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Corruption Disruption



By [Christine Lagarde](#)

December 8, 2017

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Corruption can have devastating effects on economic growth and stability (photo: Patric Sandri IKON Images/Newscom)

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IMFBlog is a forum for the views of the International Monetary Fund (IMF) staff and officials on pressing economic and policy issues of the day.

The views

becomes difficult, if not impossible, to achieve in the presence of entrenched and institutionalized corruption.

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Why corruption matters

Fundamentally, corruption impairs the ability of the government to do its job. It undermines the ability to raise needed revenue, and it also distorts spending decisions—in the sense that governments might be inclined to favor projects that generate kickbacks over projects that generate economic and social value. This is bad for growth and bad for economic opportunity. It is bad for equity and fairness, as the poor lose out most from the diminished social spending and investments in sustainable development. And it is bad for economic stability, as the toxic combination of a low revenue take and wasteful spending lets deficits run too easily out of control.

More generally, broad-based corruption can weaken the foundations of a healthy economy by degrading social norms and undermining civic virtues. When the wealthy do not pay their taxes, the entire tax system loses legitimacy. When cheating is rewarded, and when elites are seen to play by different rules, trust will give way to cynicism, and social cohesion will fragment. In a worst case, this can lead to civil strife and conflict.

Bottom line: if the foundation of your house is “rotting”—another meaning of “corruption”—then how can you build a strong and sustainable economy? You cannot.

All of this is especially debilitating for youth. When corruption is deeply embedded, far too many young people find that they have no prospects, no sense of purpose, no ability to participate, to make their mark, to flourish, and to contribute to society. They lose the motivation to pursue an education, knowing that getting ahead depends on connections rather than ability. They become disillusioned, disengaged, and disenchanting.

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It is also no surprise that tackling corruption is central to the success of the Sustainable Development Goals (SDGs). It is certainly central to Goal 16 of the SDGs, which calls on the global community to: “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.” Goal 16 incorporates specific targets relating to reducing corruption, bribery, and illicit financial flows. But more than that, the success of all other SDGs depends crucially on getting to grips with the corrosive cancer of corruption. Again, you cannot build a house on a rotten foundation.

Dealing with corruption is especially important in the current global context. I am thinking here about the pervasiveness of tax evasion, as documented by recent scandalous revelations; rising skepticism among some toward traditional institutions, which are seen to favor insiders and elites; and the need to prioritize challenges such as uncertain job prospects, rising inequality, and magnified environmental stress.

The IMF’s role

So, how can the IMF help? Right now, we are in the middle of a major review of our policy on dealing with corruption, to make our policy more effective in the current global context.

I do not want to pre-judge this ongoing review. But a few things are clear. First, while the IMF has a policy for dealing with corruption, dating from 1997, this policy could be applied more rigorously and consistently, backed up with concrete and specific policy advice. In this context, it is especially important to be evenhanded. Corruption can be a serious problem in rich countries and poor countries, big countries and small countries, stable

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governments.

Second, we all need to recognize that corruption is a “two-handed” problem. For every bribe taken, a bribe is given. Untangling corruption requires officials to—as the saying goes—“follow the money.” This includes tackling issues of impunity and malfeasance in the private sector, including large corporations housed in major capitals engaged in bribery of officials in foreign countries. The IMF needs to engage with members whose citizens and corporations are frequently implicated in this kind of bribery and whose institutions facilitate the laundering of proceeds from tax evasion, financial fraud, and corruption. This is one of the dark underbellies of globalization, and we need to shine a light on it. It is especially important to the legitimacy of a globalization that I am convinced can—and indeed must—work for all.

So, stay tuned—this is not our last word on this subject, I can promise you that!

This article was written as part of a World Anti-Corruption Day collaboration with the World Economic Forum's [Partnering Against Corruption Initiative \(PACI\)](#).

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