

THE CORRUPTION AND THE ECONOMIC PERFORMANCE

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Abstract

The paper deals with comparison of the level of the corruption in different countries and the economic performance with short view for the taxation rate. There is no reason to suppose an existence of some really notably important statistical correlation between the corruption and the economic performance. Question is whether some relationship between the corruption and the economic performance exists. Of course the economic performance depends mainly on different circumstances, who have more direct influence than corruption. But the corruption can be considered as one of factors that influences the business environment. And the business environment affects transaction cost and in some cases also other cost.

The level of the corruption depends on many different circumstances, for example on historical and social conditions and on traditions. But the corruption is influenced by factor like the legal environment, mainly law enforcement. And these factors have a significant impact on conditions for business.

The Corruption Perception Index published each year by Transparency International is used as an indicator of the corruption. The economic performance is assessed by GNP per capita with regard to growth rate.

Key words: business environment, Corruption Perception Index, economic performance

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Introduction

Corruption is currently one of the most discussed social phenomena. The corruption is mentioned in the media, political parties classified fight against corruption in their programs, governments in the fight against corruption reports in their program statements about corruption debate citizens. The aim of this paper is to recall some of the economic context of corruption.

The introduction will be discussed the main ways in which corruption can affect economic performance, while the main emphasis will be placed on the business environment.

The business environment is very important but it is complex and it is difficult to express its level by simple indicators.

To measure the degree of corruption will be used Corruption Perceptions Index (CPI), published annually TI. Although this organization publishes other indexes as Bribe Payer Index (BPI) and The Global Corruption Barometer (GCB). Because the actual level of corruption is hardly measurable and of interest primarily to the impact of corruption on the business environment, the CPI is used.

Economic performance will be assessed using standard GNP per capita, taking into account the growth rate.

1. Corruption and business environment

Corruption and business environment

There is no single universally accepted definition for corruption. In this paper is used definition of Rajasekharan: „Corruption is abuse of public office for personal gain or actions causing transfer of public money to private hands, in violation of rules. It entails acts of omission, commission or illegality“ (Rajasekharan 2001)

Extension of the corruption depends on the specific socio-economic situation of the country. General and in terms of the theory are the main conditions for the corruption (Aid 2003).

1. Discretionary power: the relevant public official must possess the authority to design or administer regulations and policies in discretionary manner.
2. Economic rents: the discretionary power must allow extraction of existing rents or creations of rents that can be extracted.
3. Weak institutions: the incentives embodied in political, administrative and legal institutions must be such that officials are left with an incentive to exploit their discretionary power to extract or create rents.

More specific factors that promote corruption are (Rajasekharan 2011)

- Failure to ensure accountability through oversight bodies, active opposition parties, independent media, fair and less costly elections.
- Weak law enforcement structures.
- Missing regulatory frameworks – legislation, codes of conduct and audit requirements
- Low levels of individual values, societal values and transparency in governance.

- Unprofessional civil service, poor practice of ethical codes.

Corruption may affect the performance of the economy in several ways. In terms of the focus of this paper is essential that corruption affects the business environment. It is important to exclude the corruption only on the public sphere, dealing with elements of corruption occurs among business entities. In terms of impact on the economy is probably more serious corruption in public administration and public spheres, but the nature of the business environment is also important corruption within the business sector.

As mentioned, the corruption can be considered as one of factors that influences the business environment. And the business environment affects transaction cost and in some cases also other cost. From point of view of firms for example bribes can affect cost and prices. Influence on transaction cost is maybe more important than influence on direct cost. Good law enforcement and the ethical behaviour of people in the public administration as in the private sector can reduce cost of monitoring and enforcement of economic contracts. On the contrary bad law enforcement and the unethical behaviour is an important reason of bounded rationality. It is possible to say that corruption could increase uncertainty because if level of corruption is high, conditions for business are not very transparent.

From the macroeconomic point of view the corruption can influence the foreign investments, the size and the quality of the public procurement.

It is clear that foreign investments depend on more circumstances, for example economic freedom and regulation (Hanousek, Kočenda 2011), availability, quality and price of labour and other production factors and resources. But favourable economic and business environment is an important condition for increasing foreign investments and of course for domestic investments. The economic and business environment influences not only amount but also character of investments, mainly share of long term investments.

The corruption affects size and the quality of the public procurement fairly directly. Some public expenditure is productive and has direct impact on the growth rate and economic performance, some are non-productive (Izák 2011). Overall, however, public expenditure affects economic growth and economic performance in general.

Corruption affects the efficiency at the macro level as well as at the micro level. Perhaps more important is that, the level of corruption is one of the indicators of the nature of economic and business environment, its meaning is deeper and more complex than can be expressed through measurable indicators.

2. International comparison

Now let's look at the differences in the corruption across countries. It is possible to observe some facts. At first glance it is clear that in developed countries is lower than the level of corruption in less developed countries. For example CPI is in European countries with lowest level of corruption around 9, average CPI in EU is 6 approximately. However CPI is 1,1 in Somalia. Of course, there is possible to find exceptions. The important question is whether the low economic level and the poverty is one of reasons of the corruption or it is the result of the corruption. In my opinion, there is in some degree mutual dependence: the corruption causes the poverty and the poverty causes the higher corruption.

The corruption depends on specific social, economical and cultural conditions and traditions in different countries. That is the reason why is useful to compare corruption in countries similar in some way. Some EU member States and Switzerland were selected for this paper. The data in arise Table 1 the following conclusions:

1. The level of corruption is higher in post-communist countries (boldface in tables) than in most countries in the west Europe.
2. The level of corruption is similar in post communist countries, somewhat differ Slovenia and Estonia with lower CPI.
3. The level of corruption grows from north to south.
4. The level of corruption is higher on the east usually, it could be consequence of heritage from communist time partly.
5. The level of corruption has decreased slightly or is similar between 2001-2010 in most post communist countries but the corruption is in 2010 in some of them a little bit higher than in 2009.
6. The level of corruption moves different ways in other countries (i.e. non post communist). Noticeable is quite high and growing level of the CPI in Greece and Italy.

Table 1 Corruption Perception Index

	2001	2009	2010
Belgium	6,6	7,1	7,1
Bulgaria	3,9	3,8	3,6
Czech Rep.	3,9	4,6	4,6
Denmark	9,5	9,3	9,3
Germany	7,4	8	7,9
Estonia	5,6	6,6	6,5
Ireland	7,5	8	8
Greece	4,2	3,8	3,5
Spain	7	6,1	6,1
France	6,7	6,9	6,8
Italy	5,5	4,3	3,9
Cyprus	6,11	6,6	6,3
Latvia	3,4	4,5	4,3
Lithuania	4,8	4,9	5
Hungary	5,3	5,1	4,7
Netherlands	8,8	8,9	8,8
Austria	8,5	7,9	7,9
Poland	4,1	5	5,3
Portugal	6,3	5,8	6
Romania	2,8	3,8	3,7
Slovenia	5,2	6,6	6,4
Slovakia	3,7	4,9	4,3
Finland	9,9	8,9	9,2
Sweden	9	9,2	9,1
United Kingdom	8,3	7,7	7,6

¹data from 2003

Resource: Transparency International

(http://www.transparency.org/policy_research/surveys_indices/cpi)

Table 2 GNP per capita (EU=100)

geo\time	2001	2008	2009
Belgium	124	115	116
Bulgaria	30	44	44
Czech Republic	70	80	82
Denmark	128	123	121
Germany	117	116	116
Ireland	132	133	127
Estonia	46	68	64
Greece p	86	94	94
Spain	98	103	103
France	115	106	107
Italy	118	104	104
Cyprus	91	97	98
Latvia	39	56	52
Lithuania	41	61	55
Hungary	59	64	65
Netherlands	134	134	131
Austria	125	124	124
Poland	48	56	61
Portugal	80	78	80
Romania	35	47	46
Slovenia	80	91	88
Slovakia	52	72	73
Finland	115	118	113
Sweden	122	123	119
United Kingdom	120	115	112

Resource Eurostat

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb010>

Table 3 Real GDP growth rate

geo\time	2001	2009	2010
European Union (27 countries)	2	-4,2	1,8
Belgium	0,8	-2,8	2,2
Bulgaria	4,2	-5,5	0,2
Czech Republic	2,5	-4,1	2,3
Denmark	0,7	-5,2	2,1
Germany	1,2	-4,7	3,6
Estonia	7,5	-13,9	3,1
Ireland	5,7	-7,6	-1
Greece	4,2	-2	-4,5
Spain	3,6	-3,7	-0,1
France	1,8	-2,7	1,5
Italy	1,8	-5,2	1,3
Cyprus	4	-1,7	1
Latvia	8	-18	-0,3
Lithuania	6,7	-14,7	1,3
Hungary	3,8	-6,7	1,2
Netherlands	1,9	-3,9	1,8
Austria	0,5	-3,9	2
Poland	1,2	1,7	3,8
Portugal	2	-2,5	1,3
Romania	5,7	-7,1	-1,3
Slovenia	2,8	-8,1	1,2
Slovakia	3,5	-4,8	4
Finland	2,3	-8,2	3,1
Sweden	1,3	-5,3	5,7
United Kingdom	2,5	-4,9	1,3

Resource Eurostat

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>

Table 4: Government consolidated gross debt (% of GDP)

geo\time	2001	2009	2010	Tax burden in 2009
European Union (27 countries)	61	74,4	80	35,8
Belgium	106,6	96,2	96,8	43,5
Bulgaria	66	14,6	16,2	28,9
Czech Republic	24,9	35,3	38,5	34,5
Denmark	49,6	41,8	43,6	48,1
Germany	58,8	73,5	83,2	39,7
Estonia	4,8	7,2	6,6	35,9
Ireland	35,5	65,6	96,2	28,2
Greece	103,7	127,1	142,8	30,3
Spain	55,5	53,3	60,1	30,4
France	56,9	78,3	81,7	41,6
Italy	108,8	116,1	119	43,1
Cyprus	60,7	58	60,8	35,1
Latvia	14	36,7	44,7	26,6
Lithuania	23,1	29,5	38,2	29,3
Hungary	52	78,4	80,2	39,5
Netherlands	50,7	60,8	62,7	38,2
Austria	67,3	69,6	72,3	42,7
Poland	37,6	50,9	55	31,8
Portugal	51,2	83	93	31,0
Romania	25,7	23,6	30,8	27,0
Slovenia	26,7	35,2	38	37,6
Slovakia	48,9	35,4	41	28,8
Finland	42,5	43,8	48,4	43,1
Sweden	54,7	42,8	39,8	46,9
United Kingdom	37,7	69,6	80	34,9

Resource: Eurostat

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1> , Taxation trends in EU

When we are interested in relationship between economic performance and the corruption it is not possible to observe some clear interdependence between the corruption and the growth rate. The economic growth is determined by many factors and in recent years growth rate was affected by financial crisis. Different situation is when we take into account economic level measured by GNP per capita. Correlation is not very important (0,76 approximately) But there is possible to distinguish similar differences as in corruption rate,

- Post communist countries have lower GNP per capita (and higher corruption level) then other countries.
- Southern countries are usually GNP per capita below average and higher corruption level. There is one exception: Italy with high level of the corruption and GNP per capita above average.

The last question is how the corruption affects public finance. As mentioned the corruptions affects public procurement. But at first glance it seems that the direct relationship does not exist between corruption and the global state of public finances (table 4). Some countries with high corruption have low public debt; other countries have lower levels of corruption, but higher debt. It is interesting that countries with the biggest fiscal problems have bigger level of the corruption. It concerns mainly Greece, but also Italy.

Conclusion

The corruption is one of indicators of the quality of institutions and the nature of the business environment. Although it seems that relationship between the corruption and the economic performance is not very statistically significant it is clear that the corruption affects the economic efficiency and the economic performance. Although corruption is influenced by specific conditions in different countries, cultural traditions and social factors, although the economic performance is determined by a number of factors, it is clear that developed countries generally have a lower CPI than developing countries. Among developed countries are considerable differences in the extent of corruption. These differences are greater than the differences in economic performance. Despite all these facts, the business environment is influenced by the quality of institutions and thus corruption. For the members of EU mentioned in this paper in principle, the “pure land” is the economically more powerful. Despite all these facts, the business environment is influenced by the quality of institutions and thus corruption. For the countries and the EU is in principle true, the “clean

countries” are economically more powerful. If we focus on broader social and economic context, the institutions and corruption-free environment are even more important.

Resources

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