

# Perspectives on Fraud and Corruption in the Future



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## Introduction

A definition of corruption that considers corruption in its broadest context is the misuse of power to obtain an illegitimate gain. In this context, the one who has the power (ability to control, give commands and expects to be obeyed, and controls the decision-making process) performs an illegal act to determine the outcome of some financial, political, or personal matter or uses the power to obtain benefits not deserved.

As the various nations of the world became a part of the global society, and the amount of international crime increased, the identifying of those types of crimes that should be included as corruption became somewhat problematic. Hertzner (2012, pp. 218–219) acknowledges that a universally recognized definition of corruption does not exist in the European legal and judicial areas. He notes, “The term is used to describe several situations because the traditional designations and terms that differ from one language to another cannot always be reconciled. For example, in the European Union treaties and documents, the English corruption was translated into German as *Bestechung* although it means bribery in English and fails to cover all aspects of corruption (bribery, patronage, nepotism, misappropriation of common property, illegal financing of political parties and election campaigns).” Hertzner (2012, p. 218) maintains that the determination of corruption should be considered within the context of the nature of the interaction. He states, “In principle, corruption is a situation in which a person who is responsible for performing certain duties pursues improper or unfair advantages for actions or omissions in the duties, or

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pursues improper or unfair advantages for actions or omissions in the performance of those duties.” The corrupter as well as the person or persons corrupted do not always engage in the activity that constitutes corruption for direct personal gain. For example, political leaders may engage in corruption out of a concern for the welfare of their nation. If the corruption leads to an increase in the country’s security, the leaders probably will benefit indirectly in that the favorable opinion from the citizenry may improve. Corporate leaders may corrupt the heads of the governments through bribery solely for the purpose of enhancing the economic status of the corporate institutions they control and a person in a low-level bureaucratic position may engage in some form of corruption, such as patronage, solely out of friendship. Chambliss (1988, pp. 217–218) after completing in-depth research on the criminal network in Seattle and other areas within the country during the 1960s and 1970s, reflected on the motivations for those involved in corruption, fraud, and other criminal activities and concluded, “The people in the crime network in Seattle, like the government officials who sold arms to Iran and provided money to the Contras, acted with both the logic and values of America’s political economy. They sought to accomplish goals contradicted by law but which they perceive as legitimate: to maximize profits, to protect America from communism, to expand markets, and to provide goods and services demanded by ‘the people’ or for people for whom they were working. One set of goals often necessitates a compromise with other goals or values. The members of the government, like the racketeers in crime networks, fight for the protection of values that are consistent with their worldview and sense of right and wrong. Not surprisingly, they are willing to violate the law to live up to the logic and values of their world.”

Corruption is like a prism with many surfaces. However, Gilinskiy (2009, p. 143) maintains the many forms of corruption fall into three models. He states, “There are three main sociological models of corruption: ‘*nomenclative*’ (infringement of official norms for the sake of private relations), ‘*market*’ (business activities for maximization of income) and ‘*private interest*’ (corrupt practices as a threat for public interest).”

The difficulty of selecting a definition of corruption that is acceptable to all users of the concept stems from the notion that the concept is a social construction. Gilinskiy (2009, p. 144) used the term, *social construction*, coined by Berger and Luckmann (1967) to explain that “society determines ‘constructs’: what, where, when, and under which conditions is considered as ‘corruption’, ‘crime’, ‘prostitution’ and so forth. How is corruption constructed? The process includes numerous bribes of different State employees; the consciousness of these facts as social phenomenon, as corruption, as social problem; the criminalization of some forms of corruption (for example, bribery, extortion, theft of treasury, etc., and so on.”

The notion that the social and cultural norms of a society tends to define what behaviors are acceptable and what behaviors are deviant and even criminal partially explains why those acts that are considered deviant or criminal that are encompassed under the concept “corruption” are categorized in terms of their gravity or harmfulness to society. Thus, corruption has been categorized into *routine* (giving presents, bribery) and *aggravating* (extortion and organized crime relations).

Prenzler, Beckley, & Bronitt (2013) uses the term *gray corruption* when referring to borderline acts committed by public officials (accepting small gifts) and *grand corruption* to designate corruption involving large amounts of money and major distortions of political policies, such as extortion, bribery, and graft. According to Heidenheimer et al. (1989), the concept “corruption” as a *social construction* is illustrated by the severity of corruption, based on the public’s opinion of the action. The term *white* corruption is used when the public does not regard that the corrupt activities are reprehensible, *gray* corruption when there is no public consensus regarding the action, and *black* corruption when there is general disapproval of the activities.

## Political Corruption

The draft of the United Nations convention contained the following provisions in its Article 1: “Each Contracting State undertakes to make the following acts punishable by appropriate criminal penalties under its national law:

- (a) The offering, promising or giving of any payment, or other advantage by any natural person, on his own behalf or on behalf of any enterprise or any person whether juridical or natural, to or for the benefit of a public official as undue consideration for performing or refraining from the performance of his duties in connection with an international commercial transaction.
- (b) The soliciting, demanding, accepting or receiving, directly or indirectly, by a public official of any payment, gift or other advantage as undue consideration for performing or refraining from the performance of his duties in connection with an international commercial transaction.”

Bribery, a form of corruption, can involve the direct or indirect offer or provision of any undue pecuniary or other advantage to or for a foreign public official, in violation of the official’s legal duties, in order to obtain or retain business. The Council of the OECD in the Recommendation on Bribery in International Business Transactions on 27 May 1994 adopted the following definition for the purposes of the Recommendation: “bribery can involve the direct or indirect offer or provision of any undue pecuniary or other advantage to or for a foreign public official, in violation of the official’s legal duties, in order to obtain or retain business.”

## Changes in the Perception of Corruption

Most scholars and researchers agree that the amount and gravity of corruption may vary, but corruption is a serious problem in all countries and is manifested in all sectors of the society. The methods used to corrupt and the opportunities available to engage in corruption have changed over the years.

If one goes back several centuries when kings, members of the aristocracy, and high-ranking religious figures had almost absolute power over their subjects to rule as they saw fit, most acts they engaged in were considered legitimate and not challenged by a legal or judicial body. Those who were in a position to engage in behavior that would generally be defined as corrupt by today's standards believed their actions were justified on the basis of the position they held. Monarchs who adhered to the notion of the *divine right of rulers* believed their powers came directly from God and thus their behavior could not be questioned. In the present time, the corruption of rulers and high-ranking officials must be disguised and presented as action that is beneficial to others, rather than being beneficial to the person engaging in the corruption.

Gilinskiy (2009), in his book on crime and deviance in Russia, traces the history of various forms of corruption that emerged in Russia during several centuries, as well as the changes that occurred in the way corruption was manifested during this time period. Gilinskiy, (2009, p. 145) notes that, "'Legal' corruption began in the IX-X centuries, when an institute called *kormlenie* (nourishment, feeding) was formed. The Russian head of state (prince, tsar) sent his representative to a province without salary, but with *kormlenie*. The people of the province were to provide for the representative, who had a lot of power. Local people started to bring 'presents' for favorable decisions. The institute was officially abolished in 1556, but the habit of bribing survived (and still does)." He states, "In the sixteenth century, '*Vymogatel'stvo*' (extortion) was acknowledged as a form of corruption. Corruption turned into an epidemic in Russia in the XVIII century. The Tsar (emperor) Peter I ('Peter the Great', 1672–1725) was very concerned with the mass corruption even to the extent of instituting the death penalty." Nevertheless corruption continued to flourish. A number of laws or edicts were put in place in ensuing years, focusing on various acts related to corruption such as fraud, but they did not curtail the growth of corruption in the Russian state. Gilinskiy (2009, p. 146) notes, "The Soviet State fought corruption too (also by death penalty since 1922), but nothing worked. It is known that corruption existed even during Stalin's totalitarian regime, although in complete secrecy. In the 60's and 70's the leaders of the Communist Party and the Soviet State (so called 'nomenclature') and soviet bureaucrats were absolutely corrupt."

In a global context, many contend that corruption is a regular, repetitive, integral part of the operation of political systems and that corruption pervades every level of government and the economy. The belief that all politicians are basically self-serving and corrupt is held by the large majority of the public, and it is reinforced when the mass media, law enforcement agencies, researchers, or investigative reporters expose major scandals relating to fraud and corruption in the government. In Chap. 2, corruption and fraud in Austria and other European countries are illustrated by the author through case studies and experiences derived from his long career as a police detective in charge of investigating major crimes. In Chap. 4, the authors use reports from the mass media to illustrate the political corruption in Australia and the effect corruption has on the welfare of the country. In some societies, as noted above, the citizenry has become so conditioned to those in powerful

politician positions being involved in corruption and criminal activities of various sorts that the stereotype of the “crooked politician” is accepted as fact, even though the large majority of those holding political positions may be honest. The recent obituary of Brendan Byrne, a former governor of the state of New Jersey, USA, places great emphasis on the fact that he was known for being honest above all other of his accomplishments.

**Box 1: N.J. Governor Known as Too Honest for Mob Shipkowski (2018)**

“Byrne, 93, was seen as politician who couldn’t be bought by crooks.”

“Byrne built his reputation as a crusading prosecutor and held numerous governmental positions during his more than 30 years of public service. He also signed New Jersey’s first income tax into law and authorized the law permitting gambling in Atlantic City during his two terms as the state’s chief executive.”

He won his first term as governor in 1973. His campaign was helped by an FBI surveillance tape that showed mobsters discussing how Byrne, the Essex County prosecutor in the 1960s, was too ethical to be bribed.

“In a New York Post headline, Byrne was proclaimed The Man the Mob Couldn’t Buy. That slogan ended up on bumper stickers that reminded voters in the Watergate era that not all politicians were un-scrupulous.”

In summary, political corruption cases are wrongful acts on the part of public office holders by misuse their office. Political corruption is a cooperative form of unsanctioned, usually condemned, policy influence for some type of significant personal gain, in which the gain could be economic, social, political, or ideological. The benefits received from political corruption mainly are:

- Influence on political parties
- Influence on elections and candidates
- Influence on entrepreneurs (e.g., construction industry, investors)
- Influence on members of the bureaucracy
- Influence on the media and journalists

## Political Corruption During Times of Change and Crisis

In the late twentieth century, a number of countries experience a drastic change in their political and economic structures. In Eastern and Central Europe, the fall of communist governments and the instituting of democratic governments and the opening up of international trade markets resulted in questions such as “What rules should a democratic society obey? What are the rights of the people living in a democratic society and what are the powers of political parties and political leaders?”

Kratcoski (2000, p. 32), commenting on the gaining of independence of counties under colonial rule on the various continents and the changes in government after independence was gained, states, "During the past several decades, we have seen numerous countries gain their independence. Often the peoples of these countries had been controlled by administrations from foreign countries for hundreds of years. For countries moving from a totalitarian form of government to a democratic form, the transition is not always smooth and in fact, may never be completely accomplished. In some cases, the new governments may be as oppressive as the old ones, and the structure and functions of the police do not change appreciably."

Cebula (1996, p. 77), in reference to the change in government in Poland and its relationship to crime, observed, "To the extent that crime is a product of socio-political change, crime rates are bound to increase much more during socialism-to-capitalism transition than during a capitalism-to-socialism transition." This assertion was confirmed in Poland as well as other countries in which drastic changes in politics, government, and the economic sector were made. Kratcoski (2000, p. 37) noted, "The late 1900s have seen dramatic increases in all crime rates, not just violent crime. This rise has been accompanied by increased brutality by criminals, increased and new types of organized crime, and the internationalization of the crime problem." Pywaczewski (2000, p. 154), writing on the relationship of crime and changes in government in Poland and other Eastern European countries that had transitions in government during the latter part of the twentieth century, stated, "In the 1990s Poland had reached an inglorious position among other countries with respect to crime figures. First of all, it had become a transit country for international drug trafficking along the so called Balkan and Asian routes. Poland is also the main smuggling route to the east for cars stolen in Western Europe. One can observe a recent escalation of criminal activity by international groups in the Baltic Sea countries. Drug production and trafficking, money laundering, trade in arms and radioactive materials, and the smuggling of stolen cars, cigarettes and alcohol are all problems which police forces in this part of Europe are faced with more and more often."

In Chap. 10 of this book, the authors focus on the challenges of controlling and combatting fraud and corruption in developing societies. Noting that, as in the past, corruption has been cited as the main reason for the failures of the attempted reforms in government and a smooth transition from an economy based on socialism to one based on capitalism, the authors note that countries with high corruption rates generally have a lack of democratic traditions. They state that, because of a lack of democratic tradition, processes of transition also have a deep impact on corruption in developing countries. In practice, the transition represents the collapse of political, economic, and traditional systems and the creation of a new system, a new society, and new values. The authors give several examples of how such a dramatic transition, brought about by a change in government, war, or internal conflict, can open up the door for corruption and other types of crimes.

In Chaps. 5 and 8, the authors show how even in developed societies with long histories of having stable governments and economic systems and natural and man-made disasters can offer opportunities for government officials and those in the corporate and business sector, as well as those in public service occupations, to

engage in corruption and fraud. In Chap. 5, the author traces some of the most common types of fraud that emerged after a catastrophic earthquake and tsunami that struck Japan. These included fraud in the building/construction industries and insurance industries, fraud by charitable organizations, theft of identity, and falsification of documents. In Chap. 8, the author uses reports on corruption and fraud related to natural disasters (floods, earthquakes, tornadoes, fires, hurricanes) and man-made disasters, such as terrorist attacks, to demonstrate how these disasters relate to fraud and corruption.

## **Fraud and Corruption Relating to the Financial, Corporate Sector**

Many of the theories developed to explain the causes of deviant and criminal acts of individuals can be traced back to previous centuries and other theories have emerged recently. These explanations often integrate information from biology, psychology, sociology, and many other disciplines. Unlike crimes committed by individuals, it is much more difficult to isolate and ascribe meaningful motives, qualities, and distinguishing characteristics to corporate entities or to those working within these organizations.

Edwin Sutherland introduced the concept of white-collar crime and provided the original definition in 1939. He refers to crimes by persons of high social status that are committed in the course of an occupation as types of white-collar crime (Sutherland, 1939). In this definition, the acts of individuals are included. The second part of the definition, however, appears to omit individual crimes, such as income tax evasion or credit card fraud, which are usually unconnected with one's occupation. Likewise, occupational thefts committed by working-class individuals, such as embezzlement or bribe taking, also seem to fall outside Sutherland's definition. Albanese (1995) contends that the complexity of the organizational behavior is a reason why corporate crime has not been researched more thoroughly until recent times. It is more difficult to determine and ascribe meaning, motivations, and distinguishing characteristics to corporate entities than it is to individuals. Although the meaning of the term *white-collar crime* is notoriously uncertain, nevertheless, the term has garnered worldwide recognition and has become part of both popular and scholarly literature everywhere. Hetzer (2012, p. 217) notes that despite the uncertainty of the exact meanings of the concepts white-collar crime, corporate crime, and occupational crime, the corruption, fraud, and various related crimes are intrinsically connected with the corporate and financial sectors of the economy in all societies. He contends, "However, more and more cases show that corruption has become a functional principle even in business conglomerates with traditions and worldwide operations. Some companies are high efficiency centers in which practices of organized crime have become routine in the conduct of business. Corruption in these businesses have assumed a systematic nature, and it is no more possible to deal with it by only sanctions of criminal law."

## Definition of Fraud

Fraud is defined as a criminal act in most criminal codes. In Chap. 1 of this book, the author uses the Legal Dictionary definition of fraud (Legal Dictionary, 2017, p. 1) that defines fraud as, “A false representative of a matter of fact—whether by words or by conduct, by false or misleading allegations, by concealment or what should have been disclosed—that deceives and is intended to deceive another so that the individual will act upon it to her or his legal injury.” The Legal Dictionary (2017, p. 1) also states the elements that must be proven in the prosecution of fraud. They are a false statement of a material fact, knowledge on the part of the defendant that the statement is untrue, intent on the part of the defendant to deceive the alleged victim, justifiable reliance by the alleged victim on the statement, and injury to the alleged victim as a result. In Chap. 1, the author gives a number of examples to illustrate the connection between fraud and corruption. Fraud is one avenue that can be used in corruption. In Austria, the definition includes a bad will to cheat somebody and a material threat or damage that happened to someone. In practice, fraud and white-collar crime are based nearly on the same deviant behavior. Analyzing the phenomenon of fraud as one of the main domains of organized crime, it comes out that in many cases, as is the case of corruption, it is the starting point of other deviant activities. As is well known, corruption always goes hand in hand with greed and the tendency to get an unfair advantage or influence political or economic powers.

Fraud has been manifested in conjunction with a number of other types of crime or as a vehicle to assist a criminal action. Several examples of major forms of fraud are given below:

### **Falsification of Documents and Identity Cards**

*False identity cards and false documents have always been the basis for fraud. Many employees of finance institutions and banks do not check identity cards and documents to see if they are authentic, that is, they do not follow the basic rule “know your customer.” In the experience of the investigative police, it is international fraudsters who use false or altered identity cards and documents the most frequently. Since the opening of the Eastern European borders and with the greater mobility of people, many more individuals come into Europe with counterfeit identity papers. To hide their real origin, they procure false identity papers on the black market and use these documents for entry into a country of their choice. Presently, being aware of the increase in the fraudulent use of identity cards, the police are examining more identity cards, passports, driving licenses, and other identity papers for evidence of falsification.*

*Money Laundering, Electronic Banking* Drug trafficking was originally considered to be a matter for national concern, but its international nature quickly became apparent. Law-enforcement authorities first began to cooperate on an international basis via informal dialogue and through Interpol. In 1988, the Vienna Convention established a legal framework for fighting drug-related crime, and in 1990 the Council of Europe Convention sought to tackle money laundering related to all

*types of crime, drug-related or otherwise (including money laundering related to card and check fraud). Both the G-7 and European Union have adopted measures to combat financial crime – the former by endorsing in 1989 the 40 Recommendations of the Financial Action Task Force and the latter by adopting Directive 91/308/EEC on money laundering. Slowly but surely, governments have adopted concrete measures and started legal and judicial cooperation which, although insufficient, should have a deterrent effect upon money launderers. For money-laundering purposes, Austria has become a very interesting country: it has a stable currency, a safe economy, a liberal foreign exchange policy, and, moreover, the banking secrecy and the possibility for the foreign money launderer not to reveal his personal data as a bank customer – the customer may remain anonymous, a fact, which is also quite interesting to Austrian money launderers.*

*“The expression “money laundering” implies that filthy money is put into a “washing machine” and clean white money comes out after the laundering process.” Money laundering is a process through which profits generated by criminal activities are transported, transformed, and converted to or mixed with legal funds, with the intention to conceal or hide the real origin, the kind, and the disposal of such profits (legal definition of money laundering in Austria”): see Art. 165 StGB). There are three phases in a money-laundering process:*

1. The placement – channeling cash money.
2. The adjustment – changing cash money into disposable financial assets.
3. The reintegration – the “black money” is now laundered, it becomes “normal money” again, and it cannot be recognized anymore as black money.

Austria, as a member of the European Community, introduced laws against money laundering in the penal code and in the new banking laws in 1993 and 1994. After these legal provisions were issued, a special bureau dealing with these forms of crime was installed in the Federal Ministry of Internal Affairs. Suspicious transactions have to be reported to these special bureaus by the banks. Since 1994, more than 2400 suspicious transactions were reported to the authorities. A new method of transferring of suspicious transactions is the method of electronic banking. Currently, there are no ways of controlling the fraudulent activities.

In Chap. 2 of this book, the author explores the various forms of fraud and corruption found in Austria and other countries throughout Europe. As mentioned earlier in this chapter, the collapse of the Soviet Union, the gaining of independence by nations that were formerly under the Soviet Union, and the opening of the European borders resulted in large-scale movements of people across the borders, and the instability of the governments of many of the new democracies resulted in increases in international crimes, particularly those relating to corruption and fraud. Austria, located in the center of middle Europe, serves as a pass-through country for those engaged in crime, including those engaged in money laundering.

Bassiouni and Gualtieri (1997, p. 149) contend, “The international legal community has responded to money laundering with actions at various levels- internationally regionally and domestically – though with differing commitments and

widely different means.” Various nations have enacted legislation, created task forces on the national and international levels, and have committed to international agreements. Research has revealed that money laundering has opened up a major avenue to finance terrorist organizations and organized crime groups as well as legitimate businesses and financial institutions. Antinori (2012) explains how fraud and corruption are used by criminal organizations to infiltrate legitimate businesses and how, through money laundering, the criminal organizations are able to buy into legitimate businesses. It is expected that money laundering will play a major part in the expansion of all types of crime as the global society continues to develop.

**Insurance Fraud** Insurance fraud is not a new problem. Insurance fraud has been committed ever since insurance has been available in the market, in all classes of business, and all over the world. Insurance fraud is a crime against property. The specific nature of insurance fraud is due to the insurance contract, which makes the obligation of the insurance company to indemnify the insured contingent on an uncertain, future event. In the case of insurance fraud, such an event is:

- Brought about on purpose.
- Pretended to have occurred.
- An actual loss is exploited.
- A contract is made on an unlawful basis.

In Chap. 9 of this book, the authors note that insurance fraud is often connected to the criminal acts of homicide, bodily injury, traffic accidents, robbery, burglary, motor vehicle theft, embezzlement, check and credit card falsification, arson, worker compensation, industrial accidents, and drug-related crimes. Attempts to profile the typical insurance fraudster reveal that the large majority are nonprofessional criminals. They can be found in all classes and in all age groups and are represented by both men and women.

In Chap. 6, the author focuses on fraud and corruption in health care, social security, and employment disability. In regard to fraud relating to health-care insurance fraud, there are numerous examples of fraud committed by the health-care medical treatment providers, health-care service providers, bribery of politicians who have the power to sponsor legislation, and fraud in the pharmaceutical industry, as well as by those who receive health-care benefits. Kratcoski and Edelbacher (2015, p. 69) note, “Although the majority of insurance fraudulent claims are made by those holding insurance policies, legal providers of services and insurance companies also commit fraud by inflating billing, deliberately misrepresenting the facts of a policy, not paying appropriate worker’s compensation deductions to the government, and even embezzling funds collected from policy holders.”

The investigation of potential insurance fraudsters is typically a joint effort of private investigators employed by the insurance agencies and public law enforcement officials. The inquiry will be begun by private agents, and if it appears that the criminal code has been violated, police investigators become involved. According to the Austrian Criminal Code of 1975, the definition of insurance fraud is met if there is an intent to cause damage, a loss has occurred, and/or an attempt has been made to cause a loss.

In the course of the revision of the Austrian Criminal Code, Section 151 was introduced as a special provision covering insurance abuse. However, it turned out that in practice this provision is no more than a dead letter, as it is only applied to a very limited extent – mainly in the case of fictitious ski theft. The provision of Section 298 of the Criminal Code regarding the pretense of a punishable act is applied occasionally. As a matter of principle, the police and the law enforcement authorities apply the general provisions of the Criminal Code regarding fraud, i.e., Sections 146 and following, to combat insurance fraud.

## **Fraud and Corruption in the Construction and Building Trades**

Meissnitzer (2016, p. 91) contends that a so-called construction mafia and organized social fraud exist as a part of the informal economy in any trade or industry in which there is a need for low-skill workers who are willing to work for minimum wages. The concept “construction mafia” usually refers to “undeclared work.” The work is not illegal, but the fact that the employer does not list the employees on the payroll nor deduct taxes such as those required for unemployment and social security benefits is illegal. For example, in Austria as well as most industrial countries of the world, in general, the employer is legally required to immediately register a new employee at the social security institution, deliver the necessary contribution data, and eventually pay social security contributions and wage taxes.

Fraud is committed when employers hide the identity of the employer completely by creating a transient, so-called “letterbox” company and outsourcing the employees to the letterbox company. The concept of social security fraud is usually associated with defrauding the social security or welfare system by claiming various types of benefits without being legally entitled to them. Other fraudulent activities often found in the construction and building trades sector include subcontracting pyramids, kickback payments, money laundering, and payoffs to inspectors and other officials. In Chap. 6, the author provides an extensive examination of fraud in the health-care system in the United States, as well as fraud in other government entitlement programs.

## **Fraud and Corruption: Prospects for the Future**

What we experience today in all continents, countries, and regions is the fact that greed and materialism will likely continue and increase in the future. As a consequence, fraud, especially white-collar crime, financial crime, and corporate crimes, will have an even greater effect on the welfare of countries throughout the world than the effect fraud and corruption has at the present time. As the world has become a global village, as a result of modern communication technologies and the high mobility of people, money, and business, criminals are enabled to act internationally.

Fraudsters can build and use their networks much more easily and have become very skillful in cheating states, companies, and individuals. Different frame conditions also effect these developments. The gap between the rich and the poor is widening in many countries, and the rich are looking for best practices to avoid paying taxes by using financial havens around the world. It is estimated that in so-called offshore centers billions and billions of dollars are placed in banks and dummy companies, and this money is protected from the scrutiny of inspectors and government officials. In Chap. 2, the author reveals the methods used by organized crime groups, such as money laundering, bribery, and other forms of crime to corrupt politicians and corporate the leaders and public officials, such as police and judges, to infiltrate the business sector of a country. States, governments, and international organizations are not able to get control over the rich becoming richer or over international companies avoiding taxes by choosing tax havens. These facts weaken democratic societies, especially the civil society, and diminish every possibility of the citizenry gaining some equality with the rich in income and standard of living. In the present society, an age of materialism, the directives come from the powerful, those who are rich and control large amounts of the resources, the rich people. When one looks back into history, and the major events of the past, we find that people appear to be content and do not disrupt the normal day-to-day life as long as they have food and can afford a nice quality of life, with vacations, free time for recreational activities, and education possibilities for their children. When people are in danger of losing their hopes, their homes, their jobs, their future, often they become so frustrated they believe the only answer is to drastically change the system, even through a revolution. They lose faith in their political leaders and consider all politicians to be self-serving and corrupt. This conception is reinforced when political leaders and other officials are found to be engaged in numerous corrupt activities.

If we listen to the forecasts of the future of international organizations, the perspectives are not very positive. Global warming, pollution of air and water, and the growing number of people facing shortage of resources, water, and fruitful areas to live will reduce the possibilities for a positive future. People fear wars will come because of these shortages. Such shortages may result in an end to the era of peace and freedom we now have and the level of insecurity of the people and the gap between the “haves and the have nots” may become a more serious problem in the future.

To illustrate these in Europe, where two World Wars occurred, the period of peace from 1945 to 2017 was extremely fruitful for the generations born after 1945. Those who are older remember the stories told by our fathers and grandfathers who experienced terrible fates by being sent to fight for their countries. They suffered enormous dangers, were wounded or incapacitated, and lost their health, their youth, and their work. Their wives and children had to start with nothing after the end of the wars. Without the help of the Marshall Plan of the United States, it would not have been possible for Europe to recover so quickly. Today, listening to the reports of media, it seems that people forget very quickly how important peace is for the global society. New powers, dictators especially, want to set the world on fire to get

more influence and recognition. This is the same game that Napoleon, Hitler, or Stalin played during the time they were in power. We are educated in schools and universities about these historical facts, but it seems that some of us are not able to learn from history.

Austria, for example, is a rather small country, but it has experienced a lot of fraud and corruption in the last 20 years. When there was a political change in 2000, a new, conservative government coalition took over and the number of corruption cases increased dramatically. After the outcome of the 2017–2018 elections in Austria with a conservative dominated government, there was a fear among some that the amount of corruption will increase. A large number of criminal court cases involving corruption and fraud originated when corruption occurred when the government changed in 2000 and when the conservative government lost its power in 2005. Some people of Austria predict that there will be a new influx of similar criminal cases in the future. There is a traditional saying, “The lambs choose their one butchers.” Although the old corruption and fraud cases have not been finished, there seem to be new opportunities for corruption and fraud in the future.

## **Methods to Prevent and Control Fraud and Corruption**

As previously mentioned in this chapter, innovations in communications systems such as the Internet as well as in other technologies have made it easier for criminals to commit crimes, to cover up their crimes, and to hide the fruits of their labor. However, these same technologies are used by those responsible for investigating criminal behavior and exposing it. Investigative reporters have identified this trend. Mills (2012, p. 205) states, “When we talk about the frontline in the fight against corruption, we usually think of law enforcement officials, government governments, and government agencies like the United Nations (UN), and non-government organizations (NGOs) such as Transparency International. However the media constitutes other crucial actors often overlooked in the anti-corruption battle.” Mills provides many examples of countries throughout the world where journalists have exposed corruption in the government, organized crime, and the business sector, often at great risk to their personal safety. Often, rather than receiving cooperation from the law enforcement agencies and other justice agencies, such as the judiciary, these representatives of justice inhibit their efforts to expose the corruption. Mills (2012, pp. 211–12) contends that a holistic approach to fighting corruption is needed. He states, “The education and training of police officers, lawyers, and other critical components of the fight against corruption should include those in the law enforcement and legal professions and also those working in the communications areas and those who perform social research such as educators. Interaction and mutual trust are required if these separate organizations and individuals are to be successful.” In Chap. 4 of this book, the authors demonstrate how the mass media helped to expose and publicize fraud and corruption among government officials in Australia.

Transparency International (TI) (2018, p. 1), created in 1993, now works with various governments and nongovernment organizations in 120 countries. It has a mission of fighting corruption in government, companies, and public service agencies. TI (2018, p. 3) states, “Transparency International gives voice to the victims and witnesses of corruption. We work together with governments, businesses and citizens to stop the abuse of power, bribery and secret deals.” International anti-corruption conventions have been created, corrupt leaders have been prosecuted and their assets illegally gained have been seized, companies have been held accountable for their behavior, and the exposure of corrupt officials has led to their defeat in elections.

In Chap. 12, the author reiterates and presents information on the role of the United Nations Convention Against Corruption (UNCAC) and the civil society in combating corruption in Armenia. Nongovernment organizations and community volunteer groups work with professional organizations, including the press, to expose corruption and lobby for the passage of legislation pertaining to the prevention of corruption.

Governments and justice agencies, on both national and international levels, have made considerable efforts to prevent and control corruption and fraud through the passage of legislation and the implementation of crime prevention programs. Kratcoski (2012, p. 386) states, “Interpol serves as a clearing house for the collection and distribution of intelligence about crime-related activities and locations of wanted criminals. With nearly 200 member countries, Interpol, in a sense, is the largest law enforcement agency in the world. It not only provides information but is also involved in the training of police investigators of crime, particularly crimes that are most prevalent on the international level, such as money laundering, drug and weapons trafficking, terrorism, and others.” Interpol works very closely with the United Nations. In Chap. 13, the author provides several information on laws and justice agencies used by the Italian government to combat corruption related to organized criminal groups and terrorist organizations. Other significant movements toward developing international cooperation are the Schengen Network, under which the Schengen Information System (SIS) is housed. It maintains and distributes information about criminal activities and individuals and facilitates communications between all of the member countries. Andreescu and Maime (2010), speaking of global crimes that must be combatted, particularly crimes related to the financing of terrorism and drug trafficking and crimes in which organized crime groups are involved, note, “Fraud represents a worldwide problem and is increasingly used by criminal organized groups to generate money to finance drug trafficking, trafficking in human beings, identity fraud, counterfeiting, and terrorism.” The rapid development of modern technology has had an impact on the efforts of law enforcement agencies throughout the world. An important international organization developed to combat crime among the European Union nations is the European Union Agency for Law Enforcement Cooperation (EUROPOL). Andreescu and Maime (2010, p. 201) state, “Its mission is to assist the law enforcement authorities of the EU member states in their fight against serious forms of organized crime and terrorism.” While not a law enforcement agency per se, Europol has the power to

collect and distribute information on crime and criminals and assist in criminal investigations.

Kratcoski and Kratcoski (2010, p. 11) note, “After the terrorist attacks of 9/11/2001, the (U.S.) justice agencies having the responsibility to protect the security of the nation expanded their international programs, changed the focus of many of their programs to combatting terrorism, and increased the number and type of international agreements.” The leading agency in combatting international crimes, the Federal Bureau of Investigation (FBI), has established legal attaché offices throughout the world. Kratcoski and Kratcoski (2010, p. 11) state, “The FBI agents assigned to these offices work with the police of the host countries in coordinating international investigations, linking U.S. and international resources in critical criminal areas, and providing training in speciality areas.”

One aftereffect of the 9/11 terrorist attack on the US World Trade Center and the Pentagon was the enactment of legislation by numerous governments, including the United States, directed at strengthening national security through the prevention of criminal activity, particularly crimes such as money laundering, trafficking of weapons and drugs, fraud, and corruption that are frequently committed by organized criminal groups and terrorist organizations. For example, the US Congress enacted the USA Patriot Act in 2001. Several sections of the Act (Kratcoski & Kratcoski (2010, p. 376)) pertain to domestic security, the collection of electronic evidence, regulation of and restrictions on banks suspected of handling funds used to finance terrorist activities, increased security of US borders, and other measures relating to crime prevention. Title III, known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, addresses the need to reduce opportunities for terrorists and other criminals to use illegally obtained funds to finance their activities. (Kratcoski & Kratcoski, 2010, p. 376). Among the provisions of Title III are developing means for the United States to prevent, detect, and prosecute money laundering, strengthening the provisions of the existing laws pertaining to money laundering, and instituting measures to prevent US financial institutions from receiving personal gain through the actions of corrupt foreign officials or the sale of stolen goods. In 2003, the US Congress authorized the creation of the Department of Homeland Security. As a result of this Act, more than 20 law enforcement, investigative, and security agencies concerned with the protection of the security of the United States were integrated into the Department of Homeland Security Structure (Edelbacher & Kratcoski, 2010, p. 108).

## Summary

In this chapter, the concepts fraud and corruption were analyzed from their historical roots to their manifestation in present day society. It was noted by the authors of the various chapters that fraud and corruption can be found in all societies and at all levels of governments as well as in the corporate, business, finance, educational, medical, and other public service institutions.

Although fraud and corruption exist in all societies, the severity of the problems they create for the societies is not the same. As was noted by the authors of several of the chapters in this book, the amount of corruption and fraud, the types of corruption and fraud, and the ability of the government to prevent and control corruption and fraud are dependent on a number of factors, including the culture, traditions, and values of the society, the stability of the government and economic development, the effects of catastrophic natural and man-made events, and the will of the people to control fraud and corruption.

Several of the chapters in the book focused on methods used to prevent fraud and corruption. It was emphasized that the mass media and the citizenry will play a greater role in the prevention and control of fraud and corruption in the future than was the case in the past. The mass media, through investigative reporting, has been successful in unmasking corruption by high-level officials in government, as well as in the corporate sector and in public services institutions. The connections of legitimate organizations with organized crime has also been revealed through exposes by the mass media. The development of the Internet has helped to facilitate the goals of those criminals engaged in fraud and corruption, especially at the international level. However, the Internet and other developments in technology have helped in the prevention of fraud and corruption through educational programs and communication linkages with law enforcement agencies. These same technological innovations that have helped criminals also have helped investigative agencies and law enforcement agencies in the development of cooperative and communicative ventures with other agencies involved in the prevention and control of fraud and corruption.

Finally, the efforts of the civil society in the prevention of fraud and corruption, as well as the exposure of those high-level officials engaged in criminal acts relating to corruption and fraud have been effective. Through the efforts of nongovernment organizations (NGOs), the crimes of government leaders and as corporate moguls have been exposed. It is expected that the civil society will continue to play a major role in the prevention and control of crime related to corruption and fraud in the future.

The efforts of governments and justice agencies, on both national levels and international levels, have made considerable efforts to prevent and control corruption and fraud through the passage of legislation and the implementation of crime prevention programs.

### **Discussion Questions**

1. Discuss the meaning of the concept social construction as it applies to the public's perception of the amount and types of corruption in a particular society.
2. Discuss the ways the development of the Internet has affected fraud and corruption in the international realm.
3. Discuss the effect the mass media has had in the exposure of fraud and corruption. To what extent does the media help to prevent fraud and corruption?
4. Discuss the major factors that motivate people to engage in corruption.

5. Consider the statement “Those in powerful positions in all forms of government, business, education, trades, and public service occupations engage in corruption.” To what extent, if any, would you modify or qualify the statement?
6. Discuss the harmful effects to society that occur because of corruption and fraud found in any given country.
7. Discuss some of the methods used to combat fraud and corruption at the global level.
8. Look into the future, what would you predict to be the major forms of corruption that will threaten the welfare of societies?
9. Discuss the methods of corruption used by organized criminal groups to infiltrate the financial and corporate realms.
10. Distinguish between “gray” and “black” corruption. Which category is likely to have the larger number of corrupters? Which category is likely to cause the most harm to the welfare of society?

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