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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.

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: