МЕМЛЕКЕТТІК САЯСАТ, МЕМЛЕКЕТТІК БАСҚАРУ ЖӘНЕ СЫБАЙЛАС ЖЕМҚОРЛЫҚҚА ҚАРСЫ ІС-ҚИМЫЛДЫҢ ӨЗЕКТІ МӘСЕЛЕЛЕРІ

АКТУАЛЬНЫЕ ВОПРОСЫ ГОСУДАРСТВЕННОЙ ПОЛИТИКИ, ГОСУДАРСТВЕННОГО УПРАВЛЕНИЯ И ПРОТИВОДЕЙСТВИЯ КОРРУПЦИИ

CURRENT ISSUES OF PUBLIC POLICY, GOVERNANCE AND ANTI-CORRUPTION

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R. Pelizzo,
Associate Professor
Graduate School of Public Policy
Nazarbayev University

CORRUPTION: CAUSES AND CONSEQUENCES

Introduction

The past twenty years have witnessed a renaissance in the study of corruption. Some studies have attempted to refine the way in which it is conceptualized (Tanzi, 1998; Rose-Ackermann, 1999; Kaufmann, 2005), to identify the various forms that it may take (Jain, 2001), and to develop typologies and taxonomies (Tanzi, 1998) that would enable the analysts to properly map the universe of corruption in its manifold manifestations. Other studies have attempted instead to developed metrics, benchmarks and indicators to track the level of corruption over time and across countries (Mauro, 1995; Johnson, Kaufmann and Zoido-Lobaton, 1998; Kaufmann, Kraay and Zoido-Lobaton, 1999; Golden and Picci, 2005). A third stream of scholarship focused on the costs or the consequences of corruption, which has consistently been shown to be an obstacle for economic growth and socio-economic development (Rose-Ackermann, 1999; Kaufmann, Kraay and Zoido-Lobaton, 1999). A fourth stream of research has focused instead on the causes or determinants of corruption which have variously identified in political, sociological and economic factors.

Corruption, the literature argued, is more likely to occur in poor and ethnically fragmented societies (Shleifer and Vishny, 1993); in countries where the political system is poorly institutionalized (Huntington, 1968; Evans, 1989; Evans, 1995), civil servants are badly paid (Kraay and van Rijckeghem, 1995) and mechanisms of inter-institutional accountability are either absent or ineffective (Pelizzo and Stapenhurst, 2012); and in countries where the government intervention in the economy, in the form of trade restrictions, subsidies, licensing and price controls, creates rent-seeking opportunities and where public officials have wide discretion in enforcing regulations (Klitgard, 1988; Mauro, 1996).

The purpose of this paper is to provide a brief overview of the main findings of each of these four stream of research. In the first section I will provide a brief overview of the main ways in which corruption has been defined and conceptualized. In the second section I will discuss some of the ways in which corruption has been measured by scholars and practitioners. In the third section I will discuss the costs of corruption, while in the fourth I will provide a brief overview of the social, political and economic conditions that create a fertile soil for the flourishing of corruption. In the fifth and final section I will draw some tentative conclusions and I will formulate some suggestions and recommendations.

Conceptualizing corruption

Given the interest that the study of corruption has received in the past two decades, it is not surprising that several efforts were made to develop a definition of corruption. Transparency International defines corruption as "the abuse of entrusted power for private gain"[1]. World Bank

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[1] http://www.u4.no/articles/the-basics-of-anti-corruption/

defines corruption as "the abuse of public office for private gain"[1]. In *The Encylopedia of Power,* edited by Keith Dowding, Michael Dalvean (2011:150) claims that when an individual makes an abuse of power, authority or trust, the individual effectively engages in corruption which means that corruption is equated with the abuse of power, authority and trust. While these definitions capture several important aspects to corruption –corruption involves an agent, who holds a position of authority, either as an elected official or as a public servant, and uses the power or the powers associated with the position of authority, to make a gain – they neglect two aspects that I think are somewhat important. First of all, they all neglect that the abuse of power and authority in addition to being performed to ensure a private gain, it may also be performed to ensure a political gain. Second, they all neglect that an elected official or a public servant may engage in a corrupt act or activity by making an improper use of public resources. Hence, I suggest that we define corruption as the use or abuse of public power, authority, trust and resources for private or political gain.

The literature has generally agreed that corruption is a complex and multifaceted phenomenon in at least three respects: scale or magnitude, sector and method.

With regard to scale or magnitude, the literature (Jain, 2001; Pelizzo and Stapenhurst, 2014) has generally agreed that corruption may take three forms: it may be petty, grand or systemic. Petty corruption is the type of corruption in which low level civil servants engage in when they accept a bribe to provide a service to which the citizens are entitled, to provide a service to which the citizens are not entitled, or simply to speed up a bureaucratic procedure. Grand corruption is the type of corruption in which high level civil servants and the political elite engage in when they use their political power and authority to increase either their personal or their political fortunes. Systemic corruption occurs when corruption is endemic. Corruption is endemic means when it is everywhere, when it is expected to be everywhere and it is accepted as something perfectly normal.

With regard to the sector, it has been extensively documented that corruption is a pervasive problem and that it may affect every sector. This is why we can talk of academic corruption, bureaucratic corruption, judicial corruption, political corruption, police corruption and so on. Usually these types of corruption are matched with a specific scale or the scale of corruption is usually associated with specific types.
– Bureaucratic corruption exemplifies petty corruption
– Political corruption often embodies grand corruption
Finally, corruption and corrupt activities can be performed by adopting a variety of methods, such as gifts, bribes, embezzlement and theft (of public property and resources).

Measuring corruption
Various measures have been developed over the years to measure corruption. Some measures of corruption evaluate the incidence or the severity of certain types or aspects of corruption such as bribery (WBES), while other measures attempt to capture the overall level or amount of corruption (CPI, WGI). Some measures are direct while other are indirect (as they infer the level or amount of corruption) from other, easily observable data (Golden and Picci, 2005). Some measures are objective, while others are subjective. Some measures of corruption measure corruption at the national level while others try to measure it at both at the national and at the subnational level. Some measures pertain to the micro level (WBES) while other pertain to the macro level (CPI). A tentative multidimensional mapping of measures of corruption along these various dimensions is presented in table 1.

Let's review some of these measures beginning with the World Governance Indicators and Transparency International's Corruption Perception Index. World Governance Indicators measure the level of corruption in all the countries in the world by aggregating in a single metric, that is in a single statistics, the estimates generated by four types of data sources. The four data sources are 1) **surveys of households and firms** such as Gallup World Poll, Afrobarometer, and the Global Competitiveness Report; 2) **Commercial Business Information Providers** such as Political Risk Services, Economist Intelligence Unit, 3) **NGOs** such as Freedom House and Global Integrity and 4) **Public Sector Organizations** such as the European Bank for Reconstruction and Development transition reports and the World Bank's CPIA (Country Policy and Institutional Assessment) assessments. World Governance Indicators, including the one concerning the control of corruption, were computed by aggregating the estimates from 32 data sources, 4 of which were Commercial Business Information Providers, 8 were Public Sector Organizations, 9 were surveys of Households and Firms, while 11 were NGOs.

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[1] http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor02.htm

Transparency International's **Corruption Perception Index** is also used to track corruption globally. CPI is also an aggregate measure of corruption as it is constructed by aggregating the estimates generated by 12 data sources, namely African Development Bank Governance Ratings, Bertelsmann Foundation Sustainable Governance Indicators, Bertelsmann Foundation Transformation Index, Economist Intelligence Unit Country Risk Ratings, Freedom House Nations in Transit, Global Insight Country Risk Ratings, IMD World Competitiveness Yearbook, Political and Economic Risk Consultancy Asian Intelligence, Political Risk Services International Country Risk Guide, World Bank – Country Policy and Institutional Assessment, World Economic Forum Executive Opinion Survey (EOS) and the World Justice Project Rule of Law Index.

These two measures of corruption have some features in common but also differ from one another in some respects. Beginning with the similarities, they are both aggregate measures, they both measure corruption at the national level, they both rely on indirect sources which, for the most part rely on subjective assessments of corruption. The key differences are that WGI relies on a larger number of sources than CPI and that the two indexes are expressed in rather different scales. CPI, which used to be expressed in a 10 point scale, is now expressed in a 100-point scale while WGI is expressed in a 5 point scale ranging from -2.5 to + 2.5.

World Bank, under the leadership of Daniel Kaufmann, has coordinated the administration of a survey questionnaire on the relationship between firms and the state. This project, known as World Business Environment Survey (WBES), later replaced by the Business Environment and Enterprise Performance Survey (BEEPS), asked respondents to say whether and how much they paid in bribes. These data were collected at the micro (firm) level, could be aggregated to generate national averages, and provided some evidence about one facet of corruption (bribery).

More recently Golden and Picci (2005) have proposed a new measure to track corruption-a measure that could be used to estimate corruption at the subnational level across various subnational administrative units as well as the national level. This method measures corruption as the difference between the amount of public money spent for capital stock and the quantity of physical infrastructure. This method assumes that higher levels of corruption are associated with larger differences between the amount of public expenditures and existing physical infrastructure.

Table 1. Measures of corruption

	WGI	**CPI**	**WPES**	**Golden and Picci**
The index measures corruption	directly	Directly	directly	Indirectly
The index is computed by	Aggregating the estimates from existing sources	Aggregating the estimates from existing sources	By aggregating responses of individual respondents/firms	Computing the difference between public expenditures and quantity of physical infrastructures
The data sources used are	Subjective	Subjective	Subjective	Objective
The index is computed at the	National level	National level	National level	National and subnational level

While so many measures of corruption have been devised, the most famous of them remains the Corruption Perception Index (CPI) designed and computed by Transparency International in 174 countries—which is what I will use in the course of my empirical analyses to show the relationship between the level of (perceived) corruption and several indicators of development.

Costs of corruption
There is considerable evidence showing that corruption represents an obstacle along the development path. There are many ways in which corruption is detrimental to sustainable economic growth and socio-economic development. First of all, in corrupt countries talent is not valued, is not honed and is not put to good use. This problem is due to the interaction of three different but possibly related factors.

First of all the government does not promote education. Government expenditure on education, as we can see in Table 1, is lower in countries that have higher levels of corruption. Corrupt countries spend less to educate their citizens and, since education is a major determinant of economic growth and development, corruption prevents developing countries from creating the conditions for sustainable growth and development. Second, those who may have otherwise have an incentive to developing their talents have no incentive to do so for they understand that professional and economic success are not merit-based but are based on nepotism, clientelism and corruption. Third, those talented individuals who could, in less corrupt settings, become involved in legitimate and profitable entrepreneurial activities, in corrupt countries prefer to join the grey economy or to seek an appointment in the public sector so that they can extract resources from the society and the economy.
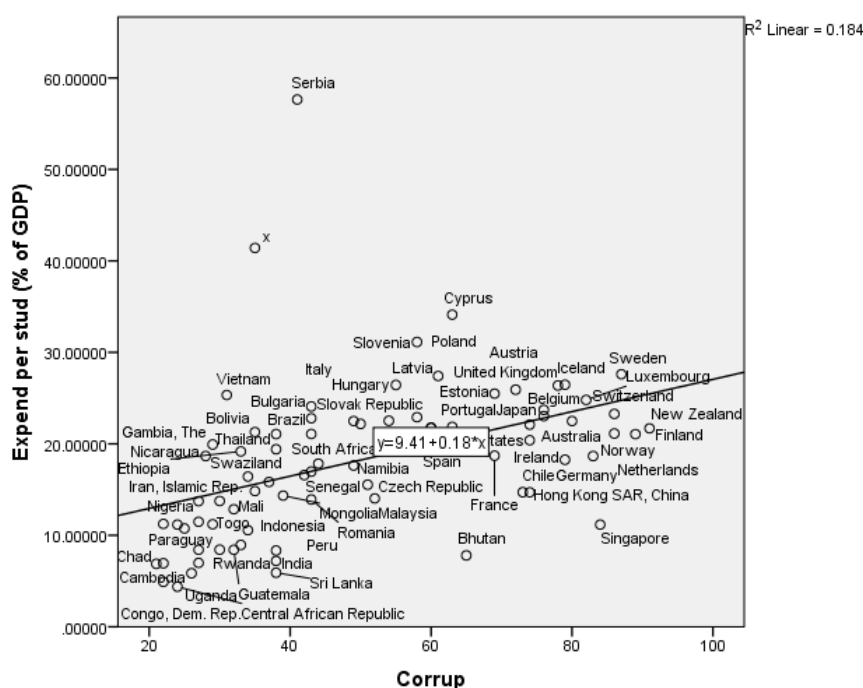

Figure 1. Corruption and expenditure on education

The data at our disposal also sustain the claim that corruptions deters Foreign Direct Investments (FDI), which are, as the economic literature has repeatedly emphasized, one of the most significant determinants of economic growth and development in developing countries. In fact, the correlation between FDI and corruption reveals that greater amounts of FDI tend to be attracted by countries that have lower levels of corruption while countries plagued by relatively higher levels of corruption are less appealing to foreign investors and attract on average fewer international investments.The correlation between CPI and FDI yields a positive and statistically significant coefficient (r = .176, sig. = .039).

By dissipating talent, by discouraging investments, by dissipating resources, corruption ultimately hurts sustainable economic growth and development.

These findings are consistent with a large body of studies conducted in previous years. For instance Mauro (1997) showed that corruption deters investments and harms economic growth; Kaufmann, Kraay and Zoido-Lobaton (2000) showed that infant mortality and income per capita are both affected by corruption, Pelizzo and Stapenhurst (2013) showed that corruption has a negative effect also on the level of literacy and average life expectancy, while Gupta, Davoodi, and Alonso-Terme (2002) and more recentlyPelizzo (2012) showed that higher levels of socio-economic inequality go had in hand with higher levels of corruption.

In other words, corruption has a negative impact on society in general and has an especially negative impact on the weaker segments of society.
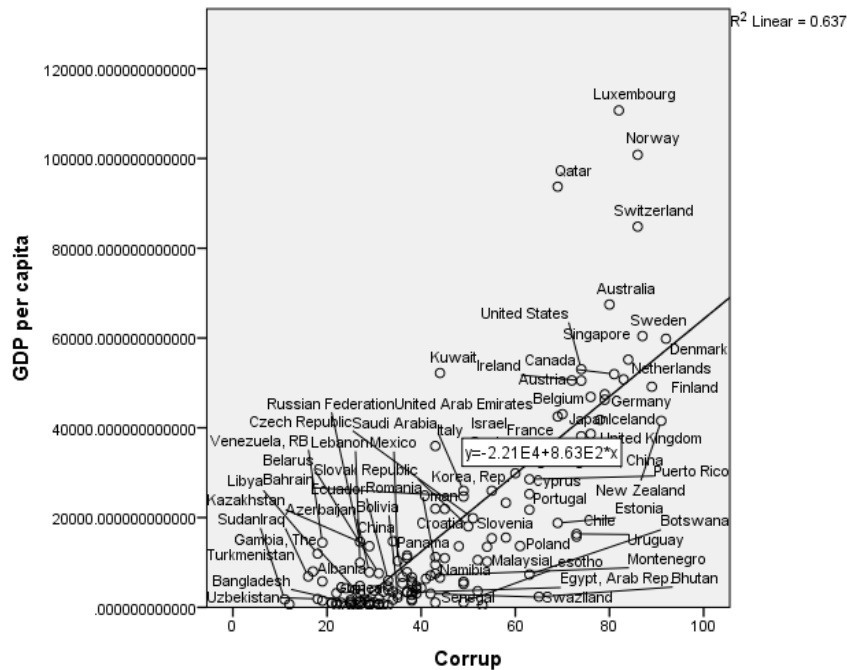
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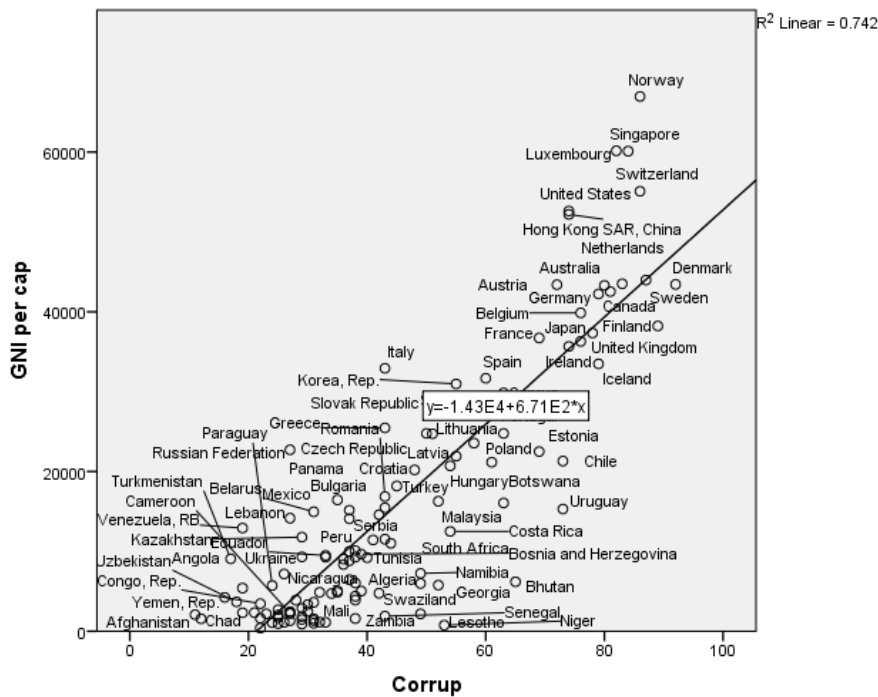служба

Figure 2. Corruption and GDP per capita

Figure 3. Corruption and GNI per capita

Causes of corruption

Scholars have identified three sets of reasons why corruption is more pervasive in some settings than in others. These three sets of reasons can be categorized as social, political and economic.

With regard to the social conditions or factors, scholars have noted that extreme poverty is not simply a consequence but is also, if not a cause, a facilitating condition for corruption. In extremely poor countries, poor people have more pressing needs than curbing corruption and promoting good governance principles. They need to satisfy the most basic needs in human life, those which, according to Maslow, pertain to physiology, safety and security. The physiological needs are the

most basic material needs such as the need for food, shelter, clothing and sleep. The safety and security needs are the ones concerning health and family. In extremely poor societies, corruption is often a way to purchase a good or a service to which one is entitled but which would not be provided. Corruption is a way to ensure that the basic needs in an individual's life are satisfied and, as a result, an individual living in an extremely poor society has little to no incentive to fight against corruption. Finally, people living in extremely poor societies may not have the means to be sufficiently informed about, monitor, and denounce instances of corruption. As a result poverty provides a fertile ground in which corruption may flourish.

The second set of reasons why corruption may flourish is, for lack of a better word, political. One of the most important lesson of comparative politics, a lesson popularized at the end of the 1950s in a famous article by Lipset (1959), is that the stability of a political regime –regardless of whether it is democratic or not- depends on the level of legitimacy that a political regime enjoys. In countries where, the political system enjoys very little legitimacy, where the people have little trust in the government, where the political system is very likely to experience turbulence and instability, political actors may engage in corrupt practices to buy popular support and to ensure the survival of the political system and of the political elite to which they belong. Where the organs of the state, the political institutions, and the state bureaucracy are poorly developed, highly distrusted, and inadequately institutionalized, some corrupt practices such as nepotism and clientelism are more likely to occur.

Finally, corruption is also favored or facilitated by what could be regarded as economic factors or conditions. These economic factors relate to two different but possibly related issues: one concerns the role of the state in the economy, while the second concern the nature of a country's economy.

With regard to the role of the state in the economy, the literature (Kaufmann, 1997) suggested that if there is too much state intervention in the economy, if the state and state officials have too many discretionary powers over licensing, regulations, controls, subsidies and contracts, and if there is little transparency and accountability in the way in which the state intervenes in the market, the potential for corruption is very high for, as Klitgard (1997), noted corruption occurs from the combination of monopoly, discretionality and absence of accountability.

With regard to the nature of the economy, several studies using micro level data to analyze the incidence and the severity of bribery and corruption, have explored the relationship between the competitiveness of the business environment and the incidence of bribery. In this respect, it is worth recalling that while it had been generally hypothesized that more market competition deters or reduces the incidence and the risk of corruption, the analysis of Asian data (Wu, 2009) indicates instead that in the Asian region the probability that a firm engages in bribery increases as the market competition becomes tougher.

Some recommendations

In 1997 Kaufmann wrote an article entitled "Corruption: The Facts" in which he made several points that I think are still valid. Corruption is a complex phenomenon, corruption is detrimental to a country's economy, corruption is an obstacle for sustainable economic growth and development, corruption can be defeated and proper institutional and economic reforms represent the proper tools for fixing this problem.

I believe the evidence at our disposal in 2015 largely supports most, if not all, of the claims that Kaufmann advanced eighteen years ago and I still believe that the reforms Kaufmann was advocating still represent a good starting point for curbing and possibly eliminating corruption. Reducing red tape, reducing discretionary powers, increasing transparency and accountability are sensible and viable solutions that should be adopted to reduce corruption.

But while I think that Kaufmann's approach is largely agreeable, there is one issue to which I think we should also pay more attention. Solutions, such anti-corruption measures, need to be problem-specific and country specific. One size fit all solutions do not work. They do not work because they neglect the fact that the type, the scope, the extent, the nature, and the causes of corruption are not the same everywhere.

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