

Restoring Trust through Accountability, Transparency and
Integrity:
The Key Ingredient for Recovery

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Good evening!

As an Iowa native, I am grateful to the Jepson Symposium for making it possible for us to meet together as citizens to discuss globalization.

Tonight I would like to have a conversation with you about big issues: repairing the global economy, reducing global poverty and renewing American democracy.

Now those are worthwhile objectives, wouldn't you agree?

Really! Would you be interested in taking action taken to strengthen the economy—and maybe bolster your 401k?

Would you like to brighten prospects for the billions of people who get by on less than \$2 per day?

Would you like to clean up Washington and give our democratic form of government a new birth of freedom and vitality?

Good! So would I.

As the Chairman of the Board of Directors of the U.S. Chapter of Transparency International, I believe there is a key ingredient necessary to help strengthen the economy, combat poverty and restore our democracy.

We are in a pit of economic stagnation, global poverty and corrupted democracy.

It is a pit of mistrust flowing from a lack of accountability, transparency and integrity in business and political life.

Now, we must not be hopelessly naïve, incurably moralistic nor victims of a Jeremiah complex.

For my part, I am an economist, not a philosopher or a theologian.

I spent 32 years as a diplomat—a profession grounded in the hard edged reasoning of real politique.

I now work at a law firm and provide practical advice to international businesses engaged in investment and trade.

As a materialistic economist, a hard edged diplomat and practical business consultant, I believe that to fix what ails us, we must increase the accountability, transparency and integrity of business and political life.

The Causes of and Cures for the Financial Crisis

Consider the financial crisis.

Former Fed Chairman Paul Volcker has observed that our problems began with a lack of accountability in mortgage lending and the trading of mortgage-backed securities.

Financial executives spawned a proliferation of mortgage backed securities without integrity and traded them in non-transparent markets.

CEOs and Boards of Directors failed to be accountable to shareholders and to the public. They took on growing risk, ran reputable companies into the ground and paid themselves fat bonuses.

Executives hid dangerously leveraged positions from their shareholders and regulators by keeping risky transactions off balance sheets and out of view.

Rating agencies failed to undertake the due diligence necessary to properly rate these securities.

When companies such as AIG insured these securities, they did not properly provision for the risk.

Driven by the pursuit of high earnings and lulled into a false sense of security, many banks and investors failed to undertake adequate due diligence on these securities.

In some cases, such as the Madoff scandal, blatant and massive outright fraud took place while investors and regulators looked the other way.

The crisis reached the breaking point when trust evaporated. Iconic Wall Street firms simply no longer trusted each other. Why did this happen?

I think it happened because Wall Street veterans knew that they, their business partners and their competitors were all cutting corners and behaving in an untrustworthy manner.

And if you know that you are not trustworthy, how can you trust others?

We will not have a recovery of our financial system until there is a restoration of trust.

And there will not be a restoration of trust in the marketplace until CEOs and Boards of Directors demonstrate that they are behaving in a trustworthy manner.

Accountability, transparency and integrity must be built into their business operations. The same principles must be built into the government's regulatory system and its financial rescue program.

Last year Treasury and the Fed moved aggressively to create massive programs such as the TARP.

Properly so, in my view

The government failed, however, to put in place transparent criteria so that citizens would know why some got a bailout and some did not.

The Obama administration has pledged to correct these mistakes and to operate in a much more transparent manner in implementing the nearly \$800 billion stimulus program enacted last week and also the next phase of the rescue program for the financial sector. I believe the administration is serious about doing so, but my attitude is "trust but verify."

The U.S. chapter of Transparency International aims to be a sentinel—a watchdog. We want to help citizens monitor the transparency and accountability of the rescue programs.

Bribery in International Business Transactions

The stimulus and financial rescue programs will help repair the economy, if operated in a trustworthy manner. Even so, mistrust will plague the economy and jobs will continue to be lost unless the new administration also pays attention to the challenge of international business bribery.

For more than 30 years, the US Foreign Corrupt Practices Act (FCPA) has prohibited U.S. companies from paying bribes to foreign government officials to gain business overseas.

Other governments have permitted their companies to pay bribes to public officials abroad and even permitted tax deductions for them. Such bribes were illegal when paid to public officials at home.

Only in the past few years, has this failed double standard given way to the broad agreement to outlaw bribery. Most major exporting countries have signed onto an OECD Anti-Bribery Convention and adopted laws prohibiting bribery.

The German multinational firm Siemens recently agreed to fines of over \$1.6 billion to German and American authorities to resolve charges that it had systematically bribed public officials around the world in order to gain billions in government contracts.

About one hundred U.S. firms were prosecuted by the Justice Department in 2008 for similar offences. Recently, Halliburton and Kellogg Brown & Root agreed to pay \$579 million in fines related to bribes paid in Nigeria.

By contrast, two years ago the U.K. Prime Minister Tony Blair suppressed the prosecution of British Aerospace which had been charged by British enforcement officials with massive alleged bribes in connection with an arms contract.

The British, along with the Japanese, Italians and Canadians, have been notoriously unwilling to implement their obligations under the Anti Bribery Convention.

Failure to enforce anti-bribery rules sends the wrong signal that integrity only applies at home (where bribery would not be tolerated). It injects uncertainty into international trade and weakens the international trading system.

TI-USA is calling on the Obama Administration to enforce FCPA and to pressure other governments to do the same.

Causes of Global Poverty

Poor and vulnerable people in developing countries are perhaps the greatest victims of corruption and bribery.

They suffer when bribes determine which foreign companies provide goods and services to developing country governments. The bribing companies often get away with supplying goods that are of poor quality and even dangerous.

Bribery and corruption undermines the effectiveness of development assistance programs such as those operated by the World Bank.

In 2007 the World Bank reviewed its health sector programs in India. The report detailed systematic indicators of corruption; the result was inferior hospital construction and provision of faulty medical equipment.

The World Bank has taken strong action to debar companies that engage in unethical practices on Bank projects. The World Bank

and other development agencies need to do far more to prevent corruption from undermining worthwhile projects.

At TI-USA we want to see more and larger programs to help poor people in poor countries. To be effective, these programs will need oversight mechanisms, such as third party independent auditing, to ensure that taxpayers and beneficiaries receive the benefits they deserve and have a right to expect.

Renewing American Democracy

We must not be complacent and assume that corruption is a problem in other countries, but not in the United States.

Take an honest look at our political system.

Are you comfortable with a system that allowed the Governor of Illinois to put President Obama's Senate seat up for sale to the highest bidder?

Is it acceptable that one Senator and two Members of the House have been convicted of corrupt activities in recent years?

Is it tolerable that in Congress, the practice of undisclosed earmarks of government funds still is a problem.

The intersection of money and politics is toxic. There continues to be a need to ensure transparency over the contributions of individuals and companies to political campaigns and presidential libraries.

And what about judges?

Earlier this year Transparency International USA joined an amicus brief for a case before the U.S. Supreme Court. In our brief, we

challenged the practice of elected state judges who fail to recuse themselves from deciding court cases involving major contributors to their own election campaign.

Doing Something About It

I have come to Cedar Falls tonight to ask you to work with the U.S. chapter of Transparency International to address these problems.

Sunlight is the best disinfectant and only actively engaged citizens can bring about a restoration of accountability, transparency and integrity in public life. We need to light as many candles as we can.

Would you consider working with Transparency International here in the Midwest?

Would those of you who are teachers and faculty and the University of Northern Iowa consider linking up with your colleagues at other colleges and universities in Iowa or other states?

Would you consider joining a letter writing campaign to convince Iowa's Senators and Congressmen to push for effective transparency and oversight provisions in financial bailout legislation?

Would you consider pushing these same legislators to end undisclosed legislative earmarks and to mandate disclosure of all contributions to political campaigns and Presidential libraries?

Would you write to the companies in which you invest your retirement funds, to tell them to institute strong compliance programs to prevent their executives from making illegal bribes to foreign officials?

Would you join with us to link up with concerned citizens in over 92 countries who want to restore trust in government and business?

If so, you have come to the right place. Trust is the coin of the realm. It requires accountability, transparency and integrity in business and public life.

With your help, we can take practical steps to restore trust, and begin the process of promoting the recovery of our economy and the renewal of our democracy.