

The doctor who cures corruption

Dr. Daniel Kaufmann discusses Israel's rank on his "good governance index"

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At 43, after twenty years of relishing the theoretical aspects of economics in academe and at the World Bank in Washington, DC, [Dr. Daniel Kaufmann](#) joined the ranks of rebuilders.

It was a time of tremendous drama, when the old was disintegrating far more quickly than the new could emerge. He was among would-be state builders and facilitators, assigned with picking up the pieces of the defunct Soviet Union. These newly born countries had to be helped onto their feet; and almost overnight, governments and international institutions hastened to open missions and representative offices in back rooms and basements of cities unaccustomed to the attention of foreign diplomats.

Dr. Kaufmann was chosen to lead the World Bank's first permanent delegation in Kiev, just elevated from a provincial Soviet center to the capital of an independent Ukraine. Although it had more than 50 million people, heavy industry with forests of chimneys, renowned coalmines, and a land area larger than that of France, the number Ukraine really excelled in was of government ministries.

Its cabinet room amounted to a parliament: no less than 73 ministers sat around the table, including a minister of vegetables and a minister of real estate.

Kaufmann, a native of Chile, a graduate of the Hebrew University of Jerusalem, with a doctorate from Harvard, went to look for an apartment and an office. In Kiev, there wasn't exactly a free real estate market. Everything was in the state's hands. A more experienced diplomat therefore advised him to turn to the deputy minister of real estate. Like all the ministries, this ministry too was still, unavoidably, a Soviet institution. There was simply no other bureaucracy.

Kaufmann and his interpreter were ushered into the deputy minister's presence. Hot tea was poured, small talk was exchanged, until there was a knock on the door. The Ministry of Real Estate's legal counsel appeared with the necessary papers. There's no problem, the deputy minister of real estate assured the World Bank representative. Our friend the lawyer will give the number of the bank account in Vienna where you must deposit \$20,000 so that we can deal with your request. Bank. Account. Vienna. \$20,000. "It was an eye-opening moment," Kaufmann recalls in a special interview with "Globes" weekend magazine "G" at his Washington office. "I had never belonged to this world. No-one had ever sought a bribe from me like that, so casually. I got to my feet. I told him that we at the World Bank don't do business that way. The interpreter went as pale as whitewash. I left, and filed an official protest with the Prime Minister's Office."

Later, Kaufmann found out what had resulted from his protest. "The deputy prime minister, a man from the Soviet era of course, summoned the deputy minister of real estate and screamed at him at the top of his voice, 'How the hell could you do a thing like that? Don't you know that you don't ask for bribes from the World Bank?'" And really, how can one work with such amateurish bureaucrats, who can't fleece a rich capitalist without causing a commotion.

Kaufmann spent four wonderfully interesting years in Ukraine. He watched it try to create a rational economy ex nihilo. He saw it regress and become impoverished, divest itself of industrial assets, struggle to feed its population and at the same time spawn a small, very powerful class of nouveaux riches. Very soon they and their like began to be called "oligarchs", because it was assumed that they were pulling the political strings in the former Soviet republic. Some of those oligarchs are still pulling strings, or trying to; some pulled until the strings broke, and they were sent to jail; others lowered their profiles, but continued to get rich and buy foreign soccer clubs; and there are also those who went into exile, whether to evade the reach of vengeful politicians and suspicious courts, or whether to steal pork from children's mouths.

Dark green, light green

Ukraine, apparently unintentionally, not only contributed to Daniel Kaufmann's education; it also contributed to the international effort on behalf of good governance. Once back in the US, Kaufmann returned to his alma mater, Harvard, where he sat for a year and a half and formulated the six "global indicators of good governance." Together with two partners from the World Bank, he presented the indicators for the first time ten years ago. In two weeks' time, the [World Bank Institute](#), of which he is a senior director, will once more rank 205 countries and territories according to these indicators. It will again paint the world map in colors of honor and disgrace. Dark green is the peak of civilization. The darkest green is to be found in Scandinavia

(Denmark) and the South Pacific (New Zealand). Mid-green colors North America, apart from Mexico, and Europe from Austria to Ireland and all that lies between. The green begins to become lighter in the Iberian Peninsula and parts of what was once the Hapsburg Empire. Beyond Europe, light green is certainly a flattering color for those that wear it. Israel is decked in it, along with Japan, South Korea, Malaysia, South Africa, Botswana, and Chile, with a few tiny flecks in the Caribbean. All the rest the vast majority - is yellows and browns.

The World Bank has no monopoly on the quantification of good governance. The non-government organization [Transparency International](#), based in Berlin, publishes an annual corruption index that is intriguing and quotable. Embarrassingly enough, the latest published index showed Israel falling six places, and ranking below Qatar, alongside Taiwan, and above Bahrain. Kaufmann is polite about the competition, and speaks highly of the pioneering spirit of its founders. However, he also points out that Transparency International examines only 163 countries, while the World Bank probes the innards of 205. He also talks with surprising candor about the considerable inaccuracies of this supposedly exact science. He also has words of comfort for the Israelis: his data indicate that Israel is one of the 50 least corrupt countries in the world. That means, he emphasizes, and re-emphasizes, "there are 150 countries below it," including Italy and Greece.

He is quick to add though that Israel certainly doesn't need positive comparison with Sierra Leone (with all due respect to that country). "Israel is below the great majority of OECD countries. For the sake of its future, Israel must reach the middle of the leading group. I'd like to think that Israel will ask itself within ten years why it shouldn't be in the top 25, and what it should do to get there. But let's not lose perspective. Israel is not a corrupt country."

Fragrance of a good vintage

Kaufmann will speak along these lines at the upcoming [Caesarea Forum](#), at which he will be one of the most distinguished guests. His address is entitled "Israel's Position on the World Corruption Chart". Kaufmann's perspective is an empirical one. It is based on a great many trips, a great many conversations, and a fine collection of anecdotes. They will be delivered in correct, idiomatic English, with a slight Latin American accent, and laced, one may guess, with Hebrew expressions. The Hebrew might have a faint whiff of age, but it is the ageing of a good vintage.

Kaufmann attended the Hebrew University between 1971 and 1974, and took a bachelor's degree in economics and statistics. He was one of the students of Dan Patenkin, who earmarked him for a professorship in Jerusalem. Patenkin encouraged him to apply to study for a doctorate at a US university - Harvard, and even intervened on his behalf at the University of Chicago, the land of Milton Friedman as well as of Jacob Frenkel. Kaufmann was close to being tempted, until a yet more tempting offer came along, from Harvard University. Many years have gone by, but the taste of that choice has not faded, especially when it comes to academic needling, and what needling could be sharper than in the famous rivalry between the "Chicago boys" and the "Harvard boys" in Chile, Kaufmann's birthplace? There, after the military coup of 1973, the Chicago boys tried to drag the afflicted and divided land overnight into the world of economic liberalism (Professor Friedman, one should recall, used to say that Hong Kong was the freest place in the world, and he didn't mean political freedoms). They failed abysmally. Ten years later, the Harvard boys came along and put Chile onto the track of what is more or less accurately described as an "economic miracle". Chile today is the most successful and least corrupt of all the countries of Latin America.

At the end of the 60s of the last century, Kaufmann's father reached the conclusion that Chile would be swept to a political extreme to the extreme right or to the extreme left. Neither would be good for the Jews, Kaufmann senior believed, who fled from Nazi Germany at the very last minute, in 1939. Kaufmann's mother's family also escaped by the skin of their teeth at the very same time. Since they were Zionists, and sent their children to Jewish schools, the parents had no doubt at all where they should go. They decided to emigrate to Israel. It was in those circumstances that, after a short flirtation with engineering at the Technion, Kaufmann discovered his true love, economics, and bolted to the arms of Professor Patenkin. Incidentally, he never became an Israeli citizen. He was temporary resident, and his official biography at the World Bank presents him as a citizen of Chile. Should someone someday decide to suggest that he should do a Stanley Fischer, one imagines that it will happen in Santiago, not Jerusalem. "It won't happen," Kaufmann smiles, "I don't have a monetary background." He is, by the way, an old friend of Fischer.

Wolfowitz: The humiliation, the rebellion, the hope

Kaufmann is less bound by discretion than most of his colleagues at the World Bank. He does not belong to the executive division, but to an environment almost equivalent to that of an academic campus. In a formal, starched-collar institution, where jackets and ties are not optional, he greets me in an open-necked white shirt. He doesn't evade any questions, he expresses views even without being asked, he is a man who

delights in disagreement and combative debate. Even so, he was not especially delighted at his part in the dramatic uprising that deposed World Bank President Paul Wolfowitz last month. He was one of the signatories on the declaration published in "The Financial Times" in the early stages of the fight. At least in part, the success of the campaign against Wolfowitz can be credited to, or debited against, Kaufmann. He speaks humbly about those events. They reminded him once more that charity begins at home. There he is at the head of an effort lasting years to instill habits of good governance into the countries of the world and one day it turns out that such habits have bypassed the bank itself.

The letter published in "The Financial Times" on April 27 was intended for the bank's Board of Directors, "but it leaked out within three minutes," Kaufmann says. The sentence that perhaps tipped the scales against Wolfowitz was the one that read, "The credibility of our front line staff is eroding in the face of legitimate questions from our clients about the Bank's ability to 'practice what it preaches' on governance. In these circumstances, we cannot credibly implement the GAC strategy." ("GAC" stands for governance and anticorruption).

"As in any scandal, the rotten apples were on show here," says Kaufmann, "but one should remember that we have more than ten thousand professionals here, and the overwhelming majority of them, more than 99%, operate in an entirely ethical manner and completely honestly."

The Wolfowitz crisis has not been good for the bank, which occupies three huge buildings near Washington's geometric center. The press has been full of hair-raising revelations about perks at the bank: about a planet whose indulged inhabitants are paid more than senior members of the US government, tax-free, when they are charged with eliminating poverty in all kinds of remote, unenlightened corners of planet Earth. But Kaufmann thinks the cloud has a silver lining. This is the case with any systemic crisis, and the more systemic and dramatic the crisis, the greater the potential for reform. This, incidentally, is the message he sends his Israeli friends. "Who has ever seen, anywhere in the world, a country rush to appoint an investigative committee to examine deficiencies in its government in wartime?" he asks, without asking for an answer. "This is a manifestation of strength."

Over the years, he has acquired considerable knowledge of the ways of investors, he says. "This is precisely what investors want to know about a country they do business with. They want to know that the justice system works, that the law is prosecuted fully, that they can rely on the independence of judges." When he hears what politicians and journalists in Israel say about the system of justice ("the rule of law gang", for example), he isn't shocked. "It's better that way," he says. "It's better to hear that the judiciary is controversial because it's accused of excessive activism, and not because it's in the government's pocket and avoids touching the elites."

In the past, Kaufmann has devoted special attention to Kenya. There, he says, "For forty years no-one dared touch the big fish. The small fry suffered, but the big fish kept getting bigger."

"The trick is to estimate the lack of accuracy"

The greatest governance test of a system, any system, is not necessarily the prevention of faults. The great test is uncovering faults and fixing them. This is true of the World Bank, and it's true of every one of the 205 countries that Kaufmann and his people put under their imprecise magnifying glass. Sure it's not precise, he says. The trick is to estimate the imprecision. He shared his thoughts on the unavoidable imprecision of quantifying governance with an Israeli colleague, Professor Shlomo Yitzhaki, who later became head of Israel's Central Bureau of Statistics. "He's not one to mince words," Kaufmann says of Yitzhaki. "When he heard what I was about to say about the imprecision of our findings, he said, 'You'll have big problems; you're exposing yourself to enormous criticism and ridicule.'"

Yitzhaki reminded Kaufmann of the example of Simon Kuznets, the brilliant Jewish economist who was born in Pinsk, and who, to a large extent, invented the methods of macro-economic calculation in the US government (and won the Nobel Prize for Economics in 1971). Kuznets taught the US Department of Commerce how to calculate gross national product, and then said of the calculation that "its standard deviation is between 5% and 10%." Only Kuznets could have made such an admission and gotten away with it, Kaufmann smiles. "But it was true and it continues to be true of every instance and every number."

It's a little odd, considering that countries announce with glee, or concern, changes of a quarter of a percentage point in the calculation of their quarterly gross national product figures. But Kaufmann isn't concerned at all. On the contrary, the "inherent" imprecision in the governance index makes it easier for him to make reliable use of the information he gathers. "As an analyst, you know what you can tell, and what you can't tell," he says. "The imprecision isn't fatal to useful analysis. It's fatal for those who want to pretend that they're following a tight horse race, and want to say that the US just beat Canada by a nose. That's nonsense. But the data is still extremely useful if it gives contexts, if it helps countries understand what category they belong to, and what category they should aspire to."

One of the most brilliant baits in Kaufmann's knapsack is the bonus method. Ultimately, he is an economist, and what economist doesn't believe in incentives, even if the incentives in question are metaphorical, almost poetic? On the basis of the quantification of their governance, each of the 205 countries receives

"dividends". These dividends are an estimate of the economic benefits that will accrue over the long term from good governance. For example, if the index awards a certain country a dividend of 200%, it means that it could double its growth rate. Of course, such a forecast should not persuade any country to borrow on account of future success, because the index will always remain a daring and original experiment, with a margin of error so wide that it could easily contain the exact opposite of the forecast.

Singapore and the sixth indicator

The strength of the index lies chiefly in its power to affect agendas. Kaufmann mentions with particular pleasure the example of Singapore. On the face of it, the prosperous city-state disproves the validity of at least some of the index's components. It may be a shining example of the rule of law and public order, and it is almost clear of corruption, but it makes a mockery of the idea that economic prosperity depends on democracy, an open society, and the ability to punish politicians by not reelecting them. Singapore has no political opposition to speak of, and its press is largely docile. Eighteen months ago, the governance index complimented Singapore on five of the six indicators. In those, it was ranked very close to the top. But in the sixth indicator, the one relating to political freedom, it found itself in the bottom half. The five good indicators gave it a dividend of 300%. A local financial newspaper reported the results proudly, and then added slyly, "Imagine, if we were to take this seriously, and improve the sixth indicator, how rich we could be." Kaufmann quotes these words from memory. He adds with a broad grin, "To me, that's the power of the data, that's their beauty to present things as they are, to set things up for debate. Even in dogmatic, self-confident Singapore, the data raise questions. 'Is our growth sustainable? Are we innovative enough?'" Since the case of Singapore has come up, I ask him about the method of compensation in the public service. Civil servants in the city-state often earn more than their counterparts in the private sector. The prime minister of Singapore is paid much more than the president of the US ("five times more" according to Kaufmann). Is that such a bad idea? "Look," Dr. Kaufmann reminds me once more, "I'm an economist, and ultimately I maintain the view that the incentives structure is the heart of the matter. Issues of morals and ethics are very important of course, but they are the result of our own values and education that we acquire at home or at school, and by the age of 18 we are essentially set up. Training, or a course in good governance, is not going to change that. All the rest is a matter of incentives. People have to survive one way or another. Many people in poor countries who have a lot of integrity, basically moonlight, and they work three jobs. Others may be forced to accept "facilitation payments" and so on. "So I agree that you have to have a decent salary so that the incentives to look for other ways of subsistence are not there. It has to have some relation to your skills set and what you would make in a competitive environment, i.e. looking at private sector benchmarks. Having said that, there is no evidence that in order to avoid corruption, the income must be equal to or higher than what's paid in the private sector. You can't pay a tenth of private sector salaries, but half or more is certainly reasonable."

Ready for the next battle

Kaufmann visits Israel from time to time. He was in Israel three years ago, when he was sent to Ramallah, to give advice on governance to someone who made a considerable impression on him, namely Salam Fayyad, then minister of finance in the Palestinian Authority government. The interview with Kaufmann took place the day Fayyad's appointment as prime minister was announced. When I tell him, he reacts with pleasant surprise. He has no work connections with Israel itself. Israel does not borrow money from the bank, and does not use its technical services. But he has cousins in Israel, and many friends, and he is sure that it won't take him more than a day or two to regain his dormant Hebrew. This interview was conducted in English, for obvious reasons. But Kaufmann relates that Hebrew came surprisingly easily to him when he immigrated into Israel at the age of 21. He read Hebrew daily "Ma'ariv" every day, from beginning to end. He recalls that someone once remarked to him, when he heard him speak about issues of the day, "You sound like 'Ma'ariv'". But that was many years ago. Few Israelis today sound like the "Ma'ariv" of 1971. If you hear someone like that in the street, with a shock of white hair and a Chilean accent, it's probably Daniel Kaufmann. Incidentally, he sent me an e-mail message at 2:49 am. The next day, he was supposed to be at work at 7 am. He rode there on his bicycle. I can testify that it's a tough route for people much younger than 57. He, how should I put it, is at full strength, ready for the next battle.

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