CORRUPTION AND ECONOMIC ORDER

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**Abstrakt:** The aim of this article is to refer to problems of corruption from different perspective than the corruption is in most of cases presented. It is concerned about corruption in different economics conditions. Discussion is about forms and methods of corruption in hybrid economies, central planned economies and in situation of transitive economies.

**Keywords:** corruption, economic order, hybrid economies, central planned economies, transitive economies

1. Introduction

Many people discuss about state and danger of corruption in present word. The international nongovernmental organization Transparency International covers today more than middle of masterful countries (quite 163 countries were evaluated in the year 2006) by structure of index CPI.\(^1\) This organization demonstrates that European countries (with the exception the East Europe) belong to the most successful in light of abatement of corruption in countries. On the contrary African countries (especially Chad, Nigeria and The Democratic Republic of Congo) or country in Latin and South America are areas with running wild corruption activity. Why is corruption extensive more in some countries then other countries? Why officials more often presume on public authority for private benefit in some countries then other countries? The availability foreign literature presupposes variety of economic characteristics of particular countries, different political, cultural and social system, that can determine expected costs and profit from corruption for particular participant. The connection of corruption with total economic state and progress of the country (sensible rate of corruption in economy in comparison with macroeconomic production rate of country – it is expressed by indicator GDP/occupier e.g.), structure to flow of foreign capital investments, price progress, relation with structure of revenue and expenditure chargeable of state budget or portion of grey economy etc. – this factors signal grave peril of macroeconomic entail of corruption [more information in ABED, DAVOODI 2002 or TANZI, DAVOODI 2001]. In the midst of this entail, especially in interval elapsed almost twenty years, prove significant some structures that are connected with nature (or with modification) economic order of countries in late East block (transform of economies), sphere international business (problem so-called export and import of corruption) and question of globalization. The next text shortly describes questions that bear relation to problems of structures in corruption behavior and way of economic ordering of society. The text analyses choice sphere macroeconomic entail of corruption also.

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\(^1\) **CPI** (Corruption Perception Index) is based on principle of “sensation of corruption”. Transparency International assembles it since 1995 along with University of Göttingen in Germany. Index relates to sensation of norm of corruption in view of people in sphere of business, analysts and specialized public. Sensation of corruption is classification on scale from 10.00 (countries without corruption) till 0.00 (high occurrence of corruption). Minimally three searches have to be made in country (the searches are realized by the institutions that satisfy defined methodology criterions World Bank, EBRD, WEF, Pricewaterhouse Coopers, Freedom House etc.) so as to the country would be registered to classification CPI. The more detailed informations about construction of index are available to [www.transparency.org](http://www.transparency.org).
2. Corruption and Economic Order

G.S. Becker said: “Corruption is become ordinary part uncared-for politics or economy system wherever the country overmasters every parts of economy existence.” [1994:54]. That is why the viewpoint that makes provision for economic organization of society is one of the possible viewpoints in corruption assessment. The use of this view results from fact that all the countries across historical evolution of humanity up to now had and still have the same central economic problem – problem of dull resources allocation. The existence of this basic economic problem implicates that all the economies must have strict system of determination that enables choice what and how it will be make and who will be recipient of made production. The economists traditionally differentiate prescriptive, market and planned economic organization of society on this basis. They speak about prescriptive, market and central planned economies in this context. We can historically instance occurrence of corruption in all these economies. Corruption followed and deeply stigmatized economic transformation of post-communist countries. Corruption is also one of the weightiest problems in so-called transitive economies.

It stands to reason that corruption behaviour has its specifics that are notably determinate by exist method of coordination of economic activity. We can tell that nature of economic ordering of society eventually way of its economic organization notably determinate particular spheres and forms of corruption behaviour. Conclusions of in a way unique study by Australian J.P. Perry bear to justness of this statement [PERRY, 2000]. His study stemmed from political and geographical aspect and it referred to dependence of rate of corruption and political position in country. For example corruption in Italian society is not sensation more delicate then in other countries but there were specific historical and geographical conditions that made possibility for peperly running its investigation. People in Italy lived for all decades with consciousness that politicians are corrupt, part of them have close connection with the mafia and people who was elected doesn’t pocket control in country. Country putted thought with big companies (for ex. Fiat) after the second word war when christian-democratic party and socialistic party were in power for constantly some decade. These big companies had balance sheet improved by government orders. System collapsed in 1992 – 1993. Alliance that was compound of party Forza Italia, League of North and National coalition made relatively complex program of fight with political corruption (so-called action clean hands, Mani pulite). Private sector had specific interest in this program. Long ago the sector demanded to privatisation of firms with state share that represented intense factor of Italian economic and political authority for many years.

Country what only makes use of market coordination of economic activities doesn’t exits in international measurement when we take a look at present economies of advance countries. Advance economies are characterized as hybrid economies. That means state greatly enacts next to private sector in advance economies. The state is former and guarantee of legislative milieu in terms of economic actions. The state makes “laws” for all economic subjects. The state has privilege reason to exact accepted law. The state enters directly into economic processes next to this indirect economic influence. The state endeavours to impletion of three basic function: allocation, stabilization and redistribution in terms of the interventions. Frequent facilities for corruption rise with realization of all this functions. These fact direct economists to argumentation that is intent on “acceptable” rate of private and state items and range of state check on economy. Growing part of state in economy breed danger of bureaucracy in society and growing opportunities for corruption behaviour. These are critic sections of corruption occurrence in modern hybrid economies where terms that are positive

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2 School of public choice reacted on this reality in economy theory.
for rise corruption occur in larger rate. These sections are common for major part of states aside from level of economic progress of the state. We know number of entries that doesn’t pass by market and that are “at the assigned” (for ex. waitlists for operations etc.). The entries exist though present hybrid economies are milieu where goods and services are ratable by market and we can buy it. Count of the entries is low however people don’t pay bribes in modern economies through conversion some good but they pay bribes towards speeding specific procedure – especially official procedure. We can clearly see that rate of corruption in hybrid economies eminently depends on enlistment of governance in right-left political spectrum. Right wing gives fewer places for corruption than left wing. Fewer places for corruption stay when redistributing is smaller, regional compensatory grants are using less (for ex. we know machination with money from Structural funds in terms of European Union), un-monopolizing and deregulation of economy is more total and state orders are smaller. For example Word Bank realized international research on total 1500 firms from 49 countries in 1996 [ABED, G.T., DAVOODI, H.R, 2002]. The research locate that rate of corruption grows in proportional to higher level of regulation move. Rate of corruption is voiced by index CPI. Countries with high number of index CPI in the long term (it means low rate of corruption) are noted for very low level of bureaucratic regulation. That is especially Finland, New Zealand, Singapore, Luxembourg, Norway, Australia or Switzerland. Opposite situation is in Russia, major part of East Asia states but also in Italy and Greece. Empiricism evidences that important factor of sensation of corruption isn’t bigness of public sector (Holland, Denmark, Norway or Switzerland has relatively extensive public sector) but it is way of function of this sector.

Decentralized determination without question gives large facility to market system against dispatching. “Minimal state” is limited to protection and assertion of laws of particular economic subjects inclusive of property right and it keeps concluded contracts and engagements that go by this contracts. That state doesn’t arrange so much large place for corruption. Majesty of economic subject is disturbed and situation induces potential corruption occasion wherever market malfunctions and market allocation is not possible. Function of market is weak and portion of rent of payments grows in moment when state start to enter to markets processes and it remedies market failure. Corruption in economic milieu in modern hybrid economies rises as a result of market failure. Corruption causes uneconomical allocation of precious sources by witch means sap of legitimacy and effectiveness of the market. Fell rises when corruption action is rational and effective way to achievement of economic points. Corruption is able to function as more effective distributive mechanism than dysfunctional market with inadequate price politic. Resolution of basic economic question is forced by reason of the corruption ability: What we have to make? How we have to make? and What client we have to make for? These deformations manifest slowly, often fully haphazard bud in the long term. These deformations appear especially in sphere of plenty redistributing. Causes of baseless or illegal enrichment of individual or all social groups appear with some time lag. The causes make for social strain, political or government crisis. Market orientation of economic way of society life is most effectual also in view battle against corruption after all above cited economically destruction results of corruption. Let’s see arguments that support this statement in next text. Analysis represents central planned economies and transitive economies. Aim of analysis is affect structure of corruption and concrete way of economic society ordering.

3. Corruption in Central Planned Economies

Central planned economies represent uneasy, artificial economic systems in the eye of economy. A lot of economists and historians conforms that formation of central planned economy represents historical fault in human history. We can keep this fault alive only with
help of political force and state authority. Corruption passes proper instrument for fixation of state authority. Economic system that was made by communistic nomenclature lived on due to corruption for many years in late socialistic countries in central European and east European space. Deep rooted client system of reciprocity was important part of the system that evolves from absence of function market mechanism. Only some few countries proved to keep authoritarianism before crash of Soviet Union. It was maintenance for the price of trough subjection and very high standard of living of high state officer. Dictator ship of Fidel Castro gets strong economic crisis especially before ending economy help from countries of last socialistic camp. The crisis is united with mass emigration to USA. Vietnam population is part of poorest population in the world. The international association includes Vietnam economy between development economies. Extensive foreign development help is most important outer source of funding of Vietnam socialistic reality next to direct foreign investments. The most insulated central planned system in the world is in Democratic People’s Republic of Korea (DPRK) today. Economic future and perfection of situation in all parts of live in DPRK directly rest on next progress in question of its nuclear program of country. Serious global menace in start of 21st century is militant political system and unforeseeable intrastate political situation. Country of china dragon systematic reforms its economic system by implementing market principles with forcefully in efficiency and profitability of economy. General economic problems of this giant economy are extensive import barriers and breaking of patent protection.

Vietnam, Cuba, North Korea, China. Many differences are among these countries but all these countries have government of communistic regime with imperfect legislation, low efficiency of production, profusion of natural sources and wrong economy of state company in common. These countries have inferior infrastructure and shortage of supplies of energy and raw materials, minimal rate of learning, low standard of living and poorness. Complicated bureaucratic system with plentiful and strong bureaucracy and with high rate of corruption describes all of these communistic regimes. Corruption represents one of pivotal present problems of these economies especially at state employees. For example China takes corruption damage in the amount of 13-17 % GDP per annum in estimation. Next table illustrates level of sensation corruption in present communistic regimes [Tab. 1: Corruption in communistic countries - progress of index CPI in years 2000 - 2006]. We can see from reasons data that all present communistic countries in the long term go on higher rates of sensation corruption with index CPI sub merit 5. Vietnam society worst perceives corruption. It is evident from table too.

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*) Total number of countries that were classification in said year.

Note: DPRK wasn’t registered to classification.

Comprehension of corruption behaviour logic in controlled economy means comprehension of “logic” of logic that determine from its essence section, forms and ways of corruption relation. Synchronous systems are different too little from systems that transform with their society-economic systems in 90th years of last century. State all people’s ownership
was economic basis of these economies. It means that state owns almost all capital estate and manpower – it is form of dependent employment at state offices, state budget organization or state firm. Central plan in central planned economy supports coordination of economic activity, allocation dull sources and allotment of generated production. Planning centre is pivotal institution in all system (for ex. State planning commission was in last Czechoslovakia). Planning centre plans what kind of production and what amount have to be produced and what section sell made production for. It is on the basis of information from factory sphere (it means. inferiorly). Planning centre stands on top of control pyramid along with government. Hierarchical vertical multilevel structure that was established on the basic sector principle (departmental ministry, general directory, departmental directory) and horizontal structure that is mean net of production and service (for ex. supply) monopolies are part of pyramid. Party political-power structures that were made hierarchical territorially affect function of economy in real socialism. Mission of this structure is “...personal manning of master function in economy by reliable labour” [MLČOCH, 1997:37].

System of plans converges to consumption is aim of economic activities in stead of production and quantity is preferred in stead of quality (for ex. master employees very often cheated and scraped on material and they putted off quality control. Result of these activities was production of inferior goods in real socialism in Czech Republic). Command allotment system absorbs large part of sources that are spending on non-productive administrative. It is quantum of bureaucrats (for ex. employable bureaucrats in Soviet ministry of planning Gosplan). Absence of market prices causes information incompetence of centre. Prices are calculated by state. This subjective made numbers don’t perform and they can’t perform informative, motivational and allocation function of objective existent economic values in central planning economy. Absences of negligent price mechanism that can brief producers on market changes necessarily determine absence of information about consuming preferences. Firms not even planning centre don’t know these consuming preferences. It is reason for long-term planning and resulting production of involuntary and unnecessary estate on the one hand and backlog demand for affected estate on the other hand. It is reproduction both absence and excess in the long term. Demanding customers choose offer official price and extras in situation that competition predominates on the side of demand. Customers do it because want asked product or service for their self. Let’s see for example to reality of last Czechoslovakia. So called sale under the counter that was in sphere of production and sale of commodity and service was attended by corruption. Corruption was in form of monetary and non-monetary bribe or in form of expected reciprocal service. 39 % of polled inhabitant accorded corruption in part of business (especially shopping subject of long term usage) and services (private services like hairdresser, barber, repairer and exquisite workmanship, car repair) in 1989 in last Czechoslovakia.3 Higher standard in services and consumption of scare commodities was aim of this corruption behaviour for its bearer.

Absence in central command economic wasn’t limit only to section of consumer behaviour. Absence is generally behind corruption inside production subject (for ex. absence of replacement par, quality or corresponding material or working aid – it was common reason of corruption of stores foremen in real socialism in Czechoslovakia) or in terms of common supply-customer relation (for ex. bribe in the midst of buyers). “Corruption was activating whole economic sectors in real socialism. Supply-customer relation worked on the bases

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3 It was investigation intent on shadow economy in then socialistic society. Research institute of business implemented this research in the minds of inhabitants in last Czechoslovak Socialist Republic in 1989. Total 1643 respondents were interviewee (more information in Frič, 1999).
black funds and institution of professional bribers. Bribers were official called “shoppers” [FRIČ, 1999:32].

Corruption follows on market nonexistent in central planned economy. Market location to illegality initiates rise of illegal (shadow) economy that function on the basic of native market ordinance. Some economist event advert to official central command economy can’t exist without existence of “second economy”. Frič mentions in this problem for example that in last Czechoslovakia “…sphere of services outlived only due to corruption. Socialistic state directly calculated with corruption. Salaries of barbers, waiters, hotel staffs but also sweepers, street-cleaners and plumbers were laughably low, because everybody knew that they took bribes” [1999:32]. Meaning of shadow economy was exceedingly large in last central Europe and east Europe socialistic states. Shadow economy included payment in outland “heartless” currency, black market of scarce goods and so on next to above cited. Corruption of officials in public administration on central or local level wasn’t part of dominant corruption district in real in last central planned economies regarding above cited. This fact bears to conclusions to above cited research that only 12 % of interviewee respondents admitted corruption in part of official service in 1989. Pivotal problem in central planned economies rests monopoly of state authority. State officials are motivated for making of forced impediments with aim of requisition of higher charges in state apparatus. Client and particularly flavoured relations are highly important on the next of classic bribes in this way. Especially the membership in the party-nomenclature that is usually hereditary means that society privileges are given by class-background and by individual’s nativity (cadre questionnaire, parents’ background and their membership in party like the presumption of successful entrance to study e.g.). All advantageous position is generally connected with function and retired advantage and with other pleasures. Monopoly of this offer is specifically. It means that person occupies exist position in structure and disposes of certain scarce article or service also. Client informal relations have important function than contracting relation in section of business contracts and credit agreement and so on not only in section of labour law. Informal methods of provisioned and exactable respond these informal contracting relations. It is necessary to say not least that communistic system totally forgets to negligent nature of man. System advertises and propagates about voluntary and unselfish work for society. “New socialistic man” (eventually “communistic man”) exercises this work with pleasure. This man rational maximises his utility from the opportunities with motto “who doesn’t prey state, he prey his family”.

4. Corruption in Transitory Economies

Break down of central planned economic systems in countries of Central and East Europe was unprecedented process. Transformation of these economies to market system fetched along new economic problems, dilemmas and conflicts. Economic transformation is gestalt whole change. It is fundamental change and restructuring of all organizational scheme of economy. This process subsumes complex change of institutional scope of economy. It is concerned economic deregulation it means liquidation of institution in central planned economy, restructuring of owner relation it means privatization of state firms, liberalization of prices and foreign business, resumption of all system of law and acts and constitution [more information in SPĚVÁČEK, 2002]. This transformation is connected with basic change of state status in economy and its legislative, executant and judicial authority.4 Only long term positive contribution of economic system change didn’t came to accompanying phenomena. There were all negative phenomena that were connected with mass shifts of ownership in

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4 Scenario of economic reform from 30th August 1990; Decree of Federal meeting to scenario of economic reform from 17th September 1990.
privatization and restitution processes. There were harmful economic phenomena for example economic criminality, asset-stripping and corruption. These processes were connected with slow change of informal institution. Transformation epoch eminently exerted influence up corruption clime and its public sensation. Function changes are primarily determined of corruption handling from sphere of services and business to sphere of public service and administration in this epoch. Transformation corruption rises from processes that are isolated and nonrecurring.

We can say that system instability became substrate for corruption in transition period if system stability facilitated corruption in central planned economies. Decomposition of old system meant decomposition of old social norms with their sanction recourses. It was before than new system of morale and new sanctions to breaking of norms were made. "Transformation conducted to next decomposition of fragile society capital than to renewal of ethical behaviour in all countries" [STIGLITZ, 2002:101]. Transient stadium lacks law legitimacy and institutional power in result of little developed administrative apparatus and political structures. Milieu is especially susceptible to corruption there were old norms didn't hold already and new norms weren't stabilized yet. "So many changes of laws concluded to superficial work, plentiful corrections, amendments and additions and even to law change repetitions when they became functionless, (...) sensation of law vacuum grew up with growth of speed. We didn't know what hold" [MLČOCH, 1997: 80]. Private sphere next to politicians and public functionaries profits from the situation first for its proper benefit but also other "... people that function in the transient structures look for certainty. They could try hard to get it by means of bribery of officials." [TI SourceBook, 2000:11]. Citizens and businessmen leave legal economy and they look for protection before state and competition in scope of organized crime in the worst case. These tendencies can take shape to undercut of liberal hope. Experiences showed us that fall of economic efficiency in initial years of transformation and fall of life standard reinforce client relations also distrust of state. Corruption can be instrument of political power and device to parry of attention of state officials. Public pressure to limit of market role and comeback to planned economy can be final result of the destructive incidence [TI SourceBook, 2000].

Transformation process of the economic system to other system sufficient acknowledges that the change of economic order doesn't remove corruption. Corruption finds again its place, forms and methods. It emerges that democratization and rise of independent market are able to remove many kinds of "outliving" corruption but they aren't able to prevent from rise of new kind of corruption. "... post-communist countries inherit administrative systems that haven't many regulation institutions. The institutions are inevitable for function of economy in modern state. Many conditions that are necessary for function of responsibility mechanisms weren't in the administrative system" by [OSI, 2002:37]. Opportunities to corruption exist in transformation economies in process of shift of large possession on the one hand. Inheritance of communism functions on the other hand. The inheritance has expressive concomitant phenomenon of transformation processes. "Law of recognition (...) supported rise coalitions. Coalitions took advantage of their last formal title also informal knowledge and informational comparative advantages to taking down assets of state firms for their proper benefit. Coalitions let book in remainder of assets in the end" by [MLČOCH, 1997: 83]. Inheritance of behaviour usages and stereotypes only hardly can contribute to make function democracy and culture that refuse corruption. Tradition of large also small corruption; established distrust

Term “asset-stripping” started up like a product of Czech society transformation in The Czech Republic. We currently use this term for extensive financial cheat. It means that management draws financial agents to other firm that they don’t own. Withdrawal of agents is realized by greatly inconvenient bargain for asset-stripping firm.
of state; conviction about advantage of behaviour that norm is knifing of state; expanded klientelismus and reciprocal exchange of favours, corruption in private sector like substitute of function competition. These phenomenon present barriers of well function democracy up to the present day. They confirm argumentation about so immense influence of “path dependence” by D.Northe.

Corruption as one of main problems of institutional milieu of transitive economies and struggle with corruption became sharp watched criterion for enters of these countries to European Union. The process of approximation to European Union was expressively positively influenced by creation of anticorruption politic, implementation of anticorruption mechanisms, creation of transparent economic milieu, sufficient will to creation of national anticorruption strategies and reform of authority that find out corruption. We can't unambiguously deduce absolute equality of factors from exist of common factors that determine exist of corruption in countries from last Soviet block. So on this basic we can't struggle with corruption assist in common implements. Significant social, cultural, historical and further differences exist between the countries. The differences reflect in different extent of corruption. By [OSI, 2002:39] for example “… corruption in the Czech Republic is contingent not only on inheritance of communism but also on historical inheritance of Habsburg monarchy and its bureaucratic traditions. Corruption in Poland is contingent - especially by much inland observers - on primeval distrust of state. History of state is composite from series of occupation by foreign thicknesses.”

Values of corruption indexes support specificity in transitive economies in corruption also inertia of these countries on orbit of development. First specific index CPI pertains to between the most watched indicators. Analysis of data on basic of values of this index supports that states that were more important problems with corruption before their enter to European Union (especially Slovakia, Poland, Latvia and Czech Republic) don't change their position not before their enter. States of last Soviet Union, Byelorussia, Ukraine, Russia, Tajikistan, Turkmenistan and so on are the worst classification. These states are on positions on second half of all weighted states in total sequence. Alarming situation is especially in Russia where corruption is general tolerated phenomenon. Situation in Estonia and Slovenia is positive assessed in the long term. There is rate of corruption lower than for ex. in Greece or Italy. We have to realize that fall of corruption rate in transitive economies can signalise elimination of transformation corruption but common everyday corruption continues and its rate can notably grow. This situation has in universal plane in transitive economies three pivotal roots: not transparent legislature, low exacted of law and total moral clime in society.

5. Conclusion

We can make good the fact that corruption cannot help to the economic stability in country, because corruption deforms government policy priorities, the aims of monetary policy and fiscal policy including. There are foreign studies, which argue that the negative effect of corruption in economic efficiency of countries exists. These studies confirm the result that corruption cries down the rate of investments in GDP and that correlation between indicators of living standard and corruption index exists. It is evident that when the negative effects of corruption on macroeconomics level are documented, we can talk about definite

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7 Comparison of index CPI results with alternative published corruption indexes confirms concludes about intensity sensation of corruption in transitive economies.
aggregation and about very clear signal of the fact that there is not healthy microeconomic in concrete society and that in decision making of individuals the low motives and aims are leading. We know that it is not possible to eradicate the corruption in economic, but single subjects of economic have to apply and improve control mechanisms and they have to use the loyalty of participants and make them to do not create the environment, which is good for corruption. It is necessary not only to make new acts and have effective system of control in the fight with corruption, but harmless politicians and clerks have to come in public life.

References:


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