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The Corruptionist's Dilemma

By Sergey Matyunin

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"The grip of corruption continues unabated. It holds the whole economy by the throat."

This bleak diagnosis did not come from a hardened opposition candidate but from President Dmitry Medvedev in late March — which makes it even more disturbing.

If Russians can't find medicine for the malady, perhaps a cure could come from abroad. The U.K. Bribery Act, which comes into force on July 1, may offer a helping hand in leveling the playing field.

Although the law will make life of British business more difficult, it will help Russians realize that only they can find a way out of their corruption morass.

When a company does business abroad, it must adjust to the myriad of peculiarities in the foreign country. Corruption is one of them. The adage "when in Rome, do as the Romans do" as applied to corruption used to be true until the late 1990s. In many European countries, bribing foreign officials was legal. Some countries even subsidized overseas venality by

deducting kickbacks from taxable income.

Today, it is believed that Western companies must set an example of fair play and raise the bar far above local realities.

The U.K. Bribery Act, which has been called "the toughest anti-corruption legislation in the world," does not outlaw corruption. It has been done already. When a British citizen pays a bribe to a Russian official, he breaks the law both in Russia and in Britain.

The act extends the law beyond the company's borders. The idea is to institute a system in which businesses check on one another, thus providing a valuable service to law enforcement agencies.

Giving and taking bribes can be described in terms of the prisoner's dilemma — a problem studied in game theory that includes a mixture of mathematics, economics, ethics and psychology.

Recall the classic case in game theory when two accomplices are arrested for theft. They are put in separate rooms and offered the same choice: If both confess, they will be sentenced to five years in prison; if one talks and the other doesn't, the first will go free and the second will stay in prison for 10 years; and if they remain silent, each will receive six months in jail for a minor offence.

The prisoners' dilemma boils down to this: They must choose to betray the other or to remain silent. Although the criminals would clearly be better off if they kept their mouths shut, the rational choice for each of them is to confess in attempt to maximize his own self-interest.

There are many situations like this in real life in which a sum of decisions that are individually rational makes everyone worse off.

For example, in a standard corruption deal, a businessman, who is put into a "prisoner's dilemma," will be tempted to give a bribe to win an important deal unless he knows that the powerful and effective machinery called criminal justice is likely to punish him.

Despite attempts of the British Justice Ministry to backpedal on the act, its inner logic implies that courts will be tough on defectors. Research, on the other hand, shows that businesses tend to reduce their activities in the places where anti-corruption measures drag behind those in their home countries.

Sergey Matyunin is editor of RussianLawOnline.com.

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