

## Costs of Corruption Weigh Heavily on Illinois

By Jim Nowlan

*This essay by former TFI president Jim Nowlan assesses both the hard dollar as well as the hidden, probably impossible to quantify, costs imposed on Illinois by what Jim considers a "culture of corruption." Jim is a former chair of the Illinois Executive Ethics Commission, a state agency. He and J. Thomas Johnson, another former TFI president, are authors of Fixing Illinois (University of Illinois Press, 2015).*

The costs of corruption in a state reputed for it are real, varied and high, though damnably difficult to quantify. I suggest below that the hidden costs of corruption in Illinois are probably multiples greater than the evident, dollar-denominated budgetary costs associated with stemming corruption in our state and local governments in Illinois.

I define public corruption simply as "personal gain at public expense." For context, let's look at just a few of the hundreds of convictions for public corruption across history in Illinois. For a more complete, and distressing, litany of corruption, see *Corrupt Illinois*, the 2015 book by Thomas J. Gradel and Dick Simpson.

My first acquaintance with corruption was a story told to me in my childhood in the 1940s. My Uncle John Sanner was chair of the Stark County (IL) Republican Central Committee. A house painter, Uncle John was pleased when the office of governor Dwight Green (1941-1948) offered him a state job. He accepted and a couple of months later, uncle began receiving regular paychecks. But he had no instructions as to where to report nor of what to do.

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## NOTES FROM THE INSIDE. . .

By Carol S. Portman

For this month's issue of *Tax Facts* we turn from specific tax issues to the broader societal issue of government corruption in Illinois. We approached one of our favorite authors, former TFI President Jim Nowlan, handing him the daunting task of quantifying the cost of government corruption to Illinois citizens.

Jim defines corruption as “personal gain at public expense,” and gives us a colorful history dating back to before statehood. He shares insights on how corruption affects business and the state's economy, attempts to compare corruption in Illinois to that in other states, and he reviews efforts to stem corruption in state government, from employee ethics training to procurement “reforms.”

Jim ticks off what Illinois taxpayers spend to fund the auditor general, various inspectors general and other entities charged with keeping state government above board. But he concludes the real costs of corruption – the damage to our economy – are great, but “damnably difficult to quantify.”

On another note, TFI will host its 18<sup>th</sup> annual Illinois State and Local Tax Conference on September 26 at the Meridian Conference Center in Rolling Meadows. We have another great line-up of speakers and topics. Please join us for this worthwhile event.

After a while, Uncle John called Springfield, asking about where to report and work. “Oh, you don't have to report anywhere, or work,” said the representative of Gov. Green, maybe amused by uncle's naivete.

Uncle John was to be a “ghost payroller.” He turned the job down and returned to shoving heavy wood extension ladders up the sides of houses.

Much earlier, even back to gaining our statehood in the early 1800s, territorial and later elected governor Ninian Edwards decried the corrupt practice of “treating” citizens to alcohol and food in return for their votes. Such “vice and depravity would confine elections to the rich, as they alone could meet the expenses of elections,” said Edwards, a former secretary to President Thomas Jefferson.

In the 1884 mayoral election in Chicago, according to an investigation by the Union League Club of Chicago, fraud was so pervasive that an honest vote appeared quaint. In one precinct, 907 of 1,112 votes cast were found to be fraudulent. In another, more votes were cast than population in the precinct. Of 171 precincts analyzed, only seven were found to be without irregularities.

In 1909, supporters of U.S. Rep. William Lorimer paid \$100,000 in bribes to 40 Illinois House Democrats for their support to elect Republican Lorimer to the US Senate. Two years later, Lorimer was expelled from the US Senate because of the bribery. This reignited the drive, successful in 1913, to amend the US Constitution to provide for the citizens instead of state legislatures electing U.S. senators. The bribe of about \$2,500 per lawmaker was, by the way, big

money; at the time, Henry Ford's new Model T was selling for \$750.

In 1910, Des Moines Register cartoonist J. N. (Ding) Darling published, "What's the Matter with Illinois?" (see page 4). The cartoon depicts Illinois politicians, including Lorimer, in a pig pen of graft and corruption. Farmers from neighboring states look over the fence, wondering quizzically why Illinois is so corrupt—and different from its neighbors.

The most disheartening corruption of all, to me anyway, was uncovered in the 1980s when 150 judges and other officers of the Cook County Court were convicted of bribery, even to quash likely convictions for Mob-instigated murders.

I invariably get a knowing chuckle from Rotary Club audiences when I note that I have worked in fairly senior positions for three unindicted governors, to wit: Richard Ogilvie (1969-72), Jim Thompson (1977-1990), and Jim Edgar (1991-98). Those three contrast with Otto Kerner (1961-68), Dan Walker (1973-76), George Ryan (1999-2002) and Rod Blagojevich (2003-2009) who were indeed convicted, though Walker for "white collar" misdeeds rather than for public corruption.

### **Statistics bear out reputation of Illinois for corruption**

From 1976-2012, only Louisiana among the 50 states recorded more convictions for public corruption as a percentage of population than Illinois. In the same period, the US Court for the Northern District of Illinois (metropolitan Chicago) recorded more such convictions (1,597) than any other federal district court in the nation, with Central Los Angeles (1,341) and New York Southern (Manhattan) (1,247) coming in second and third.

Possibly even more damaging is the strong *perception* among many Americans that Illinois is corrupt. I conducted a survey in 2012 that asked 1,000 respondents across the country to name what they believed to be the most corrupt states in the nation. One-third of those surveyed identified Illinois, unsolicited, as such, following only New York and California, which had more mentions. A full 45 percent of respondents over age thirty-five named Illinois as one of the most corrupt. Other Midwestern states were rarely mentioned by respondents as among the most corrupt, which makes Illinois stand out like a sore thumb, just as in Ding Darling's cartoon a century earlier.

### **So, what are the costs of all this corruption?**

Nobody really knows, of course, because the costs are mostly hidden in the interstices of life, as I will try to explain a bit later. But let's start with the easy stuff, which we can count.

Of course, we want to reduce "personal gain at public expense," which as such seems maddingly unfair to you and me, the taxpayers. Thus, we pass laws to combat corruption, prosecute it where we can find it, and create government watchdogs to prevent it from occurring in the first place.

For example, in the 1950s elected Auditor of Public Accounts Orville Hodge was convicted for embezzling \$1.5 million from the state. As a result, the framers of the 1970 Constitution created new arrangements for monitoring how state dollars were expended. The old Auditor was responsible for both the pre-audit as well as the post-audit, which made absconding with state money easy for Hodge. A new office of the Illinois Office of the Comptroller was given responsibility for the pre-audit of state funds and a new



legislative branch office of Auditor General that of the post-audit.

Later, in the early 2000s, as the Blagojevich Administration was imploding in corruption, the legislature created several new agencies: the offices of Executive Inspectors General; the Executive and Legislative Ethics Commissions; and the Procurement Policy Board, to oversee the Illinois Procurement Act.

The costs of these offices can be counted, using 2014 budget year figures, the last year Illinois had a comprehensive budget, to wit:

<b>State Anti-Corruption Entities</b>	
Illinois Auditor General	\$29.0 million
Executive Inspector General	\$7.5
Executive Ethics Commission	\$.5
Legislative Ethics Commission	\$.3
Illinois Procurement Act	\$6.0
Procurement Policy Board	\$.5
<b>Total</b>	<b>\$43.8 million</b>

The above figures cannot all be counted as the costs of preventing and rooting out corruption. The Auditor General does more than ferret out corruption, of course; the office looks at compliance and management issues as well. Ditto for the inspectors general. (There is one inspector general for each of the five constitutional offices; the figure above is that for only the IG in the Office of the Governor, by far the largest such IG office.) The 80 staff may assist state agencies with making the most cost-effective purchases, and not just with preventing corruption.

However, the figures do not reflect the increased cost to agencies in dealing with the procurement staff and having to run justifications for buying a needed item to another layer of bureaucracy.

So, you can see how difficult it is to quantify the costs of corruption.

Then we have the courts. Most oversight and prosecution of corruption in Illinois is conducted by the US Department of Justice and its district offices of the US Attorney (three districts in Illinois, with the Northern District of Illinois [metro Chicago] by far the largest in the state).

I asked a former presiding judge for a federal district court in Illinois about the costs of prosecuting corruption, and his response illustrates why it is difficult to quantify:

Only the U.S. Attorney for the Northern District could come up with the time spent on their end of a prosecution. Then we have the cost from the IRS and the FBI for time expended. Finally, the cost of each Grand Jury and Jury Trial would be the cost of payment of jury fees and mileage for jurors. Then the U.S. Marshal would know if they had to pay extra funds for security and over time in very high-profile trials when the Mafia might be involved in political corruption jury trials. I have now given you just some factors that lead me to the conclusion that it is not worth the effort and impossible to calculate.

I'll attempt a high-level guesstimate by looking at expenditures by the US Department of Justice for 2013, latest year available. Total expenditures by the agency were \$33 billion. If Illinois, with its 4 percent of national population, were the object of proportional expenditure, that would amount to about \$1.3 billion. If, say, 10 percent of that

expenditure went for public corruption activities, that would be about \$130 million.

Dick Simpson has been a professor of political science at the University of Illinois at Chicago since the 1970s. Simpson has studied corruption in Chicagoland and Illinois more closely than anyone. He estimates the total, overall costs of corruption in Illinois at all levels of government at about \$500 million a year. To arrive at Simpson's estimate, he and his graduate students have over the years meticulously accounted for estimated costs of corruption trials and investigations, embezzlements and more.

The US government reports that in 2017 Illinois state and local governments will spend a total of \$153 billion. Simpson's half a billion dollars in corruption represents one-third of one percent of total expenditures.

This brings us to what I call the "hidden costs" of corruption, which I contend are much more devastating for Illinois than the hard costs, if only I could quantify them.

### **Hidden costs of corruption weigh heavily on Illinois**

In 2011, I took a survey of economic development professionals across Illinois about their work, and 70 responded. These are the folks who work to attract business to a community. Among several questions, I included one that asked these professionals if perceptions of corruption in Illinois had a negative impact on their recruiting efforts. Three in four respondents said corruption had either a "negative" or "strongly negative" impact on their recruiting.

Among the written responses to this question, two provide particular insight. Said one: "Unfortunately and especially in manufacturing and international circles, there is an

understanding that corruption in Illinois that once occurred at an individual level has moved to systemic corruption."

The other adds: "As part of an economic development marketing group that spans Illinois and Iowa, I keep hearing that Iowa makes sense as a business location if you just want to fill out an application and have a transparent process. Illinois works better if you have political clout and are willing to use it. I think that is a travesty and that Illinois is becoming known for 'pay to play'."

How do you quantify that? How much business employment for Illinois may have been lost—even with our state's possibly unparalleled strengths in transportation infrastructure and location—because of negative perceptions about corruption?

The negative perceptions may even affect residential location. In the 2012 survey about public perceptions as to which states are considered most corrupt, I asked respondents if knowing about corruption in a state would affect their attitude about decisions to reside in a state. Sixty percent responded that it would have either a "negative" or "strongly negative" effect on their decisions. Of course, many factors go into such decisions, and it is easy to throw off a "negative" response to such a question. Yet, one can only wonder about the role of such perceptions in creating a larger picture in the heads of families as they make decisions about where to locate.

Public corruption may have undermined Illinois voters' sense of trust and political efficacy, according to Professor Kent Redfield, a longtime observer of state politics based at the University of Illinois at Springfield. Why apply for a city or state job if you think only friends of political

## “Legal” Corruption, Exploiting the Law for Personal Gain

Then there is “legal” corruption, that is, personal gain at public expense that offends us by exploiting but staying within the law. I cite three types, among others, that are well known to observers of Illinois politics and government: egregious boosting of government pension benefits unrelated to the public service provided; the Cook County property tax assessment game, and the “carrying costs” of “paying to play” in order to receive state contracts.

As to abuse of pensions, a Chicago Tribune investigation in 2011 revealed, for example, that a Chicago alderman doubled the annual state legislative pension of his friend, a former Illinois House member, to \$120,000, as a result of a single month of employment with a city council committee the alderman chaired.

Political candidates have recently been very publicly resurrecting the allegation that Illinois’ property tax system is “corrupt,” pointing fingers at those they claim are benefitting. And it is true that the Cook County property tax assessment process has offered at the least the appearance of impropriety. When I was president of the Taxpayers’ Federation of Illinois in the early 1990s, I recall a meeting in Chicago at which a tax executive for a major national corporation exclaimed: “My company owns property all over the nation, and yet this is the only county (Cook) in which I have to hire outside lawyers to handle my property taxes.”

The game has been, in effect, as follows: The elected county assessor, historically a Democrat, assesses large commercial or industrial properties at more than the property owners believe they are worth. Then, the owners employ politically-connected firms to appeal their assessments. Everyone “wins.” The property owner frequently sees his assessment lowered. The property tax law firm earns big fees. Elected officials such as the assessor receive contributions from the law firms to fund their campaigns. Nothing illegal—no bribes or improper contacts—but to the average citizen, this looks fishy.

In terms of “pay to play,” the state of Illinois “carrying costs” of contracting with the state have often benefited officeholders of both political parties. In simplest terms, law firms, road contractors and others wanting to do business with the state have in the past made major contributions to elected officials in return for preference in contracts. I have been told the contributions would be from one to five percent of the amount of the contract. Obviously, this “carrying cost” was built into the price of the bid for state business, which increases the cost of state government operations.

The total value of procurements authorized in 2015 was almost \$13 billion. One percent of that amount is \$130 million.

A highly respected economic development executive in the Quad Cities, which bridge the Mississippi River across Illinois and Iowa, told me, now a couple of decades ago: “If you want to do business in Iowa, you go in the front door. If you want to do business in Illinois, you go in the side door.”

Some of the practices identified above have been constrained, for example, by the Illinois Procurement Act of 1999, and by legislative enactments that limit, but do not eliminate, the game of ballooning government pensions. A US Supreme Court decision, titled *Rutan v. Republican Party of Illinois* (1990), forbids hiring in state government on the basis of political party affiliation. There have been other decisions as well, all from federal courts, that limit hiring based on political considerations.

Yet the taint lingers, certainly in the minds of the public.

insiders will be hired? Why not pay a bribe to get out of a drunken driving charge if you think that's what others would do in your situation? Voters may sometimes chuckle at the antics of corrupt officials, but in the end we feel powerless, lose faith in our governments and vote less often because we believe the fix is in.

In a paper delivered in 2012 at an ethics conference in Chicago, Lilliard Richardson reported on his 2008 study of national elections in which he found that "convictions (for public corruption) per capita are strongly associated with lower political activity across the board."

### **Why do Illinoisans commit more public corruption than residents of most other states?**

Ask close observers of Illinois politics why we appear to have more corruption than most states, and the answer I hear most often is that Illinois has "a culture of corruption." Culture is often defined as "attitudes and values shared by a group." In other words, according to some of my observer friends, the attitudes and values of, say, Minnesotans is that attempts to corrupt or take advantage of government for personal gain have traditionally been viewed as highly inappropriate, even abhorrent. In contrast, they say, many Illinoisans may have learned from family and community that it is okay to take advantage of government inasmuch as others would do so if they had the chance.

In the 1970s, political scientist Daniel Elazar made a name for himself, in academic circles anyway, when he mapped the nation's citizenry according to political subcultures. He found there were three subcultures based on migration and settlement patterns. These subcultures were the moralistic (which rejects corruption in political

society); traditionalistic (allows for corruption) and individualistic (winks at corruption).

Elazar found that Illinois was dominated by the individualistic and traditionalistic subcultures. Moralistic attitudes and values showed up, according to the professor, only along the northern tier of counties, which were settled largely by moralistic Scandinavians.

This writer would consider an entirely different subculture, the newcomer subculture, which also supports corruption. Historians of Illinois have suggested that many of the newcomers to Chicago (and, to a lesser extent, elsewhere in Illinois) in the mid-19<sup>th</sup> Century, the hyphenated Americans, you might say, were shunned by Yankee businessmen. And so, many of these newcomers turned to politics, which was often beneath the self-seeking business community. In politics, the growing numbers of recent arrivals could win some places at the table, so to speak, and help their friends, who were also being shunned.

As a result, the hyphenated-Americans became leaders in politics and embraced a value system in which doing good for others while doing well for oneself became almost standard operating procedure. For example, in 1971 Chicago mayor Richard J. Daley was criticized for nepotism on the floor of the City Council, where the mayor presides, for appointing the son of city council floor leader Thomas Keane to an important post.

In response, Daley went on a long, vitriolic tirade, saying in part: "And if this is the society in which we live, that we're afraid to appoint our sons, or our nephews or our relatives or are afraid to appoint any member of our family because of what? Of fear of what might be said?"

## An Informal Nowlan Experiment

When I was teaching political science at the University of Illinois at Urbana-Champaign in the early 2000s, I tested this proposition, in a rough way. I was teaching American politics to juniors and seniors, nearly all of whom were from Illinois and many of whom were planning to go on to law school. In the first session of each course, I gave the students the following exercise, without any prior discussion; students did not identify themselves, of course:

Your older brother has just been charged with a serious DUI. He will lose his license if convicted. Brother is in his first job out of college. He absolutely must be able to drive to do his job. His young wife is at home pregnant with their first child.

The attorney engaged by your brother tells him that he is *very* well versed in the ways of the court system in which the case will be heard. Attorney says that if brother provides him \$1,000 *in cash* in addition to his regular fee, attorney is confident he can get the case dismissed.

Your brother asks you if he should:

- Go for the deal, or
- Reject it.

I gave the exercise in seven different courses. In all of the courses, at least two out of every three students said, "Go for it." In one class, 19 of 23 said to go for it.

Why did you say "Go for it," I asked students who might have said so.

"Anybody else would have done the same," said one.

"That's how it's done here," said another.

"It was a tough situation for the young man," said another, "and this was a way to get him out of it."

An old professor friend, who teaches political science at a private liberal arts college in Iowa, gave the exercise to a class of his. The results were reversed, with one-third saying to go for it.

This proves nary a thing, of course, yet the exercise results support the notion that there may be attitudes and shared attitudes, that is, a culture of corruption, that affect a higher percentage of Illinoisans than citizens in other states.

Does Illinois have a culture of corruption? The jury will probably always be out, yet what little we have to go on supports the possibility.

### **What can be done about it?**

While we still have corruption in Illinois, there appears to be much less overt public corruption in Illinois than there used to be a century ago, in the era of the Ding Darling cartoon. So, apparently a political society can change its overall behavior, even culture. (Other illustrations of cultural change over recent decades are reflected in changed behaviors toward smoking and drinking.)

There are basically four types of actions that can be taken to reduce corruption: 1) watch out for it; 2) investigate and prosecute it; 3) sanction it; and 4) change the culture in which it breeds.

(1) **Watchdogs.** Civic groups and newspapers have been the primary watchdogs over government operations throughout our state's history. The Civic Federation, the Municipal Voters' League (early 1900s), the Better Government Association (BGA), and the Illinois Campaign for Political Reform have tried—and still try—to bring corruption in Chicago to heel across the City's history.

In the late 1970s, Pam Zekman of the Chicago *Sun-Times* and Bill Recktenwald of the BGA bought the *Mirage*, a tavern north of Chicago's Loop. They found that just about everyone—electrical, fire, liquor, even health inspectors—was in the shake-down business. The 26-part expose became a national sensation.

But newspapers are in decline and devote much less of their limited resources to

expensive investigations. Fortunately, civic groups and non-profit investigative journalism groups like the BGA and Pro-Publica are filling in some of the gaps caused by the retreat of for-profit newspapers from watchdog work.

(2) **Investigate and prosecute.** The US Department of Justice continues to invest significantly in the investigation of public corruption, especially in the Northern District of Illinois (metropolitan Chicago). US attorneys such as former governor Jim Thompson made their way into elective politics via their prosecutions of corrupt officials.

(3) **Sanction.** State and federal law imposes various sanctions for public corruption as illustrated by prison sentences served (former Gov. George Ryan) and being served (former Gov. Rod Blagojevich). Yet there are serious doubts that increasing these sanctions would deter much corruption.

In his 2016 book *Why They Do It*, Harvard business school professor Eugene Soltes looks inside the minds of white collar criminals. Soltes finds that the rational cost-benefit analysis for committing corruption, which you might think would be applied by high-powered executives, rarely came into play. Instead, he finds they just "didn't think about it," that is, about why they were doing their crimes. Soltes observes that intuition is employed more often than is reflective reasoning. The business professor goes on to cite linguist Noam Chomsky, who sees moral actions—or immoral ones—as a learned behavior.

(4) **Cultural change.** All of which leads us to cultural change. As noted above, societal attitudes can and do shift over time. We smoke less and turn the car keys over to a designated driver more often today. We do this because, apparently, of a combination of public campaigns about health concerns and of government policies that have increased the costs of smoking and lowered alcohol thresholds for DUIs.

Illinois recently enacted legislation that requires public schools to include a civics course in high school among the minimum of four semesters of social science. This might help a little, over time, in shaping attitudes toward citizenship and right and wrong.

In the early 2000s, Illinois also enacted requirements that state employees take ethics training each year, via computer questionnaires about what to do when faced with ethical dilemmas in the workplace. Soltes contends such training is generally ineffective because, “There is an implicit—and flawed—assumption that participants would employ the same decision-making process they used in the classroom [or via computer] if they faced the same predicament at some point in their own future.”

On the other hand, based on my own experience as a public university employee in recent years, the annual “testing” does increase one’s awareness, at least a bit, about the fact that an employee might face ethical issues, and it is better to be aware of this than not.

I think public expectations about corruption have changed. For example, in 1965, former Gov. William Stratton was prosecuted for failing to report \$83,000 to the IRS. Stratton claimed the funds were campaign contributions and therefore not taxable. He spent the funds on oil paintings, a European trip for his daughter, household furniture, and expensive clothes for his family, among other seemingly personal expenditures. Stratton was acquitted by the jury.

In 2008, Us Rep. Jesse Jackson, Jr. was charged with misusing more than \$750,000 in campaign funds for purchases that included Rolex watches, fur coats, celebrity memorabilia, children’s furniture and many other personal items. Jackson pled guilty to the charges. (By the way, \$83,000 in 1956, the middle of Stratton’s two terms as governor, would amount to just about \$750,000 if adjusted for inflation into today’s dollars.)

## Illinois Tax Facts

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### Conclusion

So, I think expectations about appropriate ethical behavior are changing, if slowly. The dollar costs to the state of Illinois imposed by efforts to reduce public corruption are miniscule, at least relative to the size of our state and local government operations. The really damaging, long-lasting costs imposed on business and household activity by corruption and perceptions of corruption appear to be possibly great, though impossible to calculate.

The next question is what more can and should be done to reduce both the fact and perception

of public corruption in Illinois. I suggest that the fast-approaching Illinois Bicentennial Celebration of 2018 presents an excellent opportunity to hold discussion groups across the state on topics such as how to reduce corruption further. The roundtable meetings might even contribute a smidgen to cultural change.

Public corruption is a topic that is a part of our history certainly, though not itself one we want to celebrate.