This is a problem in itself for economic policy, whatever the trend in actual corruption, since the evidence suggests that perceptions appear to affect key variables such as foreign direct investment. Narrow economic considerations alone suggest that the worsening in Ireland's performance in the TI survey should concern policymakers. Even in the absence of negative economic consequences, the trend in the TI index is one which many people will feel is unwelcome in itself.

The Council of Europe's Greco initiative is an anti-corruption programme which includes periodic evaluations of the legislative and other efforts of participating states in fighting corruption. The first evaluation report on Ireland was released in December 2001. Greco (2001) reviews the measures taken in Ireland up to that date.

The report discusses the statutory provisions relating to corruption in Ireland, including the recent Prevention of Corruption (Amendment) Act 2001 and the Ethics in Public Office Act 1995. Since the evaluation report was released, the Oireachtas has also enacted the Standards in Public Offices Act 2001, but a Protection of Whistleblowers Bill introduced by the Labour party failed to get parliamentary approval. It remains on the order paper however, and may be revived.

The Greco report notes the establishment of the Criminal Assets Bureau and of the various tribunals of inquiry referred to in the Introduction. The report contains an overview of current Irish legal and institutional arrangements in areas including policing, criminal prosecution, public procurement, the courts, public appointments, auditing of public bodies' accounts, party political funding, and officeholders' immunity (or rather lack of immunity) from criminal prosecution.

The Greco (2001) report concluded that:

Ireland appears to belong to the group of those GRECO members that are least affected by corruption. According to the more recent official statistics (1999), only very few cases of corruption or related to corruption have been detected between 1994 and 1999. There is a general perception among the representatives of the Irish State authorities that corruption is not a major problem in Ireland and therefore there is no evidence of a connection between corruption and organised crime. It has to be noted with great satisfaction that various important legislative measures exist in Ireland which can certainly be seen as a strong deterrent against corruption activities.

The report's conclusions do not refer to the sharp increase in the perception of corruption in Ireland, as measured for example by the Transparency International index, and it can be argued that this is a problem in itself, even if corrupt behaviour is indeed at a low level. Moreover, the consideration of countermeasures in the Greco report is confined to arrangements for detection and punishment

and to the legislative architecture concerning ethics in public office and suchlike. There is no discussion of the policy framework or of a role for policy re-design.

Only one of the three recent Irish tribunals into corruption allegations (McCracken) has concluded its work and issued its report at the time of writing, but the proceedings have been public and widely reported, and interim findings have been released by one of the others (Flood). While it may take some years for the final reports of the two remaining tribunals to emerge, some conclusions can safely be drawn at this stage. The principal ones relevant to a discussion of economic policy design are

- (i) There seems likely to be a finding, at least in the County of Dublin, of corruption of the planning (zoning of development land) process. This may prove to have involved appointed as well as elected officials.
- (ii) Investigations continue into the allocation, by the Beauty Contest method, of licenses to operate broadcasting and telecoms franchises. It is possible that innocent explanations exist for the various transactions which have been revealed.
- (iii) There have been no revelations affecting other avenues of possible corruption, such as tariff collection, taxes, public appointments, contract awards, operation of State banks, or the privatisation process.

The financing of politics and of politicians also appears to be problematic. Some politicians would appear, in the Hiberno-English euphemism, to have gotten the firm's money mixed up with their own. Funds intended, or at least stated to be intended, for party financing, appear not to have reached their putative destinations.

Countermeasures in the matter of the financing of politics have been enshrined in legislation. There are new donation limits and disclosure rules, as well as greater access for political parties to the public purse, the latter an unsurprisingly popular reform amongst politicians in Ireland as elsewhere. There are also new campaign spending limits, and the purchase by candidates or parties of radio and TV advertising spots has long been banned in Ireland. However, Irish parties and candidates are free to purchase advertising space in other media, principally print, cinema and outdoor hoardings, and the recent reforms have ignored the obvious opportunity for further generic, as distinct from cash-limit, restrictions on campaign spending. Generic restrictions, as well as treating all media equally, must be easier to enforce than cash limits, and it is curious that this option was ignored in the lengthy parliamentary debates on the legislation.

The inquiries conducted to date into planning corruption relate only to the county, as distinct from the city, of Dublin. The extent of the revelations has persuaded most observers that corruption was widespread, and there is no apparent public willingness to believe that the metropolitan county was unique in its affliction. The circumstances surrounding the award of certain radio broadcasting licenses and of one of the second-generation mobile phone licenses have also been scrutinised, but no conclusion that the award

processes were corrupted or even improper seems justified at this stage. It would be a reasonable interim conclusion that the local planning process, and the award of licenses, are the two areas where policy reform in Ireland should be considered as a countermeasure to political corruption, actual or perceived.

There has been reform in one important area, that of merger approval. In their forthcoming book, Massey and Daly (2003) argue that the merger provisions in the Competition Act 2002

...represent a fairly radical reform in that they remove the power to make merger decisions from politicians, and allocate it instead to an independent agency. This constitutes a fairly dramatic step given the interventionist tendencies of most Irish politicians. Measures to 'politician proof' merger decisions ought to be welcomed, particularly in the light of various reported instances of dubious links between business and politics in Ireland over the past decade. The lack of transparency under the 1978 Act certainly created potential scope for abuse of the system.

The Competition Authority will now determine merger cases, and, with the sole exception of media mergers, appeal is to the courts rather than to the Minister. But decisions to create new areas of discretion unnecessarily continue to be made. For example, the authorities appear to favour an administrative allocation to industry of tradable emissions permits.

REFORMING THE PLANNING SYSTEM

Elected local politicians in Ireland, a category which until a recent reform takes effect next year includes many members of the two houses of parliament, enjoy extensive powers in relation to the zoning of land for development purposes. Zoning has tended to be restrictive in both urban and rural areas, and zoned land has acquired an artificial scarcity value. This problem is most acute in the Dublin area. Value, including the prospects of favourable zoning decisions, is affected by the availability of services such as water and waste disposal, whose provision is a monopoly of local government. Thus local councillors are important people to influence, as are certain key professional employees of local authorities. An entire industry of State-employed planners, private sector planning consultants, specialist lawyers, PR firms and political door-openers has grown up around the current Irish zoning arrangements.

It now appears to be generally accepted that this process has been corrupted on a substantial scale, at least in County Dublin and possibly throughout the country. It is accordingly interesting to consider what structural reforms may be possible in the planning system which would eliminate, or at least reduce, the incidence of opportunity for corruption. The subject is vast, and has been extensively studied in the United States, where the corruption of zoning boards is acknowledged to be a serious national political problem. The city of Houston has simply dispensed with zoning altogether, relying instead on civil law remedies which permit owners of adjoining properties to object, or seek compensation, when eyesores or pollution sources are planned in their neighbourhoods. Attempts to reintroduce zoning in Houston have been voted down on several occasions, and libertarian groups, who

see zoning principally as a restriction on landowners' property rights, applaud the Houston solution. But interestingly, poorer voters seem to have opposed the reintroduction of zoning. It is a fair guess that, as in Houston, the affluent Dublin suburbs would support zoning, and the re-distributive impact of zoning abolition is complex and not self-evidently regressive, see Camoriano (2002).

The most radical available solution to the evident corruptibility of the zoning process in Ireland is thus to scrap zoning by politicians and officials. The problem of eyesores, pollution sources and the like being constructed in certain neighbourhoods would then have to be dealt with through civil litigation at the initiative (and expense) of those existing property owners claiming to be adversely affected. The adequacy of existing civil law in such a regime would have to be reviewed. Stopping short of advocating such a solution, it is instructive to speculate what the absence of zoning would have achieved in the Dublin suburbs over the period since 1963. The plusses should have included less corruption, higher density development, and cheaper housing. There would no doubt have been negatives, perhaps including a less pleasing built environment, but it is surely a useful thought experiment. There are less dramatic options, shifting the legal presumption that sites will not be zoned to a presumption that they will, barring some substantive reason why they should not. For example, local authorities could declare that all land within a stated distance of town and city centres would be zoned residential, with portions reserved for retail and other service sector uses. It would then be a matter for objectors to seek, through administrative and legal rather than political processes, to have particular properties de-zoned. A feature of the current Irish system is that developers were faced over the years with substantial obstacles in acquiring permission to undertake residential, retail and industrial projects which now house, feed and employ a substantial portion of the population. The net output of the system has been delay and cost, rather than any material impact on the built environment.

A re-design of the planning and zoning system could achieve objectives which go beyond the minimisation of opportunity for political corruption, and dissatisfaction with the current arrangements has resulted in plans by Government for fast-tracking some projects, as well as reference to an Oireachtas Committee of the (artificial) scarcity of building land consequent on restrictive zoning. Casey (2003) has recently argued for constitutional change and a system involving the public auction of development rights with a licensing system to ensure that development actually occurred.

THE ALLOCATION OF LICENSES

The State is sometimes required to allocate scarce resources or economic privileges which for one reason or another are fixed in supply. Examples include the radiomagnetic spectrum, used for broadcasting and for telephony, offshore exploration acreage and items such as EU fishing quotas, or quotas to import non-EU beef. It can be argued that the scarcity of some of these items is itself a

creature of policy, and that a first-best solution would seek to eliminate the artificial supply restriction. But the focus here is on the allocation process and its impact on actual and perceived political corruption. Controversy has surrounded the allocation of some of the radio licenses and of a second generation mobile phone license in Ireland, and there have been similar controversies in many countries. It should also be acknowledged that some assets allocated by beauty contest in Ireland may in reality have zero or negligible value. Exploration acreage would perhaps be a current example.

The source of the difficulty is that the supply limitation, whatever its source, can confer a significant scarcity value on economic assets of this kind. Unless the Government is fully aware of the factors driving demand, this economic value can be difficult to estimate, and even a Government willing to price the scarce assets at its best estimate of value could get things wrong. But Irish Governments have got into the habit of placing a zero value on these assets, or of placing on them a nugatory value known to be well below the likely market value. The assets are then allocated through a so-called beauty contest process. Many Governments do the same, but an increasing number now resort to auction procedures which seek to garner the full economic value for the vendor, the State.

When valuable assets are allocated for free, or at a low price, through beauty contest, a number of things are bound to happen. The first is excess demand, and intense competition at the beauty contest. This must perforce be nonprice competition, and entrants will feel justified in spending sizeable sums on their bids given the potential payoff. The risks of corruption are clear, since assets of significant economic value are being disposed of, and one is reminded of Lord Thomson of Fleet's description of the first commercial TV license in the UK as "a license to print money". A less obvious but important consideration is the likely behaviour of the losers in a noncorrupt beauty contest of this kind. Since potential bidders are normally required to pre-qualify, the final list of bidders will consist solely of firms with good financial and technical credentials. Ugly contestants will have been screened out of the beauty contest. With pre-qualified contestants debarred from offering money, and all survivors financially and technically pre-qualified, there will be little to distinguish between them. But a winner or winners will have to be selected and the losers will be significantly out of pocket as a result of bid costs. Their disappointment will far exceed that of losers in an auction. The prize in an auction is smaller, and can be negative given the so-called Winner's Curse, the tendency for the best-informed bidders to drop out before the auction ends, leaving the excessively optimistic holding the baby. Thus losers of fair beauty contests will grumble far more than the losers in an auction. They may grumble excessively, and drop dark hints about monkey business where none has occurred, because they will have fruitlessly expended large dollops of their employers' funds.

Thus the choice of the beauty contest route will involve three negatives from the State's perspective. These are the straight costs

of allocative inefficiency and revenue foregone (see Binmore and Klemperer, 2002); the risk of corruption; and the likelihood of a heightened perception of corruption, even where none occurs, given the inevitable loud grumbling of losers. Costs can also arise if the beauty contest method is more prone to subsequent litigation/tribunals.

The best countermeasure for all three of these negatives is the same: allocation of licenses and similar economic privileges through an appropriate form of bidding process. The desirability of abandoning the beauty contest approach in the specific context of Irish mobile phone licenses was argued in McCarthy (2000) but the issues arising in the various other sectors listed earlier are essentially the same. So far as I am aware, the Irish State has never used auction or tender processes for the allocation of assets other than physical property.

It is interesting to speculate as to the motives for the Irish reluctance to move toward auction processes, given the revenue opportunity foregone. It seems to me that a component is the scope provided by the beauty contest route to pursue political, and possibly bureaucratic, agendas such as content rules in broadcasting or geographical coverage conditions in telephony. Of course these rules and conditions could also be accommodated in auctions, but at the political (or bureaucratic) 'cost' of greater transparency. The resistance to measures which would minimise opportunities for corruption has its origins in the desire of politicians, and possibly bureaucrats, to retain the levers of patronage and to enable the pursuit of essentially political objectives through surrogate and opaque processes. To the degree that corruption in the narrow sense and run-of-the-mill political patronage are products joint in supply, the desire to retain patronage sustains also the opportunity for corruption.

Bureaucrats may have other incentives for favouring the beauty contest method. Opening envelopes in order to check who has bid the most money will justify a smaller staff complement than the onerous work of listening to Powerpoint presentations, rigorously evaluating the complex noncash components of the bids, and providing resources to support the subsequent litigation.

6. Conclusions

The perception, if not the reality, of political corruption has risen sharply in Ireland in recent times. In two areas in particular, the zoning of land and the allocation of licenses by beauty contest, there is a case for a review of policy structures, as an antidote both to possible corruption and just as importantly to its perception. In the case of licenses, the case for auction processes is clear, and there are policy templates available from many countries including the UK. The problems surrounding the zoning of land are more complex, but any general review of policy should pay explicit attention to the corruptibility issue. More generally, greater attention needs to be paid to the 'corruption proofing' of policies and institutional arrangements, in addition to the vigorous pursuit of wrongdoers.

REFERENCES

- BURKE, E., Writings and Speeches, V, pg. 488 *et seq.*, (in Langford (ed.), Oxford, 1985.
- BINMORE, K. and P. KLEMPERER, 2002. "The Biggest Auction Ever: The Sale of the British 3G Telecom Licenses", *Economic Journal*, Volume 112, pp. C75-C96.
- CAMORIANO, T., 2002. "What Can We Do About Corrupt Zoning Boards?", *Jefferson Review*, April 2002. (www.hpra.org/corrupt.htm).
- CASEY, J., 2003. *Building Industry Bulletin*, Dublin: Jerome Casey and Co. Ltd.
- COLLINS, N., and M. O'SHEA, 2000. *Understanding Corruption in Irish Politics*, Cork: University Press.
- GRECO, Evaluation Report on Ireland, Strasbourg, December 20th. 2001. (www.greco.coe.int).
- MASSEY, P. and D. DALY, 2003. *Competition and Regulation in Ireland: The Law and Economics*, Cork: Oak Tree Press.
- MAURO, P., 1995. "Corruption and Growth", *Quarterly Journal of Economics*, Vol. 110, pp. 681-712.
- McCARTHY, C., 2000. "Auction Best Way to Decide New Licenses for Mobiles", *The Irish Times*, July 31st.
- TANZI, V., 1998. *Corruption Around the World*, IMF Staff Papers, Volume 45, pp. 559-594.
- TANZI, V. and H. DAVOODI, 2000. "Corruption, Growth and Public Finances", Working Paper WP/00/182, International Monetary Fund, Washington DC.
- TRANSPARANCY INTERNATIONAL 2003.
www.transparency.org
- THE ANNUAL INDICES are released and archived on www.transparency.org, where the methodology is also described.
- WEI, SHANG-JIN, 1997. "How Taxing is Corruption on International Investors?", NBER Working Paper No. 6030, National Bureau of Economic Research, Cambridge, Mass.