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Beliefs

Introspective
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SINCE THE flagship program of the P-Noy government gained considerable traction with the removal of no less than a Supreme Court Chief Justice, there is renewed belief in the seriousness of combating corruption.

Two interesting conferences to which I had the good fortune to be invited to within the last two weeks touched on this familiar theme. The first -- held at the Mandarin Oriental Hotel, Makati, and organized by the Hills Program of Governance of AIM on July 26 -- carried the slogan "SMEs Together Can Beat Corruption." The purpose was to convince participants that SME survival without corruption is possible and desirable, and to urge SME actors to band together to just say "No." The underlying logic seemed to be that if the demand side (the business sector) of the market for corruption tunes out, the supply side (BIR and BoC syndicates) will follow suit and corruption will cease. The chief weapon was identified correctly as collective action (Chapter 7 of Anti-Corruption Manual for SMEs). But while truistic, the logic is frail. Collective action failure is the rule-rather than the exception-especially among sizeable groups. If everyone cooperates, the guy who shirks makes a killing. While a corruption-free regime "may" be good for all SMEs if attained, it is a social dilemma game in its construction. That is, it is prejudicial to an individual SME to lead the charge. It is the cat-and-mouse story once more: who tries to bell the cat can end up in the feline's tummy. And the status quo persists. The reality behind this is obvious: SMEs operate on very thin margins in very competitive markets since entry is relatively easy. Whoever shaves off on tax payments can under-price the others and drive them out. Thus, the system drives out violation-averse people. The playing field is leveled when everyone does it. Furthermore, this lowers the cost to the SME community as a whole. It is thus unclear that the SME community as a whole would be better off if corruption of this sort disappeared as the above-mentioned volume suggests. The real victim is government revenue collection. But the sentiment that tax collected disappears into the black hole of bureaucratic waste and larceny is largely reaffirmed by periodic corruption scandals. The collusion between SMEs and collectors is thus a positive-sum game as amply elaborated by Karl Chua of the World Bank in his PhD dissertation. One can even assert as does the second best theorem that if expenditure larceny

rules the land, then the tax collection failure due to corruption is welfare-improving! (There is a colatilla that may save the day for just saying "No": If SMEs all paid the right tax, government would be so rich that it would then lower the legal exaction. But this is even more beyond belief).

The dominant attitude towards tax-paying surfaced when a participant stood up and introduced himself as "Mr. Anonymous" (fearing reprisal) and another grizzled SME veteran declared as dogma that no one can survive in the SME space unless he makes deals with BIR people. They were revealing "beliefs" distilled from their experience of reality. Once prior beliefs are enshrined by repeated confirmation, they begin to distort our perception of reality. Perceived reality would then tend to confirm our prior beliefs. Beliefs once established in the population by a run of kindred events are so difficult to dislodge. Even when the environment has changed and prior beliefs have become unfounded, they tend to persist. Subjects will interpret the smallest iota of corruption, however few and far between (for what society is completely free of it?) as affirming of the belief. This the organizers of the Mandarin Oriental conference were trying to stem.

This brings me to the "Inaugural Conference on Globalization, Innovation and Economic Growth" sponsored by the Angara Center for Law and Economics held on August 3 at the Hotel Sofitel Manila. Among the high-powered crew of renowned economists who shared their research results was Alberto Simpsen of the University of Chicago. He looked at the beliefs of people living in the US but with ancestry from various countries in the world with different corruption levels revealed by a corruption perception index. It turns out that the sample Americans' corruption beliefs correlate robustly with the corruption index of their parents' countries. Even when their own current environment has already scarified, such corruption experiences, the beliefs persist. Among Chicanos, the Mexican saying "*Que no transa, no avanza*" lingers.

Which brings us back to the task at hand for the P-Noy government: the biggest obstacle to institutionalizing "*Matuwid na Daan*" is the persistence of belief in the corruption structure. A courageous turn against larceny will only be interpreted as a gambit setting people up for even greater larceny. They will point to the hopeful early days of Ferdinand Marcos and the orgy of robbery in the end. Would-be boosters are reminded they could look naïve in the aftermath. Washington Sycip in Mandarin Oriental shrugged this danger and came out swinging. We can't be outdone in courage.

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