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Corruption, Causes and Consequences

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Abstract

Corruption is a constant in the society and occurs in all civilizations; however, it has only been in the past 20 years that this phenomenon has begun being seriously explored. It has many different shapes as well as many various effects, both on the economy and the society at large. Among the most common causes of corruption are the political and economic environment, professional ethics and morality and, of course, habits, customs, tradition and demography. Its effects on the economy (and also on the wider society) are well researched, yet still not completely. Corruption thus inhibits economic growth and affects business operations, employment and investments. It also reduces tax revenue and the effectiveness of various financial assistance programs. The wider society is influenced by a high degree of corruption in terms of lowering of trust in the law and the rule of law, education and consequently the quality of life (access to infrastructure, health care). There also does not exist an unambiguous answer as to how to deal with corruption. Something that works in one country or in one region will not necessarily be successful in another. This chapter tries to answer at least a few questions about corruption and the causes for it, its consequences and how to deal with it successfully.

Keywords: corruption, influence, economy, economic growth, rule of law

1. Introduction

The word corruption is derived from the Latin word “corruptus,” which means “corrupted” and, in legal terms, the abuse of a trusted position in one of the branches of power (executive, legislative and judicial) or in political or other organizations with the intention of obtaining material benefit which is not legally justified for itself or for others.

Corruption was referred to as a great sin already in the Bible: “Do not accept a bribe, for a bribe blinds those who see and twist the words of the innocent.” However, the history of corruption is in fact related to the beginning of the creation of law and the state and was already

in the antiquity considered an evil, which negatively affects the public administration and the functioning of the political system. The earliest records of corruption date back to the thirteenth century BC, to the time of the Assyrian civilization. From the found plates, written in cuneiform, the archeologists managed to discern how and who accepted bribes. Under the Roman law, the criminal offense of corruption was defined as giving, receiving or claiming benefits in order to influence an official in connection with his work. Due to the prevalence of corruption in the country, this law was supplemented by a new law, which predicted compensation for damage in double value of the damage, and the loss of political rights for the perpetrator of the corruptive act. However, this did not help alleviate corruption, especially due to the fact that corruption was most practiced by the members of the Senate and senior state officials, both in Rome itself and in the remote Roman provinces. The early Christian faith condemned corruption, yet corruption later also developed greatly in ecclesiastical structures, and achieved its peak with the selling of indulgences in the Middle Ages, all until the condemnation of the latter (as well as of other immoral acts of the clergy, with the Pope at the head) by Martin Luther. Apart from the condemnation of corruption, the Reformation also led to a break with until then dominant Catholic culture and the emergence of Protestant ethics.

As a child (he was a hostage at the Ravenna court), Attila¹ noticed a high level of corruption among the state officials of the Western Roman Empire and how they appropriated the state money (as a consequence, there was less money in the Treasury and therefore the taxes increased). He thus decided that if he would ever to rule, he would do so fairly and by oppressing the corruption in his own country. The early feudalism was familiar with various laws that punished the bribing of courts also with death. Later, when the developed feudalism again turned to the Roman law, a number of laws (Dušan's Code, Mirror of the Swabians) discussed the abuse of position. Then, in late Feudalism, countries became virtually helpless in the fight against corruption, as illustrated by the case of France, which in 1716 established a special court in which should rule in cases of abuse of royal finances; however, these abuses (embezzlement, extortion, bribery, scams, etc.) were so extensive that the court was abolished and a general amnesty introduced in 1717 made some forms of corruption quite a tradition. The corruption was also widespread during the time of the Spanish Inquisition, where the victim of the accusation could make amends with money, which made the corruption, especially among the inquisitors, extensive.

Throughout the history, many intellectuals dealt with corruption or theorized about it one way or another. Machiavelli² had a low opinion on republics, considering them even more corrupt than other regimes, and according to him, corruption leads to moral degradation, bad education and bad faith. On the other hand, however, the great philosopher, diplomat and lawyer Sir Francis Bacon³ was known both for receiving bribes and taking them. When he reached the highest judicial position in England, he was caught in as many as 28 cases of accepting a bribe and defended himself before the parliament by saying that he usually

¹Attila (406–453) was the great ruler of the Huns, who, as the first, united all the Huns and conquered a considerable part of Europe and Asia. He is also known as the Whip of God.

²The Renaissance political theorist (1469–1527) who was for more than a decade engaged in diplomatic and state affairs in Florence. Modern political philosophy and political science consider him the founder of the realistic approach to the theory of politics.

³An English philosopher, writer, judge and politician (1561–1626). He rejected Aristotle's view and philosophy and sought to gain the reputation of the experimental science.

accepted a bribe from both parties involved and that the dirty money therefore did not affect his decisions. The parliament did not accept these arguments and sent him to the jail where he spent only a few days as he was able to bribe the judge.

Thus, although the corruption has been occurring in society ever since, it has only been given more attention in the recent period—the researches on the phenomenon and its negative impacts have become more common after 1995, when countries and international institutions began to be aware of this problem. The attitude of the public toward corruption was, until then, neutral. In 1998, Kaufmann and Gray [1] found that:

- Bribery is widespread, especially in the developing and transition countries; there are, however, significant differences between and within regions.
- Bribery increases transaction costs and creates insecurity in the economy.
- Bribery usually leads to ineffective economic results, in the long term impedes foreign and domestic investments, reallocates talents due to income and distorts sectorial priorities and technology choices (for example, it creates incentives for contracting major defense projects or unnecessary infrastructure projects, but does not encourage investments in rural specialist health clinics or in preventive health care). This pushes companies into the “underground” (outside the formal sector), weakens the state’s ability to increase revenue and leads to ever-increasing tax rates (as too little tax is taken), which is levied on less and less taxpayers, consequently diminishing the state’s ability to provide enough public goods, including the rule of law.
- Bribery is unfair, as it imposes a regressive tax, which heavily burdens in particular commercial and service activities performed by small businesses.
- Corruption destroys the legitimacy of the state.

Many other researchers and institutions (the World Bank Institute—WBI, the European Commission, the United Nations, the EBRD) have investigated corruption and its impact on macroeconomic and microeconomic indicators through various forms of corruption, as well as its connection with local customs and habits, and how it affects the everyday lives of people. Most studies are therefore mainly the analyses of the effects of corruption on various economic indicators, such as GDP growth, investments, employment, tax revenues and foreign investments [2–5], or the study of various forms of corruption in relation to politics and the economic environment [6], the research of its social condition and various manifestations [7, 8]. Dobovšek [9] agrees with the negative effects, i.e. high economic, political and social costs, and adds that corruption is not a weakness of people but of institutions (supervisory and other), as they should be the ones to obstruct the greed and temptation of individuals within them.

2. Causes of corruption

Although corruption differs from country to country, it is possible to identify some of the key common driving forces that generate it. What is common to all countries, which are among

the most corrupt, has been identified by Svensson [10]; all of them are developing countries or countries in transition,

- with rare exceptions, low-income countries,
- most countries have a closed economy,
- the influence of religion is visible (Protestant countries have far the lowest level of corruption),
- low media freedom and
- a relatively low level of education.

Regardless of the above, corruption cannot be assessed unambiguously, since there is never only one phenomenon that is responsible for the occurrence and the development of it; corruption always arises from an array of several, interrelated factors, which can differ considerably from one another. Among the most commonly mentioned factors that influence the development of corruption are: political and economic environment, professional ethics and legislation, as well as purely ethnological factors, such as customs, habits and traditions.

2.1. Political and economic environment

The phenomenon of corruption is strongly influenced by the political and economic environment. The more is the economic activity in the country regulated and limited, the higher the authority and the power of officials in decision making and the greater the possibility of corruption, since individuals are willing to pay or offer payment in order to avoid restrictions. A great potential for corruption is especially there where the officials are under the regulation given the opportunity to decide on the basis of discretion.

The level of corruption is also affected by the monetary policy. Goel and Nelson [11] in their research found a strong link between monetary policy and corruptive activity in the States. The States that have a well-regulated financial sector, not a lot of informal economy or black market are also less corrupt than those where the opposite is true. They also find that there is less corruption in the countries with higher economic and political freedom.

Dimant [12] puts it well in his claim that the level of efficiency of public administration determines the extent to which corruption can find fertile soil and sprout. Such efficiency is determined by the quality of the regulations and permits, since ineffective and unclear regulations help to increase the level of corruption in at least two different ways:

1. The artificially created monopoly of power that enables civil servants to obtain bribes is based on their superior position and embedded in the system.
2. On the other hand, however, ineffective and unclear regulations cause inhibition and therefore encourage natural persons to pay bribes in order to speed up the bureaucratic procedure.

Corruption is also strongly influenced by the low salaries of public administration employees (state officials), who are therefore trying to improve their financial position by receiving bribes, and consequently, the socio-economic situation of the government officials also affects the phenomenon of corruption. This is demonstrated also by Allen et al. [13] in their study where they find that corruption arises because agencies, institutions and the government can no longer control corruption effectively due to underpaid officials, which is a problem especially in the developing countries, where they do not have the sufficient tax revenue to properly reward the local officials. However, low wages are not the only cause of corruption; the poor state of the public administration, which is a consequence of political “overcrowding”⁴ of officials, due to which loyalty usually prevails over professional standards, also strongly affects the corruption. As an important factor influencing corruption, some authors also indicate satisfaction with the work done by officials—the more they are dissatisfied with their work or place of work, the higher the degree of corruption, which is confirmed by Sardžoska and Tang [14] in their studies. The mentioned authors find that the private sector has higher ethical values, in particular those that affect satisfaction with work, than the public sector and is therefore less unethical (especially regarding thefts and corruption). Indirectly, Svenson [10] also affirms this and states that in principle, the salary level of civil servants affects the receipt of a bribe (the higher it is, the smaller the chance that the person will act corruptly). However, he continues on that a higher salary also strengthens the negotiating power of the official, which leads to higher bribes and he also states that, on the basis of existing research, it is very difficult to determine whether a higher salary causes less corruption, which means that the level of salary is not a decisive factor, but merely one of many.

The economy is unfortunately largely dependent on politics and often reflects the rule of law; various options for eliminating competition are exploited, and bribery is just one of the possible weapons in the struggle to gain a job. At the same time is the mentality of the economy sometimes: “The cost of a bribe is only a substantial business cost, an integral part of the contract,” or “Even if we stop the bribery, our rivals will not, so we must bribe in order to remain competitive, “or” bribery and misleading behaviour are not really crimes, they are just part of the old business practice. They are part of the game and everyone does it.” On the other hand is the point sometimes simply the “lubricating” of the bureaucratic wheel by the private sector to do certain things faster or easier.

The political influence of corruption is also manifested through the proverb: examples are attractive! If the top of the politics (government, parties and leading politicians) is corrupt, then corruption shows at all levels, and this evil at the same time spreads among the ordinary population, as nobody trusts the institutions or the rule of law. Johnston [15] thus points out useful thinking in terms of two types of equilibrium—the balance between the openness and the autonomy of the institutions and elites it leads and the balance between political and economic power and opportunities for cooperation. Ideally, the institutions should be open to influences and feedback from different sources, yet at the same time sufficiently independent to effectively carry out their work. Where the openness and independence of the institutions are in balance, the officials are accessible, but not excessively exposed to private influences;

⁴Overcrowding in this context implies replenishment of posts in public administration with members of one party.

if they can make authoritative decisions, while not using their power to arbitrate, the corruption is relatively low. But where the official power is poorly institutionalized, too exposed to private influence, and the officials' independence is reflected in excessive exploitation of their power—they can do as they please—the possibility for extreme corruption is again high.

2.2. Professional ethics and legislation

Lack of professional ethics and deficient laws regulating corruption as a criminal offense, and the prosecution and sanctioning of it are also an important cause for the emergence and spread of corruption. A great influence comes also from the ineffective sanctioning of corruption, which only increases the possibility of continuing the corruptive actions of those involved, creating at the same time a strong likelihood that others will join in the corruption due to this inefficient sanctioning.

The sole lack of professional ethics is a particular issue, as the administration requires different amounts of time to develop or change its ethics and professional standards, which is well known in transition countries (in some, ethics and professional standards changed overnight and approached the equivalents in the developed democracies, and in some, they remained the same as in socialism). It is precisely in the transition countries that the “softer” acts of corruption are often considered to be acceptable and justifiable. Therefore, due to lack of professional ethics in some countries that otherwise manage illegal corruption well, there is nevertheless a widespread form of legal corruption.

Corruption also generates a lack of transparency and a lack of control by supervisory institutions. Therefore, where there is insufficient legal basis or sufficient political will to control, which enables a non-transparent functioning of both politics and the economy, corruption flourishes. Corruption is also affected by the extensive, non-transparent or incomplete legislation, where laws can be interpreted in different ways (for the benefit of the one who pays).

2.3. Habits, customs, tradition and demography

Different countries have different attitudes to corruption. In Europe alone, we can find two extremes; from completely corruption intolerant North to the warm South, where corruption is an almost normal, socially acceptable phenomenon. Or the difference between countries with a democratic past, which traditionally prosecute corruption, and former socialist countries, where the corruption in the state apparatus was a part of folklore tradition. Then, there are also different customs; in some cases, a “thank you” in the form of a gift for a service (for which this person has already been paid with a salary) is an expression of courtesy, and elsewhere it is considered corruption. Everything is only a matter of ethics and morality; however, they can be very different in different areas and different countries.

Some forms of corruption also relate to an informal form of social security, where the family or the immediate community takes care of its members. Such forms of informal social security prevail in less developed countries, where there is no legal regulation of formal social security and in the countries of Southern Europe where the influence of the broader family

(patriarchate⁵) is still very strong, like for example in Italy, Greece, Albania, Bosnia, etc. These countries are known for nepotism, cronyism and patronage, since the family as well as the wider community provide social security. The family or community takes care of their members, who, in return, must be loyal and in a way also repay the benefits they receive from it. The same is true of faith. While the southern, predominantly Catholic, very hierarchically organized part of Europe, encourages the cult of the family (also joint and several community) and several liability, the northern, mainly Protestant part, emphasizes individualism and individual responsibility (which means less forms of corruption). The corruption also prospers better in countries where Islam and Orthodoxy are the main religion. The influence of the dominant religion in the country is thus important.

The influence of majority Protestantism has been tested several times and has proven to be an important factor for the low level of corruption in a country. However, the relationship between Protestantism and good governance is probably rooted more in history than in today's practice. Today, there are many nominally Protestant countries that are de facto secular, while also many non-Protestant countries fight effectively against corruption. Thus, the influence of Protestantism appears to emerge from its egalitarian ethos, which could indirectly function as a support to the general orientation toward ethical universalism, literacy and the promotion of individualism. Its role is therefore important, as it at certain stages of the development explains why the first countries that were well managed were predominantly Protestant. This does not mean that other religious traditions are incompatible with good governance, but only that they have not succeeded in compiling this particular array of factors at the right moment [16].

Similarly, the research by North et al. [17] showed that, according to the authors, the least corrupt countries or those countries where the rule of law is the strongest were predominantly Protestant in 1900 and those who are most corrupt were predominantly Orthodox in the same year. The results of their research have shown that there is a link between religion and corruption on one hand, and respect for the rule of law on the other, but not that the link is causative. The questions therefore arise: Why do some religions respect the rule of law more than others and control corruption? Do the characteristics of a particular religion themselves lead to the results? Are there any differences in religious doctrines, practices or cultures that lead to such results? Are there other links that are not rooted in the religious culture, but are related to religious affiliation?

A study titled *Perception of corruption* by authors Melgar et al. [18] tried to find out which groups of people are more likely to pay for corruption. They found that those who think that there is a lot of corruption also perceive it so and are consequently more willing to pay for it (as they think or expect the society to function that way). By using a wide and very heterogeneous set of data and econometrics, it has been shown that the social status and personal characteristics also play an important role in the shaping of corruption perception at the micro level. While divorced women, unemployed persons, persons working in the private

⁵Patriarchate is a social arrangement in which all authority is held by male representatives of the families that make up the community. The right to name, social and political status, as well as the possession and authority over family members is automatically transferred from the father to the firstborn or to the nearest male relative.

sector or the self-employed are considered to be in positive correlation with the perception of corruption (corruption is perceived more and they are more willing to pay bribes), the opposite applies to married persons, full-time employees, people who frequently attend religious ceremonies and people with at least secondary education (they perceive less corruption and are also unwilling to pay). According to the classification of countries, they find that it can be proved that all African and Asian countries are in the upper half of the table, and the same applies to the former socialist countries and most of the East Asian countries. People living in these countries perceive more corruption than others. On the contrary, most European countries and some of the former English colonies show lower perceptions than the average (there are also exceptions) and rank in the lower half, the same as half of the richest countries. They also added that the geographical classification of countries has been strongly correlated with the corruption perception index (CPI), which shows that individual characteristics and social conditions are specific factors that influence the perception of corruption. However, they have also found that better economic results reduce the perception of corruption, while the macro-economic instability and income inequalities have precisely the opposite effect. With Mahič [19], we also found a similar influence on the perception of corruption; in the economic crisis (high unemployment and low purchasing power), the perception of corruption is rising.

A very important factor that affects corruption is also demographics. A number of studies have shown that patriarchal society is more prone to corruption. This is confirmed by several researches that actually explore to what extent are men women corrupt. Several earlier, especially econometric contributions to the debate on who is more corrupt, men or women, argued that there is a link between a higher representation of women in government and lower levels of corruption. An influential study of 150 countries in Europe, Africa and Asia by the World Bank [20] confirmed this and concluded that women are more reliable and less prone to corruption. The subsequent findings were later reinforced by further research. Rivas [21] also affirms this in his research and notes that, according to the results of the survey, the conclusion could be that women are less corrupt than men and that the increase in the number of women on the labor market and in politics would help fight corruption. Lee and Guven [22] in the survey: *Engaging in corruption—the influence of cultural values and the contagion effects at the micro-level* also raised the question of whether men are more corrupt than women. The findings of the research support the thesis that women are less susceptible to corruption than men, especially in cultures that require men to be ambitious, competitive and materially successful, as these factors significantly contribute to unethical behavior. This was surprisingly well shown also in practice [23] when, due to gender equality, the Peruvian government a decade ago decided to involve more women in the police units. When the 2,500 female police officers were joined as traffic police officers, something unexpected happened; bribery was drastically reduced, and people welcomed the female police officers on the streets.

3. The impact of corruption on the economy

In 1997, Tanzi and Davoodi [2] conducted a systematic study of the impact of corruption on public finances. Several important findings came to light:

- a. Corruption increases the volume of public investments (at the expense of private investments), as there are many options that allow for public expenditure manipulation and are carried out by high-level officials so as to get bribes (which means that more general government expenditures or a large budget offer more opportunities for corruption).
- b. Corruption redirects the composition of public expenditure from the expenditure necessary for basic functioning and maintenance to expenditure on new equipment.
- c. Corruption tends to pull away the composition of public expenditure from the necessary fixed assets for health and education, as there is less chance of getting commissions than from other, perhaps unnecessary projects.
- d. Corruption reduces the effectiveness of public investments and the infrastructure of a country.
- e. Corruption can reduce tax revenues by compromising the ability of the state administration to collect taxes and fees, although the net effect depends on how the nominal tax and other regulatory burdens were selected by the officials, exposed to corruption.

The influence of corruption on the economy was studied by the same authors [3] through several factors:

1. *Through the impact of corruption on businesses:* The impact of corruption on a business is largely depend on the size of the company. Large companies are better protected in an environment that is prone to corruption, they avoid taxes more easily and their size protects them from petty corruption, while they are often also politically protected, which is why the survival of small (especially start-up companies) and middle-sized companies, regardless of their importance for the growth of the economy and the development, is much more difficult than the survival of large companies.
2. *Through the impact of corruption on investments:* Corruption affects (a) total investments, (b) the size and form of investments by foreign direct investors, (c) the size of public investments and (d) the quality of investment decisions and investment projects.
3. *Through the influence of corruption on the allocation of talents:* Indirectly, corruption has a negative impact on economic growth through the allocation of talents, since gifted and prospective students are driven, due to the influence of the environment and the situation in the country, for example, to study law rather than engineering, which would add value to the country.
4. *Through the impact of corruption on public spending:* Corruption has a negative impact on public spending and has an especially strong impact on education and health. There are also indications of the correlation between corruption and military expenditure, which means that high level of corruption reduces economic growth due to high military expenditure.
5. *Through the impact of corruption on taxes:* Because of corruption, less taxes are levied than would otherwise be, as some of the taxes end up in the pockets of corrupt tax officials. There are also frequent tax relieves in the corrupt countries, selective taxes and various

progressive taxes; in short, there is much less money than the country could have, and so corruption, through the country's financial deficit, also affects the economic growth; and conclude the findings on the negative impact (both indirect and direct) of corruption on economic growth.

Smarzynska and Wei [5] came to similar conclusions regarding the effects of corruption on the size and composition of investments. Corrupt countries are less attractive for investors, and if they do opt for an investment, due to non-transparent bureaucracy, they often enter the market with a joint venture, as they usually understand or control matters of the home country better. The local partner can also help foreign companies with the acquisition of local licenses and permits or can otherwise negotiate with the bureaucratic labyrinths at lower costs. Generally inclined (as investors) to the joint venture in the corrupt countries are especially the US investors; however, even investors from those European countries, which are among the highest ranked on the CPI, quickly adapt to local conditions.

Corruption for various reasons also affects the following:

1. Employment, because the job does not go to the most suitable or qualified person, but the one who is ready to pay for it or in any other way return the favor.
2. Also affects total investments [24].
3. The size and composition of foreign investments and the size of public investments.
4. The effectiveness of investment decisions and projects. In the presence of corruption, the investments are smaller, as entrepreneurs are aware that they will have to bribe the officials or even give them a profit share for a successful implementation of a business. Due to these increased costs, the entrepreneurs are not interested in investing.

Wei [25] even made a projection which predicted that in the case of reduction in corruption in Bangladesh to the level of corruption in Singapore, the growth rate of GDP per capita would increase by 1.8% per year between 1960 and 1985 (assuming that the actual average annual growth rate was 4% per year), and the average per capita income could have been more than 50% higher, whereas the Philippines could, if its level of corruption was reduced to that of Singapore (if everything remained unchanged), have raised their investments in relation to GDP by as much as 6.6%, which means a significant increase in the investments. At the same time, he notes that in order to reduce the corruption to the level of Singapore in the countries that he compared (India, Kenya, Sri Lanka, Turkey, Colombia, Mexico and Ghana), the State should raise the salaries of officials by 400–900%. He therefore asks himself whether this would even be possible. However, he notes that in the event of a large increase in salaries, a new form of corruption would likely arise when everyone would be prepared to pay a bribe for a well-paid official job.

Corruption often reduces the effectiveness of various financial assistance programs (both state and international), as money is “lost somewhere along the way” and does not reach those that need it or for whom it is intended, as the financial benefits, deriving from corruption, are not

taxable because they are hidden. The state is thus also losing part of the income from the taxes due to corruption, while the public spending, resulting from corruption (or narrow private interests) leads to negative effects on the budget.

The European Commission in its report found that corruption is costing the European economy about 120 billion a year, and according to the European Commissioner for Home Affairs, Cecilia Malstottröm, the corruption in Europe is most present in public procurement, financing of political parties and health care [26].

The United Nations estimate that the cost of corruption in Afghanistan amounted to about \$ 3.9 billion in 2012. According to Transparency International, the former leader of Indonesia, Suharto, embezzled between \$ 15 and \$ 35 billion, whereas the embezzlements of Mobutu in Zaire, Ferdinand Marcos in the Philippines and Abacha in Nigeria are estimated to amount to \$ 5 billion [27]. However, the World Bank survey shows that \$ 1 billion in bribes, both in rich and developing countries, is paid annually [28], which means that even the developed countries are not immune to corruption (but in a different form) and that the political corruption is especially present in large infrastructure projects. Bađun [29] on the example of Croatia gives conclusions, which are valid for all post-communist countries.

Impact on enterprises: A survey conducted by the EBRD and the World Bank shows that bribes paid in smaller companies account for 5% of their annual profits and in medium-sized companies 4% of their annual profits. However, both are, compared to large companies, where bribes comprise less than 3%, in a much worse position, which shows how bribes are causing problems or are putting these smaller companies into a subordinate position compared to the large ones, which in turn leads to the collapse of these.

Also interesting is the study of the *Shadow Economy in Highly Developed OECD Countries* where Schneider and Buehn [30] also find the link between the low quality of institutions that are the holders of the rule of law (or degree of corruption) and the shadow economy, and therefore, the weaker the “law” is, the higher the degree of corruption and of shadow economy. In the study *Corruption and the Shadow Economy* [31], the same authors explore the relationship between the degree of corruption and the emergence of the shadow economy, and their findings are that the high level of shadow economy and the high degree of corruption are strongly linked to one another. One of the hypotheses in this survey (which has been confirmed) is also: the higher the degree of corruption, the lower the economic development measured by GDP per capita. The authors detected a positive correlation; corruption thus affects the economic development.

However, the extended practice of finding annuity outside the logic of the market and competition can therefore lead to a (neo) liberal conclusion that the root of the existence of corruption is in the very existence of the state—especially in excessive, selective and deforming state interventions and subsidies that create fertile soil for the development of corruption. The truth is that the devastating combination consists of widespread state intervention and subsidies in the simultaneous absence of a strong institutional framework and detailed rules of the game, including the control of public finances and effective anti-trust legislation and legal practices. On the other hand, however, there is no clear evidence that private monopolies are

more effective and less corrupt than the public ones and that privatization, especially long-lasting, gradual and non-transparent one (so-called gradualism), reduces positive developmental and social effects, including the reduction of corruption [32]. Yet market deregulation, legal and judicial reform and transparent management of public procurement would significantly reduce corruption in many developing countries (as well as in transition countries), at which point the government should play an important role in the shaping of the anti-corruption policy. There should be a strong strengthening of the public procurement institution. The law is admittedly strict about the public procurement, but one of the main reasons for public procurement problems is the lack of a skilled workforce, and public procurement is thus still the breeding ground of corruption. There also exists a proverb “poverty is a curse,” which applies largely to all developing countries, as these are the countries that are most affected by poverty. Poverty destroys all ethical and moral values.

One of the important aspects of the damage to the global economy is also the failure to respect copyright and intellectual property. The more corrupt countries are also inclined to lower respect for the aforementioned, and the economic damage amounts to billions of dollars. Cavazos-Cepeda et al. [33] found that reforms, legal, fiscal and intellectual incentives to respect copyright and intellectual property patents encourage the society to make itself more innovative and economically more effective; however, they underline the importance of human capital and investment in people as one of the most important factors for reducing the level of corruption in the country.

There are also theories that corruption can act as the lubricant of the economic wheel and at least in some cases has a positive impact on the economic growth. The empirical analysis done by Dreher and Gassebner [34] on a sample of 43 countries between 2003 and 2005 shows that corruption is even useful, but with some reservations. In particular, they investigated the short-term effects of corruption and found, for example, that in countries where corruption is widespread, more new entrepreneurs enter the market (corruption in the public sector is expected to promote private entrepreneurial activity). They are, however, not necessarily to succeed, as there is a high likelihood that they will go bankrupt due to the rigid regulations that block the activity and because of which bribes are needed. They do acknowledge, on the other hand, that most authors who have been doing research for a longer period of time admit the harmfulness of corruption both for society and the economy. Something similar show the data for some Asian countries, where, unlike their findings (short-term benefit), the high degree of corruption coincides with the long-term economic growth.

Svendson [10] also notes that, in light of the theoretical literature and various research studies, notwithstanding that these show the negative impact of corruption on the economic growth, but this cannot be said for sure, since there are difficulties in measuring corruption, and at the same time, the question arises whether the econometric models that were made are good enough to capture all the important variables. He also states that corruption appears in many forms and that there is no reason to assume that all types of corruption are equally harmful to the economic growth.

Recent empirical researches also attest to that; while many countries have suffered, as a characteristic consequence of corruption, the decline in economic growth, other countries have had economic growth (in some cases a very positive one) despite corruption. The latter is also to

be expected, since corruption has many manifestations and it would be surprising if all types of corrupt practices had the same effect on economic performance. Analyses show that one of the reasons for this is the extent to which the perpetrators of corrupt practices—in this case the bureaucrats—coordinate their behavior. In the absence of an organized corruption network, each bureaucrat collects bribes for himself, while ignoring the negative impact of others' demands for them. In the presence of such a network, the collective bureaucracy reduces the total value of the bribe, which results in lower bribe payments and higher innovation, and the economic growth is consequently higher in the latter case than in the former case. The interesting question is not so much why is the degree of corruption in poor countries higher than in the rich ones, but rather why the nature of corruption differs between countries. The extent to which corruption is organized is just one aspect of this, but there are other aspects. For example, it is common practice in some countries to pay *ex post* (as a share of profit, for example) instead of *ex ante* (in advance, as a bribe) to officials or politicians, so it is assumed that the effects on the economy will be different. The precise reason why corruption should take on one form and not the other is an important issue which has been largely ignored and which could have to do with cultural, social and political reasons, as well as economic circumstances [35].

In the fight against corruption, a remarkable role was also played by the debt crisis. The *die Welt* newspaper [36] mentions the study of the Hertie School of Governance, which shows that Italy, Spain and Portugal have made great strides in the fight against bribery and corruption of their civil servants due to lack of money, which enabled a significantly more transparent and "pure" practice for the award of public procurement. The crisis is supposed to dry up monetary resources and thus reduce the chances of corruption. Also, the crisis has changed the perception of the society, and bad business practices, which were acceptable before the crisis, are acceptable no longer. However, the fight against corruption is often similar to the fight against windmills. The case of India shows how corruption is changing, getting new dimensions, not only in scope, but also in methods. Just as the population in India is growing, so is corruption, and there are always new ways how to cheat both the state and the society. The perception of corruption is increasing year after year. Despite all the anti-corruption moves and anti-corruption initiatives, people do not hesitate to offer or accept a bribe. The bribers are becoming innovative, they adapt to the situation and the innovation of companies in paying bribes and hiding them is also visible. However, just as elsewhere in the world, the negative effects of corruption are the same; it reduces foreign direct and domestic investments, increases inequality and poverty, raises the number of freeloaders (renters, free-riders) in the economy, distorts and exploits public investments and reduces public revenues.

4. Discussion

Corruption is, in fact, a multidirectional process. On one hand, the provider benefits, on the other the recipient, and both are aware of the deed that remains hidden. The third link in the chain is everyone else, the victims. Although not every act of corruption is yet a criminal offense, it is, however, unethical and detrimental to the economic and political development of a society. Usually, there are persons involved with political, economic and decision-making power, and as the philosopher Karl Popper wrote in his book, *The Open Society and its Enemies*,

that the greatest problem is not the question of who should give orders, but how to control the one who gives them. How to organize the political and social institutions in order to prevent the weak and incompetent rulers from doing too much harm? However, as there is no general and unmistakable way of preventing the tyranny or corruptions of the heavyweights, the price of freedom is eternal alertness [37]. Greediness, ambition, rapacity and immorality have been known to the human society ever since the emergence of civilization and use every tool available to them: kinship, common past, school contacts, common interests, friendship and, of course, political as well as religious ties.

In a study by Šumah et al. [38], we did an analysis of countries, taking into account their ranking on the Corruption Perception Index published every year by Transparency International, and identified the main factors affecting the level of corruption in a particular group of countries, or rather, we tried to find similarities and differences between individual groups of countries in terms of what affects the level of corruption in these groups. We have established a basic model of three factors (risk, benefit and consciousness) that was created on the basis of the merger of several known, scientifically proven factors that cause or reduce corruption or affect its level in the individual country. According to this degree of corruption, we have identified five groups, classified the countries and analyzed their common characteristics. The findings were as follows:

- Corruption is linked to the level of GDP (the higher the GDP, the lower the rate of corruption).
- Corruption is related to the level of education (the higher the average level of education, the lower the level of corruption).
- Corruption is strongly linked to the geographical location. The highest level is in Asia (mainly in Central Asia), Africa (North and Central Africa) and South America (according to the Transparency International map).
- Corruption is strongly linked to the country's prevailing religion.
- Corruption is linked to freedom in the country (personal freedom, freedom of speech, economic freedom, etc.), with respect to the rule of law in a country and inefficiency of public administration, which is often also locally limited or is inherently corrupt.
- The lower the country is ranked, the more dominant is the patriarchal society.

Many researchers are still involved in corruption. The findings show that there is a link between corruption and its negative effects, but from most of the studies it is not possible to determine what the cause is and what the consequence. Whether is the level of corruption lower due to high GDP, or is it vice versa, cannot be directly identified, since the corruption depends on economic indicators, while at the same time affecting them [39]. It is also very difficult to claim that the average low level of education is due to corruption or, conversely, that corruption is a result of low education. Similarly goes for the rule of law and (in)efficiency of public administration. This interdependence will surely continue to be the subject of numerous researches in the future, for the only way to be successful in the fight against corruption is if we know the causes and begin to eliminate them.

Nevertheless, there remains something that needs to be emphasized. Almost all of the studies ignore the fact that the top of the most corrupt countries consists of countries with one of the various forms of armed conflict (civil war, intertribal conflicts, inter-religious wars or some other form of aggression), which means that peace in the country is a prerequisite for a successful fight against corruption. The least corrupt countries are countries that have a lasting peace on their territory (most since the Second World War or even longer), which is confirmed by the above fact. Peace is therefore one of the prerequisites for a successful fight against corruption.

The answer to the question of how to deal with corruption is not unambiguous; some countries have achieved great success in dealing with it in a relatively short time (Singapore, Estonia and Georgia) and some have been struggling for a long time (the most famous example is Italy). The first condition is in any case to ensure freedom (personal freedom, economic freedom, freedom of speech, freedom of the press, etc.) and democracy, and then education and awareness of people. However, at this point, it is not about introducing the Western type democracy, as our culture knows it, for it has often proven that, especially with the help of the army, more harm than benefit was caused. It is necessary to start using good practices of countries that are similar to each other (religion, habits, tradition, ethics and morality) and that have common history.

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