

## **CORRUPTION IN VISEGRAD FOUR COUNTRIES**

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### **Abstract**

Corruption as an economic phenomena is mentioned in the first part of paper. Differences in the extent of corruption among countries can be explained by the summary of the main causes and consequences of corruption. Corruption influences economic performance and competitiveness.

The level of corruption in post communist countries is above EU average level and it is usually higher in the former communist countries than in most European Union countries. The second part of paper will focus on the level of corruption in the Czech Republic, Slovak Republic, Hungary, Poland and Austria. The Visegrad Four countries have gone through similar social and historical development in recent decades. Comparison of the four countries has confirmed the hypothesis that the level of corruption is influenced by social developments and traditions. Austria is mentioned as an example of a country that went through the centuries similar development such as Visegrad Four countries but its situation was different during the communist regime in the other mentioned countries. If development is comparable in the Visegrad Four countries and different from the situation in Austria it can be interpreted as a consequence of the communist regime.

**Key words:** Corruption Perception Index, Global Competitiveness Index

**JEL Code:** D29, E02, L29

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### **Introduction**

Corruption is an often debated issue. The fight against corruption was declared to be one of the two most important goals of government in the Czech Republic after the elections in 2010. It would seem that corruption is an ethical, legal and political problem. But corruption also has significant economic impacts. It influences public expenditures and the costs of business. Corruption can affect the economic environment. (Drury, Kriekhaus, Lusztoz 2006).

Corruption has been defined as “the abuse of public office for private gain”. Corrupt activities include bribery, nepotism, and other misappropriations of public resources (Nye, 1967). Aidt mentions favourable conditions for the emergence of corruption (Aidt, 2003):

It is well known that corruption decreases the effectiveness of public resources, and it has been empirically verified that corruption reduces private sector investment (Svensson, 2005). Transaction costs are rising due to corruption. Corruption also generates opportunity costs (Drury, Kriekhaus, Lusztoğ 2006). Because resources wasted by corruption, including time, could be used for productive activity. Corruption affects such aspects of the business environment as corporate social responsibility (Džbánkóvá, 2011).

## **1. Consequences of corruption**

Corruption is an undesirable phenomenon, which is clear from an ethical point of view. Different aspects of corruption can be observed from a purely economic point of view. In some circumstances, corruption is more efficient than the alternative tends to favour the most efficient firms, and could serve as the next way of implementing private sector interests (Drury, Kriekhaus, Lusztoğ 2006). It is necessary to say that the negative effects of corruption are, in the large majority of cases, higher than the potential positive aspects of overall efficiency and social welfare. Four categories of corruption can be mentioned in this context (Aidt, 2003):

1. Efficient corruption. The private sector corrects the failures of the public sector and promotes allocative efficiency. Corruption allows for normal economic activity only.
2. Benevolent principal. We can use the principal agent model. Corruption can arise when the principal is benevolent and delegates decision-making power to a non-benevolent agent.
3. Non-benevolent principal. Although the principal is non-benevolent, he or she cannot prevent corruption when non-benevolent officials introduce inefficient policies.
4. Self-reinforcing corruption. Corruption is influenced by not only the principal, but also other institutions, history, and traditions.

Only the first category of corruption could have a positive economic impact in some cases.

It is possible to mention another aspect of corruption within the context of using the principal agent approach. Corruption can be understood in a broader sense, and not only as corruption of government or other public officials. Corruption can also arise when:

1. The principal delegates decision-making to the agent.
2. Information asymmetry exists and it is impossible or costly to monitor the activity of the agent.
3. Agent enters into contracts with other competing economic subjects.
4. Results of contracts affect a principal's utility (income or wealth); an agent's utility is not directly dependent on the outcome of a contract, and bribes can increase the utility of the agent.

The above-mentioned cases of corruption concern not only the public sector, but may also occur in the private sector, for example when one employee selects suppliers of products or services for the firm. Of course, this kind of corruption is not as important as corruption in the public sector. It may redistribute private resources. But corruption in the private sector can decrease efficiency. The presence of corruption in the private sector worsens the business environment and destroys the cleanliness of the competition. Not only an officer in public administration can accept a bribe. An employee of a private company could be corrupted, if the company decides on "foreign" sources and the position of the agent under conditions of information asymmetry.

A simple model of corruption (Shleifer, Vishny, 1993) assumes that the government sells goods to private subjects through officials. Officials have the opportunity to reduce the supply of goods. Shleifer and Vishny compared the effects of corruption with the impact of taxation. They argued that "well-organized corruption appears to be more distortionary than taxation"<sup>1</sup>. One result of the simple model is a recommendation on how to reduce corruption "simply". A solution is to create or promote competition between bureaucrats, which will drive the bribes down to zero. This kind of model is useful but cannot explain all forms and all impacts of corruption. Corruption appears not only when government sells goods to the private sector, but also when the public sector buys goods and services from private sector. This corruption is more significant in European countries and has a bigger influence on economic performance.

### **1.1. Causes of corruption**

We can reformulate the basic question of economics as "what, how and whom?" When we are speaking about corruption, we can ask "who, why and when?"

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<sup>1</sup> Shleifer, Vishny, 1993, p 600

Who gives and who receives a bribe? There is a person who can decide for the benefit or disadvantage of another subject, and that decision is made without economic, legal or other legitimate reasons. And there is a subject who is trying to get this advantage over others.

Why do people bribe? Because they have an opportunity to extract rent or get some benefit by bribing.

When does corruption appear? When people who have the motive and opportunity to bribe or be bribed live in conditions favourable to corruption. This means a weak institutional, legal and ethical environment. Historical and cultural traditions and habits have considerable influence on corruption.

## **1.2. Measurement of corruption**

Corruption is not measurable directly. Indexes as Corruption Perception Index (CPI) and Bribe Payers Index (BPI) are published by Transparency International. Global Corruption Barometer gives deeper view on corruption than CPI or BPI, but is not so suitable for ranking countries. All used indicators of corruption do not measure exact level of corruption but perception of corruption, they express view of respondents. Evaluation of corruption is influenced by subjective view of the respondent<sup>2</sup>. Although corruption is measured by “soft” data, indexes as CPI or BPI have explanatory power. Economic environment and expectations of economic agents about corruption are affected not only existing corruption, but also the perception of corruption.

## **2. Cross-country differences in corruption**

We can explain the causes and consequences of corruption by comparing corruption among countries. Some obvious and clear facts are known about the differences in corruption among countries.

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<sup>2</sup> CPI draws on 13 different surveys and assessments from 12 different institutions. The institutions are: the African Development Bank, the Bertelsmann Foundation, the Economist Intelligence Unit, Freedom House, Global Insight, International Institute for Management Development, Political and Economic Risk Consultancy, Political Risk Services, the World Economic Forum, the World Bank and the World Justice Project. Non-parametric statistics are used for standardising data.

The BPI 2011 ranked 22 of the leading exporting countries on the likelihood their multinational businesses will use bribes when operating abroad. The ranking is calculated from responses by businessmen to two questions on the World Economic Forum's Executive Opinion Survey. The first question asks for the country of origin of foreign-owned companies doing the most business in their country. The second question is: "In your experience, to what extent do firms from the countries you have selected make undocumented extra payments or bribes?" Answers are to be given on a scale of 1 (bribes are common or even mandatory) to 10 (bribes are unknown). more see <http://cpi.transparency.org>

Corruption level is lower in countries with higher GNI per capita than in countries with low GNI per capita, only a few insignificant exceptions can appear to this rule. We must ask whether poverty causes corruption or corruption gives rise to poverty. Relationship between corruption and GNI per capita is particularly evident in extreme cases: most corrupt countries are the poorest usually. Relationship of the poverty and corruption has two kinds of reasons. Corruption reduces efficiency, for example countries with higher rate of corruption have lower ratio of both total and private investment to GNI (Shleifer, Vishny, 1993).

1- Conditions favourable for corruption are not favourable for economic performance usually. When we are discussing how economic environment and institutions can affect economic performance, we can observe that the same institutions which improve economic environment can reduce corruption.

Some factors influencing corruption affected also competitiveness. For example World Economic Forum publishes The Global Competitiveness Index (GCI). GCI comprises of 12 pillars<sup>3</sup> including “hard” and “soft” data. Relationship between corruption and competitiveness is not in all cases as clear as relationship between corruption and poverty. Some countries have very good results in competitiveness despite their high level of corruption. This concerns in particular non-European countries. For example, China is on 80th place of 139 countries according to indicators CPI but is 29th place by GCI from 142 countries<sup>4</sup>. Ranking of countries according to CPI does not correspond ranking by GCI perfectly neither in Europe. But in generally is evident that corruption is not favourable for competitiveness.

Some authors (Drury, Kriekhaus, Lusztog 2006) draw attention to relationship between corruption and democracy, it is possible to say that low level of corruption is unattainable without democracy. If we assume that democracy is at a sufficiently high level in European countries, it is seen that only democracy is not enough to reduce corruption. This does not mean that improving democratic institutions could not reduce corruption. On the contrary, functioning institutions, the legal environment and control mechanisms reduce corruption and are part of democracy.

Level of corruption depends on historical, cultural and other traditions. Influence of religion is mentioned by some authors (Montinola, Jackman, 2002) One observable and generally known fact about corruption is consequence of these traditions probably: corruption

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<sup>3</sup> Institution, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, innovation.

<sup>4</sup> GNI per capita, Atlas method (current US\$), GCI <http://data.worldbank.org/country>

decreases when we move north and west in Europe (Soukupová, 2011). Of course, it is not possible accept this rule as axiom without exceptions.

**Tab. 1: Corruption Perception Index**

Country rank 2012	Regional Rank	country	CPI 2012 <sup>5</sup>	Country Rank 2011	CPI 2011	Country Rank 2001	CPI 2001
1	1	Denmark	90	2	9,3	2	9,1
1	1	Finland	90	2	9,4	1	9,9
4	3	Sweden	88	4	9,3	6	9
6	4	Switzerland	86	8	8,8	12	8,4
7	5	Norway	85	6	9	10	8,6
9	6	Netherlands	84	7	8,9	8	8,8
11	7	Iceland	82	13	8,3	a <sup>6</sup>	a
12	8	Luxembourg	80	11	8,5	9	8,7
13	9	Germany	79	14	8,05	20	7,4
16	10	Belgium	75	19	7,5	24	6,6
17	11	United Kingdom	74	16	7,78	13	8,3
22	12	France	71	25	7	23	6,7
<b>25</b>	<b>13</b>	<b>Austria</b>	<b>69</b>	<b>16</b>	<b>7,8</b>	<b>15</b>	<b>7,8</b>
25	13	Ireland	69	19	7,5	18	7,5
29	15	Cyprus	66	30	6,3	a	a
30	16	Spain	65	31	6,2	22	7
32	17	Estonia	64	29	6,4	28	5,6
33	18	Portugal	63	32	6,1	25	6,3
37	19	Slovenia	61	35	5,9	34	5,2
<b>41</b>	<b>20</b>	<b>Poland</b>	<b>58</b>	<b>41</b>	<b>5,5</b>	<b>44</b>	<b>4,1</b>
43	21	Malta	57	39	5,6	a	a
46	<b>22</b>	<b>Hungary</b>	<b>55</b>	<b>54</b>	<b>4,6</b>	<b>31</b>	<b>5,3</b>
48	23	Lithuania	54	50	4,8	a	a
<b>54</b>	<b>24</b>	<b>Czech Republic</b>	<b>49</b>	<b>57</b>	<b>4,4</b>	<b>38</b>	<b>4,8</b>
54	24	Latvia	49	61	4,19	59	3,4
<b>62</b>	<b>26</b>	<b>Slovakia</b>	<b>46</b>	<b>66</b>	<b>3,97</b>	<b>51</b>	<b>3,7</b>
66	27	Romania	44	75	3,6	69	2,8
72	28	Italy	42	69	3,9	29	5,5
75	29	Bulgaria	41	86	3,3	47	3,9
94	30	Greece	36	80	3,4	42	4,2
62	31	Croatia	46	66	4,03	47	3,9

Source: <http://cpi.transparency.org/cpi2012> <http://cpi.transparency.org/cpi2011>,  
[http://archive.transparency.org/policy\\_research/surveys\\_indices/cpi/2001](http://archive.transparency.org/policy_research/surveys_indices/cpi/2001)

<sup>5</sup> The range was changed from 10 best and 0 the worst result for the 100 best and 0 the worst result in 2012.

<sup>6</sup> a data not available

### 3. Comparison of corruption in Austria, Czech Republic, Hungary, Poland and Slovakia

The level of corruption in post communist countries is above EU average level and it is usually higher in the former communist countries than in most European Union countries (see tab 1). It is possible to compare corruption, in Visegrad four countries with corruption in Austria to illustrate influence of communist regime on corruption. Data on GNI per capita and GCI complements data on corruption because corruption, as mentioned, affects the economic performance and competitiveness.

The ranking is compiled on the basis of the table 1 and 3. The ranking is made for the European region (CPI 2012, GNI per capita, GCI). CPI is shown also for 2011 and 2001 for comparison of changes in time. The ranking is from all countries in the years 2001 and 2011 although only the European countries are in the tables.

**Austria** has the best results in all indicators. It's easy to say that the better position of Austria in comparison with the Visegrad countries is due to the communist regime. When we look at the data on Austria, it is clear that the position of Austria is better at "hard" statistical indicators GNI per capita and GCI containing also "hard" data than CPI based primarily on "soft" data.

The gap is evident between Austria and Visegrad countries and gap is bigger in GNI per capita than in CPI and GCI.

There is not important difference in CPI among Visegrad countries when we have look at their regional rang (from 20 to 22) and also when we have look at level of CPI (from 58 to 46, table 3). There aren't any radical changes in CPI in time, ranking in 2001 looks better than 2011 and 2012, but reason could be lower number of countries in 2001. Differences among the countries somewhat more significant in terms of GNI per capita and GCI than CPI, but it can be said that the Visegrad countries are similar in many aspects.

Situation is similar in the **Czech Republic** as in Austria in some aspects. The Czech Republic is the best among Visegrad countries in GNI per capita and GCI, but Czech Republic has bad (but not the worst) CPI. This corresponds to a well-known fact that in the Czech Republic, corruption is considered one of the main problems. Because corruption is measured by "soft" data it is necessary ask whether high level of CPI is based only on high real corruption and the question is whether the way people perceive corruption corresponds to the actual level of corruption and whether the situation in the

Czech Republic is actually worse than in the countries with better CPI index. This is significant given the criticality and low self-perception of people in the Czech Republic. In this context it should be noted that the historical and cultural traditions and habits affect not only the actual corruption, but also the perception of corruption in different countries.

**Hungary** "occupies" the third or fourth among the five countries surveyed. Results in CPI are better than results in GNI per capita and GCI.

**Poland** is the largest of the five countries surveyed, the best results among the Visegrad countries in the CPI, Poland has lowest GNI per capita and Poland is in "the middle" according to GCI.

**Slovakia** is one country with worse result CPI than Czech Republic and is the worst in GCI and GNI per capita. CPI and GNI per capita results show similarity with Czech Republic. GPI is lowest in Slovakia.

**Tab. 2: Ranking in the CPI, GNI per capita and GCI**

CPI	regional rang	GNI per capita	regional rang	GCI	Regional rang
Austria	13	Austria	7	Austria	9
Poland	20	Czech Republic	21	Czech Republic	17
Hungary	22	Slovakia	23	Poland	18
Czech Republic	24	Hungary	28	Hungary	26
Slovakia	26	Poland	29	Slovakia	28

Source: based on, <http://cpi.transparency.org/cpi2012>  
<http://data.worldbank.org/country> , <http://www.weforum.org/reports> ,

## Conclusions

Corruption is an important phenomenon which influences economic performance, business environment and competitiveness. That is commonly known fact. How to reduce corruption? The solution seems simple: the improvement of institutions and legal environment is most important condition for decreasing of corruption. Reality is more complicated. The change institution it is not easy, because they are influenced by tradition and customs. Also the perception of corruption and the tolerance to corruption varies across countries and corruption has various forms.

Austria and the Visegrad countries are close geographically, historically and culturally. Differences among countries have many reasons, but if level of corruption is lower in Austria significantly than in Visegrad countries remains of the communist regime could be



an important reason. It is necessary to take into account different level of economic performance and competitiveness among Visegrad countries in the onset of communism.

**Tab. 3: GNI per capita and The Global Competitiveness Index**

CPI regional rang	Country	GNI per capita	country rang GNI per capita	GCI score	Regional Rank
1	Denmark	60160	4	5,29	7
1	Finland	47760	8	5,55	2
3	Sweden	53170	5	5,53	3
4	Switzerland	73350	3	5,72	1
5	Norway	88870	1	5,27	8
6	Netherlands	49660	6	5,50	4
7	Iceland	34820	15	4,74	14
8	Luxembourg	77390	2	5,09	12
9	Germany	44230	10	5,48	6
10	Belgium	45930	9	5,21	10
11	United Kingdom	37780	13	5,45	6
12	France	42420	11	5,11	11
13	Austria	48170	7	5,22	9
13	Ireland	39150	12	4,91	13
15	Cyprus	29450	17	4,32	25
16	Spain	30930	16	4,60	16
17	Estonia	15260	23	4,64	15
18	Portugal	21370	20	4,40	22
19	Slovenia	23600	19	4,34	24
20	Poland	12380	28	4,46	18
21	Malta	18620	22	4,41	20
22	Hungary	12780	27	4,30	26
23	Lithuania	12980	26	4,41	20
24	Czech Republic	18700	21	4,51	17
24	Latvia	13320	25	4,35	23
26	Slovakia	16180	22	4,14	28
27	Romania	8140	28	4,07	29
28	Italy	35320	14	4,46	19
29	Bulgaria	6640	30	4,27	27
30	Greece	24490	18	3,76	35

Source: <http://www.weforum.org/reports> , <http://data.worldbank.org/country>

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