Corruption: Where Does It Stand? - A Point of View

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Abstract
The economic theory states vigorously that the corruption is a painful sick to the economic growth and the development of a country. The developing countries known by their weak institutions suffer much from the negative impacts of the corruption. This paper attempts to explain the mechanism by which the corrupt practices affect harmfully the budget state as well as the public and private investments.
Keywords: corruption, developing countries, private and public investment

INTRODUCTION:
Many academic studies stresses on the phenomenon of corruption and its impact on the development and the growth of a country. The attempt of this is to highlight the scope of the negative effects exercised by the corruption on the progress and the social development of the country. Some consider that the phenomenon is mainly confined to the developing countries in which weak institutions and feeble control and transparency processes is a more than a reality (Franz Wirl, 1998; Chen-Guo-qan, 2001; Toke S. Aidt, 2003; Keith Blackburn et *al*, 2006)

The issue of this paper is to explain the mechanisms by which the corruption constructs a rooted obstacle to the economic growth in general and developing countries in particular.

1.   THE CORRUPTION CONCEPT:

Corruption is defined as the offense committed by an office or an organization representative who uses illegally and dishonestly his position, authority for personnel and private benefits (Susan Rose, 1978; Schein E, 1985; Debora Di Gioacchino, 2008; Ali Balci, 2012). It is also defined by a fraudulent individual practice to bribe an official, either through donations or by promises (Palmier, L, 1983; Vardi, Y, 2004; Umphress, E. E, 2011). Systematically, Transparency proposes a definition to the corruption as an abuse of power for the purpose of personnel enrichment, or more generally an abuse of entrusted power for private gain (Ackerman, S. R, 1999). In addition, the World Bank for its part considers that corruption is the situation where an individual uses his position in charge of a public service for personal gain (Rajeev K. Goel, 2003; Waite, D, 2003; Suar, D, 2004). Moreover, the Multidisciplinary Group on Corruption lays a more detailed definition. It states that: corruption is an illegal payment or other behavior against persons committed by a public or private responsibility. The victims of corrupt acts are either employees of the private or public sector or independent agents. The aim of the abuse of the responsibility is to gain undue advantages or personnel benefits (Rose Ackerman S, 1997; Warren, D. E, 2003)

Additionally, the conceptual frameworks presented to illustrate the concept of corruption agree about the constitutive parts of the corrupt practice which are (Robinson, M, 1998; Husted, B. W, 1999,; Jain, A, 2001; Johann Graf Lambsdorff, 2002;; Chiung-Ju Huang, 2016; Giorgio D'Agostino et *al*, 2016; Philippe Aghion et *al*, 2016; Ritwik Banerjee, 2016):
- It is an act having an illicit nature, dishonest and unethical;
-It is a situation of abuse in the use of power;
-It favors the private interests and particular advantages

Besides, and in light of the above definitions, it is understood that corruption can emerge from the public sector or the private sector. However, the corrupt practices are more important in the public service than the private one as the second sector adopts much more the parameters of the economic logic in dealing with the different business processes (serving the benefits of the private institution is the same as serving the private and individual advantages).

According to Mauro, P, (1995, 1998); Moran, J, (1999); Luo, Y, (2006) corruption is the transformation of the citizen's' rights in favor of the benefits of others. Dobel J, P (1978) believes that corruption is synonymous with a range of fraudulent practices (a pot of wine can be paid to avoid paying fees to have a service which is addressed only to the employees of an organization or to facilitate the access to specific and important information, to accelerate or divert the application of usual procedure. In sum, all these acts have undoubtedly serious economic problems on the life of organizations as well as the progress of a country in general.

As the other side, the World Bank distinguishes between big and small corruption acts:
- For big corruption, it means the corrupt practices that take place at high level. Here policymakers, responsible for creating and enforcing laws abuse their power and their official position to promote their own well being (status changes, personal enrichment, power ...). This kind of corruption is called systemic corruption in the

sense that the financial flows incurred are substantial. It also causes significant macroeconomic costs through the involvement of a large number of government officials (Mauro, P, 1998; Ivanyna, S, 2011; Banerjee, 2012)

-The small corruption is defined by the bureaucratic and organizational corruption (corruption of government officials). It is also coined by the term so-called corruption of second order of secondary corruption in the sense that the financial flows incurred are not very important and the macroeconomic costs are relatively low. This type of corruption usually involves individuals having certain powers of decision, mainly public sector employees (a politician, an official, a policeman, a customs officer, a doctor ...)

Both the big and small corruption uses via diverse forms the state power for the benefit of private interests. In this multi facial ploy, the public resources are siphoned, hidden and unexploited for boosting the development activities (health, education, infrastructure, etc)

2. CATALYSTS FOR THE CORRUPT PRACTICES:

The phenomenon of corruption is widespread in the sense that it affects both developed countries and developing countries. However, a big attention had been paid to the developing countries as the environment of these countries enhances the progress and the proliferation of corruption at various dimensions.

Low salaries for instance in developing countries especially in public service leads inevitably to a high level of corrupt practices. The core of the idea is that low wages creates precarious living conditions of the public offices' employees. This situation pushes the individuals working in this sector to abuse their power and authorities in an attempt to overcome the incapacity of their incomes to fulfill their desires. At the other side of analysis, the inefficiency of the wages could be avoided by alternative mechanisms of rewards as the payment of a premium which should be equal to the expected gain of the corrupt practices (Hess, D, 2000; Jain, A, 2001)

In addition, the administrative officers have a discretion which allows them, particularly in the context of institutional fragility and laxity of the authorities to regulate corruption in a systemic and systematic operation. The increased salaries for the employees in this case are not necessarily a deterrent to corruption (Kimbro, M. B, 2002; Aidt, T, 2009; De La Croix, 2009; Campos, N, 2010)

Furthermore, in developing countries, the scarcity of public goods is retained as an essential and explanatory element for the proliferation of the corruption phenomenon. Indeed, the demand for these goods is much higher than their offer; the fact that promotes economic agents to pay a premium for a privileged access to these types of property (Kolk, A, 2001; Svensson, J, 2005)

The coexistence of free and subsidized prices encourages economic agents to compete for acquiring these types of commodities. The eventual increase of the prices of these goods engendered by the threshold of the corrupt practices remains lower than the true price determined by market forces (Barreto, R, 2000; Treisman, D, 2000; Ratbeck, R, 2010)

The rent seeking perspective is also considered a fertile ground for heavy and malign corrupt practices. As an example, the exploitation of natural resources creates rent situations in which the resources are sold at much higher prices to their costs (Quazi, R, 2014)

Another example of the corrupt acts is clearly shown at the time of concessions when the business transactions are bought and sold especially in oil producing countries.

Transparency International in its own side estimates that major and heavy corrupt practices are the results of the infrastructure projects dealt between economic agents and countries. This situation leads gradually to the fatal widespread of the international corruption (Transparency International, 2008; 2011)

Corruption also finds its origins in the external causes, especially in the transactions with multinational companies. The acquisition of goods and services are not based generally on competitiveness but on the premium paid in the context of corruption. It may be considered as the price of the paving the way to do business between decision makers in developing countries and multinational companies or companies in developed countries (Rodriguez, P, 2005)

At another level of analysis, trade restriction by quotas give great value for import licenses in the view of the importers to get them; this fact is also another parameter contributing to increase the corrupt practices of the external trade (Sanyal, R, 2005; Lee, C, M, 2009)

Different attempts are undertaken to reduce the negative impacts and the long term opportunities of corruption if the public sector. As an example of these attempts, the implementation of the reforms figured out by the initiatives of the privatization and the bank creation permissions. However, these initiatives did not impede the increasing trend of illegal arrangement (Clarke, G, 2004; Sampson, S, 2010)

The big corruption is illustrated by the context of the side or the individual responsible for doing the corrupt act. In this sense, it is originated by the decision makers (managers, senior executives, elite powers) initially responsible for establishing the rules and procedures of governance!

3. IMPACT OF CORRUPTION ON ECONOMIC GROWTH:

Corruption is a major hinder of the economic development. This deterrent effect takes different channels

3.1. THE IMPACT OF CORRUPTION ON THE STATE BUDGET:

Several studies suggest that corruption causes a reduction in the tax revenues for a country. As there is no partial payment of taxes, the tax evasion behavior as a result of the corruption will increase (Acconcia et *al*, 2003; Akdede, 2006; Attila, 2008)

By the decrease of the government revenue, the ability of the state to invest in education and the infrastructure will be limited; the situation that hampers harshly the socio-economic development of a country.

3.2. THE IMPACT OF CORRUPTION ON THE PUBLIC INVESTMENT:

The causality between the public investment and the corruption is another story. In this context the corruption does not discourage the public investment but it encourages it as higher public investment opportunities are another fertile ground for the proliferation of the corrupt practices. This situation is heightened especially when the institutions are weak and the information disclosures as well as the audit processes are feeble (De Graaf, 2007; Argyriades, D, 2010; Almquist, R, 2013)

The causality between the infrastructure and the public investment especially in developing countries is evident as the high opportunity for corruption leads to more funds addressed to the public infrastructure and vice versa (Dobel, J. P, 1978; Bovens, M, 2005)

Moreover, the corruption also hinders the building of human capital in the sense that corrupt governments spend less in the sectors of education and health. The reason of this is that the wise human capital does not allow the creation of the corruption opportunities (Graycar, A, 2011)

The composition of the public spending is also affected by the corrupt practices as the funds composing the shares of the public spending vary according to two dimensions (the level of the corruption recorder and the level of the institution weakness) (Tanzi, V, 1998; Panizza, U, 2001; Knack, S, 2007)

The table below is summary of the negative effects of corruption on the public sector

Table 01: the impact of corruption on the public sector

At Microeconomical level	At Macroeconomical level
- The organizational inefficiency - Anarchy in the sectors' priorities as the sectors of the first order (education, health) become less important compared with the military sector for example. - Reduction of tax revenues - The increase of works without true value added	- The increase of social inequality - The increase of the inflation rate - The increase of the human and social poverty - The reduction of the public revenues - The increase of the public debt - The increase of the budget deficit - The apparition of eventual payment disturbances - Deterioration of the balance of payment

Source: the researchers

3.3. THE IMPACT OF CORRUPTION ON PRIVATE INVESTMENT:

One of the most important channel through which the corruption hampers the economic development is the private investment by its two angles: domestic and foreign private investment. Indeed, any investment depends on the business climate and environment in the country. An environment is considered as favorable and suitable for the investment projects if it is characterized by stable rules which command the commercial transactions, political stability and transparency (Sunita Kikeri, 2006). In this sense, the corrupt behavior with a disturbance in dealing with decision processes creates an economically uncertain environment (Banerjee, A.V., 1997; Jamie D, 2009,)

The following table shows the negative effects of corruption on the private sector, both at the micro and macro level:

Table 02: the impact of corruption on the private investment

At Microeconomical level	At Macroeconomical level
• An inefficient implementation of the business projects • Nuisance competitive forces addressed to hamper and deter the process of the private investment • The increasing number of the shadow enterprises (enterprises working in the shadow economy) • Bad allocation of individual talents and skills, this fact leads to increase the exploitative business activities (activities with no more value added) and a decrease in the productive ones • Increase of the offshore and false enterprises (enterprise with no real existence)	• Decrease of the foreign and domestic private investment of long term • Decrease of the competitiveness level due to the high transaction costs and to the high level of economic uncertainty • Decrease of the economic growth • Decrease of the private saving • Unemployment • Capital flight

Source: the researchers

At another angle of analysis, The Transparency International regularly notes that the countries based on the oil revenues are always among the misclassified countries internationally in terms of economic efficiency and transparency. According to different researches, there is a strong correlation between the economies based on oil or generally non productive sources of revenue and the high level of corruption (Ackerman, S. R, 1999; Ades, 1999; Ali, 2003;; Aaronson, S, A, 2011; Ata, 2011; Alessandro, 2013; Elizabeth, 2016)

In contrast, more reassuring case may exist. It refers here to many countries which managed the devastating effects of the so-called the economy of one factor revenue. This capability did not come by chance, but through the construction of sound economic and political structures. This means implicitly that the economy enhances the initiatives and the process of audit, control and transparency in all economic transactions (Antonio, 2003; Ivar, 2008; Douglas Vickers, 1997)

Thus, we can conclude that corruption is not inevitable and therefore is not a confined reality to the economies based on the oil revenues as long as these economies enjoy good and sound institutions.

4. AN EXTENDED COBB-DOUGLAS APPROACH TO MEASURE CORRUPTION:

The corruption takes different forms both at micro and macro levels of analysis. It takes different forms as: fraud, illegal political practices, embezzlement, bribery, favoritism, extortion, abuse of discretion, conflict of interests (Davis, J, 2004)

Consider the following model:

$$Y_t = K_t^{\alpha} H_t^{\beta} T_t^{\delta} \quad / K : \text{physical capital}, \quad H : \text{human capital}, \quad T : \text{technology} \qquad (1)$$

As the corruption is a feature of the economic transactions, the Cobb-Douglas model can be written as the following:

$$Y_t = \left[K(\eta)\right]_t^{\alpha} \left[H(\ell)\right]_t^{\beta} \left[T(\gamma)\right]_t^{\delta} \quad / \eta, \ell, \gamma \text{ are the levels of corruption related to physical capital, human}$$

capital and technology respectively (2)

$$\eta = \frac{\partial K}{\partial Y} \Delta f_{t,t-1} \quad / \eta : \text{ is the parameter of the physical capital corruption, } \Delta f \text{ is the variation of the fraud}$$

behavior between two different and consecutive periods (3)

$$\ell = \frac{\partial H}{\partial Y} \Delta (f_{t,t-1}, IP_{t,t-1}, E_{t,t-1}, B_{t,t-1}, F_{t,t-1}, E_{t,t-1}, D_{t,t-1}, I_{t,t-1}) \quad / \ell \text{ is the parameter of the human capital}$$

corruption, $f_{t,t-1}, IP_{t,t-1}, E_{t,t-1}, B_{t,t-1}, F_{t,t-1}, E_{t,t-1}, D_{t,t-1}, I_{t,t-1}$ are the fraud, illegal political practices, embezzlement, bribery, favoritism, extortion, abuse of discretion, conflict of interest respectively (4)

$$\gamma = \frac{\partial T}{\partial Y} \Delta (I_{t,t-1}) \quad / \gamma \text{ is the parameter of the technology corruption}$$

The Cobb-Douglas model is written after integrating the parameters of the corruption as follow:

$$Y_t = \left[K(\frac{\partial K}{\partial Y} \Delta f_{t,t-1})\right]_t^{\alpha} \left[H(\frac{\partial H}{\partial Y} \Delta (f_{t,t-1)}, IP_{t,t-1}, E_{t,t-1}, B_{t,t-1}, F_{t,t-1}, E_{t,t-1}, D_{t,t-1}, I_{t,t-1})\right]_t^{\beta} \left[K(\frac{\partial K}{\partial Y} \Delta f_{t,t-1})\right]_t^{\delta} \quad (5)$$

The economy by its different dimensions (micro dimension and macro one) tends to keep the corruption at its lowest level:

$$\frac{\partial Y_t}{\partial K(\eta)\partial H(\ell)\partial T(\gamma)} = 0 \qquad\qquad (6)$$

$$
\begin{cases}
\dfrac{\partial Y_t}{\partial K(\eta)} = 0 \;\rightarrow\; \text{A (the lowest level of the physical capital corruption)} \\[3ex]
\dfrac{\partial Y_t}{\partial H(\ell)} = 0 \;\rightarrow\; \text{B (the lowest level of the human capital corruption)} \\[3ex]
\dfrac{\partial Y_t}{\partial T(\gamma)} = 0 \;\rightarrow\; \text{C (the lowest level of the technology corruption)}
\end{cases}
$$

And the economy by building up sound institutions tends to establish the best correlation between the three best points of corruption management at any point of time as it is shown by the following graphs:

Graph 01: the corruption management
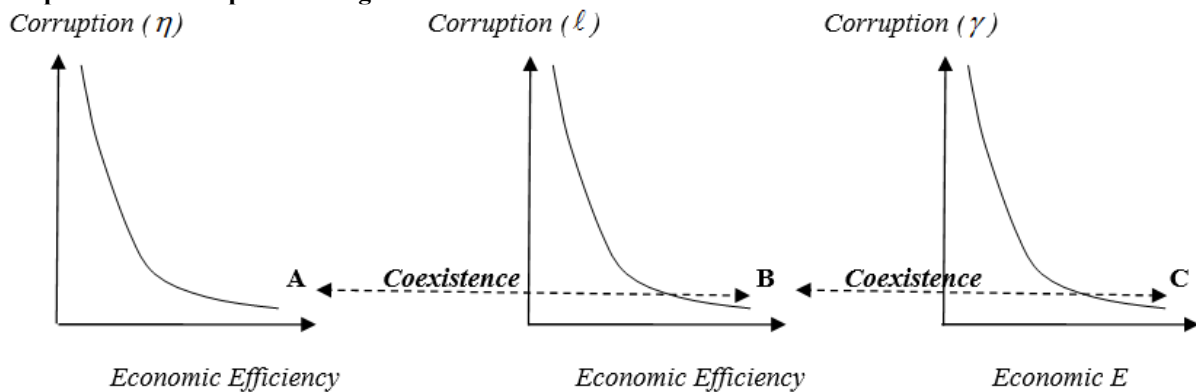
Source: the researcher

CONCLUSION

This paper seeks to present a theoretical approach of the corruption concept as well as it shadow on the different aspects of the economy. From this standpoint, it is argued that this phenomenon is not only an economic or a financial issue, but it is more than that. It is related fundamentally to the social life and the cultural background of the individuals. This assertion implies that fighting corruption is not just a matter of law enactment or execution of procedures, but it is an ethical question which the best management of it requires the collaboration of all.

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