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Corruption as a Deviant Social Attitude

„Audire necesse est, corrumpare non est necesse"
Pál Csapodi, 2010

SUMMARY: Corruption is a specific field of cooperation between social sectors. Corruption is a deviant behaviour, which can be traced back to several causes: the nature of economic and social regime as well as cultural aspects. The aim of corruption is to obtain advantages. The private advantages, however, are usually accompanied by significant social disadvantages. Corrupt behaviour often becomes a social norm. This paper analyses corruption as a deviant social attitude. Examining the countries of the Central Eastern European region, it states that they are moderately infected with corruption, which requires a national strategy against corruption and the establishment of institutional conditions for the implementation of the strategy. The paper underlines that corruption should be addressed not only within a national framework, it is also necessary to build up close co-operation among countries belonging to the same socio-economic system.

KEYWORDS: integrity, norm, bribery, State Audit Office, public funds

The Latin phrase „navigare necesse est, vivere non est" originates from Greek historian and philosopher Plutarch's (45–120 AD) biography written in Greek about Gnaeus Pompeius Magnus; it means 'to sail is necessary, to live is not'. The phrase became known in Latin and was attributed to Pompeius. The saying – taking account of the currently spreading corruption, as an analogy thereof – could be updated to „audire necesse est, corrumpare non est necesse", which in our interpretation goes as: 'to control is necessary, to bribe is not'.

Socio-economic relationships are operated by interest mechanisms, the key element of which is man, who is fundamentally self-interested, which also affects the quality of co-operation.

The aim of the paper is to functionally outline the social costs and benefits of corruption, discuss the possible outcomes and identify the possible aims and means of anti-corruption efforts.

The paper – based on the results of the critical analysis of documents – carries out the identification and systematisation of the arguments of corruption. The paper's approach towards the interest relations of the actors of corruption, based on the principal/agent and transaction costs theories of institutional economics, sets up a theoretical model for identifying the social costs of corruption, and systematises the factors that influence Hungary's anti-corruption objectives and means.

WHAT IS CORRUPTION?

Co-operation between sectors (government, economy and civil society), is a prerequisite for sustainable social development. Social models which do not strive to establish and maintain a balanced system of relations, shall eventually be torn apart by internal tensions.

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This paper examines the specific aspect of co-operation between sectors which afflicts all the countries of the Central Eastern European region: corruption. According to the various international comparative analyses, the countries of the region are similarly infected, which raises the possibility of understanding the problem, revealing the reasons and jointly utilising the experiences gained.

Corruption itself in a certain sense is as old as human civilisation. Corruption *occurs* everywhere in the world, *in all political-economic systems*, to a lesser or greater extent. (Blackburn et al., 2006) Its social condition is for a hierarchical relation to be established in the disposition over goods, for a social division of labour to exist, and in the acquisition of scarcely available resources, in the attainment of the associated advantages and in the distribution thereof that a particular social group has prerogatives.

The word itself originates from the medieval Latin expression *"corruptio" which expresses moral depravity*. (Osipian, 2009) The widespread nuances of the expression in everyday language indicate that corruption is a broader concept than simply giving bribes or attaining some sort of advantage, but includes patronage or influence as well.

A possible definition of corruption: behaviour deviating from the accepted rules to achieve individual benefit suggests that *corrupt acts are deviations from implicit and explicit behavioural norms* (in a legal and ethical sense). The widespread nature of corruption in some societies indicates that corrupt behaviour is the norm itself, in spite of the fact that it is inefficient and is generally disapproved. (Mishra, 2005)

The historical existence of corruption is documented by the code (22nd century BC) of king of Babylon *Hammurabi*, which penalises bribery. Similar phenomena can be found in later centuries of ancient civilisation in sources such as the Edict of Harmhab, King of Egypt

(14th century BC) and Kautilya's Arthasastra (14th century BC). (Mishra, 2005) Csáki and Gelléri (2005) also consider the description of the events triggering the Trojan War a document of corruption.

The first articles on the root causes and consequences of corruption were published in the 1960's. (Clarke – Xu, 2004) In recent decades the *literature on corruption has experienced explosive growth*. (Reinikka – Svensson, 2005) The primary groups of the literature are comprised of comparative analyses of countries, corruption perception index analyses as well as studies expounding on corruption as a function of national politics and institutional environments.

The vast majority of studies published in the last four decades portray corruption as a negative social phenomenon; at the same time several studies raise the notion that corruption can also be useful in a given socio-economic framework, and the assertions are supported by analyses. A few authors consider *bribery as the lubrication of the erratic wheels of rigid bureaucracy and commerce*, i.e. through a substitute price mechanism it ensures optimal allocation in the market; however, the majority takes a less positive view on corruption. (Clarke – Xu, 2004)

Corruption is a complex social phenomenon, which – in addition to political and economic factors – also has deeply rooted cultural causes, and social traditions largely determine its existence and extent. It is important to note this, because if corruption is treated only as a deviance of economic relations, it would not be possible to reduce corruption to a socially acceptable degree and lower its efficient operation to a non-threatening level. *Anti-corruption agencies need to analyse and understand the nature of corruption if they want to fight against it effectively.* (Blackburn – Forgues-Puccio, 2009)

The enduring nature of corruption – based on experience – can be explained using a num-

ber of approaches. Assuming a static framework the persistence of corruption can be explained by the fact that pervasive corruption turns into a social norm. Applying an evolutionary approach we can conclude that the *corrupt behaviour of individuals is capable of surviving* and operating successfully in the long term through an evolutionary process (adaptation). (Mishra, 2005) This means that action against corruption requires a strategic approach; ad hoc measures not incorporated in a system cannot bring meaningful results.

THE PERCEPTION AND MEASUREMENT OF CORRUPTION

An important condition of anti-corruption efforts is the perception of corruption itself. Political structure as a prerequisite of corruption and *corruption* itself *cannot be measured directly*. The problem of measurement lies in the measurement methods. Corruption is a hidden phenomenon the extent of which can be estimated primarily in an indirect manner.

The commonly used methods (Transparency International's *Corruption Perception Index* and *Control of Corruption* as part of the World Bank Institute's *Governance Indicators)* are based on expert estimates, which imply the possibility of artificial "inertia", meaning that once a country is classified as corrupt, those surveyed will continue to classify it as such, which leads to an overestimation of corruption. (Dreher et al., 2007)

Transparency International (TI) is working to develop quantitative tools it considers reliable, with which corruption and transparency can be measured on both a local and international level. The first among these was the annual TI *Corruption Perception Index* (CPI), which was first prepared in 1995. Elaboration of the currently applied method is credited to Professor *Lambsdorff* of the University of Passau. (Global

Corruption Report, 2009) The CPI grades more than 150 countries according to the degree of corruption experienced, which is based on expert assessments and opinion research. In recent years TI has attempted to develop other tools for measuring corruption with which it can complement the CPI. The so-called Bribe Payers' Index (hereinafter: BPI) measures corruption from the supply side according to source country and and industrial sector. The Global Corruption Barometer (GCB), a survey, based on public opinion research, measures in over 60 countries to what extent the 'man in the street' perceives and experiences corruption.

Within the framework of the Worldwide Governance Indicators (WGI) project, the World Bank Institute elaborated an indicator system which, using so-called *governance indicators* and their aggregates, evaluates 212 countries starting from 1996 according to six different criteria: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. (World Bank Institute, 2010)

The six governance indicators can assume values between -2.5 and $+2.5$; higher values indicate better governance performance. (Kaufmann et al., 2008)

Research shows that there is a strong correlation between the Corruption Perception Index and Governance Indicators. (Seligson, 2005)

There are also corruption measurement methods, which estimate the extent of corruption based not on the perception of corruption (subjective), but by *estimating* siphoned off funds *through monitoring economic processes*. Let us mention a few of them.

The PETS (*public expenditure tracking survey)* method for tracking public spending was first applied in 1996 in Uganda. (Reinikka – Svensson, 2005) The typical PETS is an evaluation among service providers (schools, clinics and their staff) and local governments (politi-

cians and civil servants), supplemented by central budget and other related data. The method elaborated to estimate corruption related to the provision of services is QSDS *(quantitative service delivery surveys)*, which is a type of frontline provider survey, referred to in connection with PETS.

Reinikka – Svensson (2005) examine whether it is possible to collect micro-level quantitative data on corruption using an appropriately selected survey method and interview techniques. In their opinion it is not necessarily possible, as respondents do not necessarily disclose the occurrence of corruption; however, they still came to the final conclusion that PETS/QSDS is a promising new microeconomic diagnostic tool for the diagnosis of corruption and other problems in developing countries.

Olken (2009) presents another experiment in which, instead of reported corruption perceptions, a method classified by them as more objective is recommended. The method was tested on road construction programme projects in Indonesia. On the one hand, the author used the interview methodology to examine the perception of corruption among the villagers in the areas affected by the projects; on the other hand, the author performed estimates of the missing expenditures and missing outputs. Comparing these, the result was that there was a weak correlation between the villagers' perception of corruption and the measurement of the more objective missing expenditures. However, the author established that the villagers were capable of distinguishing between the possibility of corruption in the village and the corruption of the road construction project; but due to the hidden nature of corruption they had difficulty perceiving it.

The above examples show that although numerous errors are inherent to corruption perception based on expert estimates, implementation of methods proposed as alternatives entail significant cost implications, which are occasionally acceptable (e.g. in the framework of audit programmes, on a project level, using risk analysis to select the areas to be examined); however, due to their costliness and level of resource demand, they cannot be applied as general methods ensuring complete coverage.

THE CORRUPTION OF SOCIAL SECTORS AND INSTITUTIONS

Corruption can be perceived to varying degrees in different areas of the economy and society. Corruption *can be perceived most* in socio-economic segments with significant *financial flows*. These are only partly linked to the public sector; they are just as discernible in the relations between economic agents. However, the social importance and damage of corruption is more significant in the public sector. This indicates that according to the findings of the surveys, *socio-economic sectors and institutions considered to be the most corrupt* are political parties and certain public administration bodies. *(See Table 1)* Consequently, the success of anti-corruption efforts depends on the extent to which key elements of the political system are cleansed from corruption.

Political corruption affects everyone directly or indirectly. Elected politicians and political parties, who are expected to act in the public interest, are granted the right (and responsibility) to decide about the use of public funds and in exercising their powers affect the daily lives of every citizen. Consequently, their greed can cause enormous damage. Corruption risks also depend on the degree to which corruption is concentrated among parties and their supporters.

According to the findings of Transparency International (Global Corruption Barometer 2009), those most affected by corruption are public procurement and the construction industry, real estate trading and development, oil and gas industry, heavy industry and mining.

Table 1

THE INFECTION OF SECTORS, INSTITUTIONS AND AGENCIES BY CORRUPTION

Sectors and social institutions	Full sample	Africa and Middle East	Asia Pacific	Central and Eastern Europ	Latin-America	Western Europe and the United States
Political parties	**3.8**	**3.7**	**3.6**	4.0	4.2	3.5
Parliament/legislature	3.4	3.5	3.4	3.5	3.8	3.0
Business/private sector	2.9	3.0	2.8	3.3	2.8	2.9
Media	3.0	3.1	2.7	3.3	3.0	3.1
The military	2.5	2.5	2.6	3.0	2.4	2.1
NGOs (non-governmental organisations)	2.5	2.4	2.5	2.8	2.5	2.5
Religious bodies	2.4	2.1	2.5	2.4	2.5	2.4
Education system	2.8	3.1	2.8	2.8	3.0	2.2
Judiciary	3.1	3.2	2.9	3.3	3.8	2.5
Medical services	2.9	3.0	2.7	3.6	3.0	2.5
Police	3.5	**4.0**	3.5	3.5	3.9	2.4
Registry and permit services (construction permits, licenses, permits, etc.)	3.4	3.7	3.3	3.6	3.5	2.7
Utilities (telephone, electricity, water, etc.)	2.6	2.7	2.7	2.4	2.8	2.4
Tax revenue authorities	2.8	3.1	3.0	2.6	2.9	2.3
Customs	3.1	3.6	3.2	2.9	3.4	2.2

Scale values: 1 – not at all corrupt, 5 – extremely corrupt

The values in the table represent the average score; numbers in bold indicate the most corrupt social institution in a given geographical area.

Source: Bribe Payers Index 2008, p. 13

Moderately infected sectors include the pharmaceutical industry and medical care, public utilities, civil aviation, the energy sector, forestry, telecommunications, transport and storage, the military industry and hospitality. *Least infected by corruption* are agriculture, light industry, information technology, fisheries and the financial sector.

However, this assessment is fine-tuned by the fact that according to *Gupta et al.* (2001), the ratio of military spending to GDP and government expenditures is associated with corruption, i.e. there is a correlation between higher corruption and higher military spending. In their view, corruption can be combated by cuts in military expenditures, budgetary restructuring, ensuring greater transparency and making contracts public, thus reducing influence peddling (patronage).

International experiences show that from a corruption standpoint high risk areas include: public procurement and privatisation.

Corruption distorts competition in public procurement procedures, and leads to the waste of scarce resources and the failure to fulfil basic social needs. Corruption impairs market efficiency and can imply the failure to utilise development opportunities. According to some estimates, systematic corruption extending to entire systems can increase the costs of public procurement procedures by 20–25 per cent and often leads to the purchase of low-grade goods and services which are sometimes completely unnecessary. Overall, approximately 70 per cent of government expenditure is spent in some contractual form. These contracts are sources of power and influence for those who decide on their conclusion, and the objects of

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ambition and targets for those who wish to win them. The danger of corruption appears even before the public procurement procedure actually begins; it can exist from the moment decisions are made regarding the use of state funds and lasts until complete realisation and fulfilment of the contracts.

ECONOMIC EFFICIENCY AND CORRUPTION

The next important question is how corruption and the efficiency of the economy, and ultimately economic growth, are related to one another. The *impact of bureaucratic corruption on economic growth* has been debated for 40 years. Research shows that the political regime determines the relationship between corruption and economic growth. In the case of free countries no linear correlation was found between corruption and economic growth, which was not influenced by the size of government expenditures. (Méndez – Sepúlveda, 2006) However, it is an interesting result that the level of corruption that maximizes the rate of growth is greater than zero. Corruption in developing countries is the consequence of government policy and socio-economic circumstances, so the effort to eliminate corruption in public policy cannot be the sole root cause of achieving optimum growth.

The causes of corruption, as mentioned above, are complex; they are made up of a combination of political, historical, social and cultural, as well as economic factors. Applying a MIMIC (Multiple Indicators Multiple Causes) model, *Dreher et al.* (2007) prepared an estimate for the latent variables. It was shown that a significant negative correlation exists between the control of corruption, the volatility of growth and inflation and banking restrictions (regulation). These results confirm that the *security of growth is increased by effective anti-corruption efforts and regulation*.

THE PARADOX OF CORRUPTION IN EAST ASIA

The malignity of corruption not only depends on the nature of the political regime, but a strong correlation can be demonstrated corruption and the size of the countries as well. It is statistically proven that corruption is more damaging to investment and growth in small developing countries than in larger ones. It is a lesson to the international institutions (investors and aid workers) that more attention should be paid to anti-corruption programmes, because corruption generally leads to low growth and investment. Exceptions to this are the large, newly industrialised countries of Southeast Asia. *It is a specific East Asian paradox that greater corruption leads to higher growth.* The explanation for this may be that bureaucrats (government officials at different levels) favour obtained/obtainable privileges (advantages) over bribes. The interconnection between the government and the business sector is stronger, which helps to increase growth (technology-intensive production). (Rock – Bonnett, 2004)

The position can be deducted from the above that there may exist an optimum level of corruption, but it is difficult to describe it more accurately without specifying the precise nature of the anti-corruption methods. It is presumable that the costs of corruption do not grow monotonously and only take effect when they reach a natural threshold. (Bose et al., 2007)

THE SOCIO-ECONOMIC EFFECTS AND MOTIVATING FACTORS OF CORRUPTION

In addition to inhibiting economic growth, corruption reduces the government's legitimacy in the eyes of those governed. This leads to a serious moral crisis, which affects political stability and is a key element of the inability in

poor countries to exploit the potential benefits of development opportunities. *A larger state presence increases the chance of corruption*, and a regulatory state encourages corruption because government policy has a greater impact on profits than traditional management or corporate capabilities. (Del Monte – Papagni, 2007)

In summary it may be stated that corruption can increase or decrease the growth rate depending on the characteristics of the bureaucratic structure. (Evrensel, 2010) *In weak institutional systems, corruption can contribute to increased efficiency*, thus creating the opportunity for individuals to bypass erroneous institutional shortcomings. (Aidt et al., 2008)

Based on the above, understandably few argue that corruption is efficient; even so, there are some who do. In inefficient bureaucracies "lubricant", i.e. bribes, expediting the administration of matters effectively reduces the costs of waiting. A study has confirmed that corruption is less harmful where the institutional framework functions poorly and demonstrated a statistically positive marginal effect upon the growth of corruption in poorly governed countries; i.e. it may be stated that an increase in corruption may have its benefits in the case of weak institutional systems, even if the conclusion seems extreme and risky. (Méon – Weill, 2010) This experience is supported by *Levy* (2007), who concluded in his analyses that the Soviet system of Georgia was totally corrupt, but efficiently supplied the markets (black economy), and was more efficient than it would have been without corruption in the Soviet system. Corruption in this case served to enhance efficiency. It also follows that a condition of anti-corruption efforts is the development of the institutional system and the creation of an efficient institutional system.

One of the key elements of an efficient institutional system is an effective legal system (legal regulation and judicial practice), which in the case of corruption threatens with adequately deterrent criminal punishment, coupled with an effective system for detecting corruption (free press and investigative authority). The issue is very complex. Using cross-sector and panel data models, *Herzfeld* and *Weiss* (2003), found a significant correlation between the varying extent of legal regulation and corruption. They have shown that with a decrease in the efficiency of the legal system more officials become corrupt, which influences expectations regarding corruption (feedback effect).

Examining the motivating factors for corruption from the standpoint of bureaucrats, they can play an important role in the remuneration of those holding public office. Officials are paid via the tax system through the redistribution of centralised resources, and if their remuneration is below the socially expected standard of living, they feel a greater inclination to accept bribes. One of the methods for curbing *corrupt bureaucracy*, or, as *Fan* (2006) aptly dubs it: *kleptocracy is to pay appropriate salaries*, coupled with relatively efficient monitoring. The seriousness of the problem is indicated, for example, by the fact that officials in the Ukraine earn 24–32 per cent less than their private-sector clients. However, the extent of corruption is implied by the fact that their consumption – on the basis of household expenditure and consumer durables ownership – is essentially the same. The magnitude of bribery in the Ukraine is estimated to be 0.9–1.2 per cent of GDP, which amounts to USD 460–580 million. (Gorodnichenko – Sabirianova, Peter, 2007) In the case of inefficient, weak state organisations "top to bottom" networks of corruption are formed, which are linked to organised crime. (Cheloukhine – King, 2007; Holmes, 2009) The flow of corruption money also affects the national economy. It can be used for consumption or flow

abroad. In the latter case the bureaucracy, responsible for the country, taps the country's resources for the benefit of the economy of foreign countries. This not only results in moral losses and losses stemming from inefficiency, but also causes further damage to the national economy.

IS THERE A GENDER DIMENSION TO CORRUPTION?

It is a particular aspect of corruption whether there is a disparity in the propensity of corruption (paying or accepting bribes) and gender. Based on statistical studies researchers have found that women are less corrupt, but it is difficult to identify the causes of the behavioural differences. The authors pose the question: if the difference is culture-based, *will the propensity of corruption change with the transformation of the social role of women* and with a higher level of participation in the working world? According to criminologists the growth of women's equality in official positions equalises their crime rate as well. (Swamy et al., 2001)

PURSUIT OF SELF-INTEREST VERSUS COMPLIANCE WITH NORMS?

Numerous studies emphasise that *people essentially follow norms*, but the problem is when corrupt behaviour itself becomes the norm. (Csermely et al., 2009)

However, the theories of *new institutional economics* emphasise the *pursuit of interest in people's behaviour*. They pose the following questions.

❶ Which organisational form of the co-ordination problems of economic processes entails the relatively lowest cost and highest efficiency?

❷ What kind of impact do market exchange problems, costs and efficiency have on institutional formation and change?

To answer these questions the theory sets up a simple, four-factor model, the factors of which are: institution, exchange transaction, cost and efficiency. (Menard, 2004) In this approach, the institution itself is the network of corruption; the subject of the exchange transaction is the obtainable advantage, and the cost is the bribe. Private and social efficiency, however, diverge. Private efficiency is assured for the two agents of corruption, the official and the entrepreneur, as the entrepreneur makes use of the obtained right, which is often in excess of the actual value of the service and provides income funded from public money, a significant part of which is returned to the corrupt official who disposes over the public money; at the same time, it often provides the official an opportunity to realise extra profit (as a sort of risk premium). At the same time social efficiency deteriorates, as the cost of corruption is internalised as an external effect (De Alessi, 1980); the entrepreneur – with the assistance of the corrupt official – devolves it to the taxpayers; at the same time it reduces the value of public goods and public consumption, which can be created from the taxpayers' money. In other cases, if the amount of public expenditure cannot be increased, the source of the transaction costs will be the wages instead of the profit; the bureaucrats will receive a share of the workers' income. (Evrensel, 2010)

In the approach of new institutional economics, according to the agent theory *a principal-agent relationship* is created *between the corrupted and the corruptor*. It is discernible that in this particular principal-agent relationship, where the principal's aim is to create an institutional system for controlling bureaucracy, anti-corruption measures cannot be effective, and the costs of corruption equal the benefits obtainable through them. (Del Monte – Papagni, 2007)

THE FIGHT AGAINST CORRUPTION

The transparency and normalisation of decision-making

Csáki – Gelléri (2005) suggest that corruption and its impact can be reduced with the application of appropriate decision technology solutions. However, to this end, it is necessary to *raise the quality level of the decision makers*, which in the long term reduces corruption. In their view, although this does not reduce the amount of bribes, it does decrease the (negative) effect of the corrupt behaviour. Concurrent conditions for the effective application of decision technology solutions:

- the existence and enforcement of laws;
- a supportive environment thereof, transparency and simplification, which cannot not lead to a simplification of the evaluation methods, because that would give birth to results which are technically not appropriate in terms of the qualification of the public procurement procedure;
- the application of quality assurance and decision technologies and methods at the level of public procurers;
- public procurement education, customised trainings, and the training of public procurement experts.

The regulation of privatisation

Corruption is strongly linked to the subject of privatisation in the great economic and social transformation which took place over the past two decades in the Central and Eastern European region. Among the objectives of privatisation were the transformation – in many cases, at all costs – of the national ownership class and the increase in state privatisation revenues – often at any cost. In the former case, a preference for domestic investors

was observed; in the latter, foreign investors were favoured.

Research has found that in the course of the privatisation process the acquisition price (when sold to an inside firm) tends to be higher when the government officials are highly corrupt, which generates lower private sector welfare, than if the given asset had been sold to an outside firm. A specific consequence of the process is that the more corrupt these officers are the cheaper they are to buy. (This was more likely to occur during series of privatisations.) It has been verified that in a *highly corrupt system, privatisation is less efficient* and can lead to the formation of monopolies. (Bjorvatn – Søreide, 2005) Comparative studies have shown that if officials are less corrupt, the economy is more efficient. (Ades – di Tella 1999; Djankov et al. 2002) It can also be stated that corruption positively correlates with market concentration. This market structure experience raises the question of how corruption, institutional decentralization and the increase in levels of decision-making relate to each other.

The decentralisation of decisions

Many authors profess the view that government *decentralisation has its advantages and disadvantages,* but that the advantages outweigh the disadvantages. *Fishman – Gatti* (2002) showed a strong negative correlation between corruption and decentralisation, which supports the adherents of decentralisation.

However, there are studies which aim to nuance this view, and they demonstrate that corruption *does not decrease with decentralisation under all conditions*; in some cases it even increases corruption. *Fan et al.* (2009), analysing a database covering 80 countries, ormulated the opinion that previous research – applying subjective corruption perception indicators – came to debatable conclusions regarding political and

fiscal decentralisation, namely regarding how they affect the frequency of bribes. According to their research many discrepant samples can be identified. In the case of a larger number of administrative or governmental decision-making points bribes were more common, and that was more costly for companies. This statistical relationship was strongest in developing countries. Larger local government bureaucracy is also characterised by more frequent and more costly bribes. Lower-level government employment in more developed countries had a strong impact, which cannot be explained simply as a relationship of bureaucracy and corruption; more strongly centralised government public employment was associated with less frequent bribes observed for every type of activity. They believe it is a bad idea to reduce the size of lower-level local administrative units (form further decision-making points) because it entails more frequent and more costly bribes for economic operators. They have shown that higher central government salaries reduce reduced corruption; this relationship can not be detected at lower levels except in the area of business licenses, government contracts, public utility services, and customs administration.

Lessmann – Markwardt (2010) ascertain that *decentralisation plays a major role in anti-corruption campaigns* (such as the World Bank's anti-corruption and development strategy). Although numerous previous studies have shown that decentralisation was a powerful tool against corruption, the authors were not able to demonstrate a strong effect between decentralisation and the reduction of corruption in general. However, the efficient monitoring of bureaucracy (free press), competition-enhancing decentralisation has a positive effect on the reduction of corruption. If *monitoring does not work, the positive effect of decentralisation is likely to be outweighed by the negative effects*, such as doubling the scope of action (for corruption) and corruption is increased. The demonstrated statistical relationship is strong. The result is not sensitive to the methods of measuring corruption and decentralisation. It follows that decentralisation is a possible tool for reducing corruption if the monitoring of bureaucracy works. If this condition is not met, a higher level of corruption is created.

The role of publicity in the fight against corruption

The existence of free press is an essential condition for effective anti- corruption efforts. Freedom of expression and freedom of press are generally important human rights and act as a strong control against government errors; the *independent press is one of the most effective institutions* for disclosing the illegalities of government officials. Several studies have shown a clear and strong negative correlation between freedom of the press and corruption. (Freille et al., 2007; Brunetti – Weder, 2003) It is cause for hope for the residents of the Central and Eastern European region that international organisations examining press freedom (e.g. Freedom House) qualify the press of the region as free.

The impacts of effective fight

Accordingly, the fight against corruption in developed countries is an important task, as the social losses exceed by multiples the social benefit (the elimination of any institutional inefficiency) obtainable through corruption.

Italy is a good example of the need to combat corruption and the positive effects of such action. In previous decades, changes in the political institutional system have increased corruption, and it has spread to levels of public administration and judicature, of which corruption was previously not characteristic.

Adverse social impacts have become visibly apparent. The extension of corruption has weakened the sense of loyalty toward civil and organised society, the atmosphere of corruption encouraged further corruption on account of the belief that the risk of punishment for corruption is low. The main reason for the *success of* the implemented *anti-corruption campaign* is the political regime change. Institutional changes are essential conditions for a successful fight against corruption. (Del Monte – Papagni, 2007) The key to the success of anti-corruption programmes, and the best prevention of corruption is not only the creation of full transparency, but more importantly to *minimize environmental impacts which encourage the transgression of the rules, and by reducing the avoidability of punishment*. (Lízal – Kocenda, 2001)

THE DATA SOURCES AND METHODS OF THE ANALYSES

We evaluated the level of corruption perception in the countries of the Central and Eastern European region, and within that in the so-called Visegrád 4 (V4) countries, as well as the change in corruption, based on Transparency International's 2008 Corruption Perception Index and from the World Bank Institute Governance Indicators, the average for the years 2002–2008 of the Control of Corruption indicator and the pace of average linear change during the same period (steepness).

THE MONEY FLOWS OF CORRUPTION (PROFITS AND LOSSES OF THE PARTICIPANTS)

On the basis of the sources of literature and empirical observations we wrote down the corruption-related money flows of the stakeholders of corruption (the corrupted bureaucrat, the corruptor and society). [(1) – (3) correlations]

Bureaucrat's money flow
$$R_B = B(r,s) - F_B(r) \tag{1}$$

Corruptor's money flow
$$R_C = -B(r,s) + (1-\alpha) \times \Delta P(c) - F_C(r) \tag{2}$$

The taxpayers' money flow
$$R_T = I_C - B(r,s) + \alpha \times \Delta P(r) - J(r) + \varphi_B \times F_B(r) + \varphi_C \times F_C(r) \tag{3}$$

where:

R = result of corruption for the participants (index notation: B = bureaucrat; C = corruptor; T = taxpayer);

I_C = reduction of losses stemming from the inefficiency of the system as a consequence of corruption;

$B(r,s)$ = the bribe amount, which depends on the risk of the corruption being detected (r), as well as on the prevalence of corruption (s);

$\Delta P(c)$ = the profit change which occurred due to corruption, which can be extra profit, but can be a loss as well;

α = profit tax rate; if $\Delta P(c) > 0$; then $\alpha > 0$, if $\Delta P(c) \le 0$; then $\alpha = 0$; $F_B(r)$ = the bureaucrat's expected loss in case the corruption is revealed;

$F_C(r)$ = the corruptor's expected loss in case the corruption is revealed;

$J(r)$ = the costs of detecting corruption and the costs of judicature; φ_B and φ_C = the efficiency of the return on punishment related to corruption, $\varphi \le 1$.

It can be stated that for the bureaucrat it is worth the risk as long as his/her expected losses (whether the punishment imposed, or the losses suffered through changes in his/her livelihood) are smaller than the bribes or the profit from the privileges ensured by corruption.

The transaction concludes with positive profit for the entrepreneur giving the bribe as long as the surplus income obtainable through corruption exceeds the bribe or the risk-weighted expected loss and penalty stemming from getting caught. If the competition in terms of corruption is great and the corruptor's aim is to ensure survival, then it may occur that the corruptor commits the act of corruption even in case of a negative balance, as loss minimisation is his/her aim.

For society in most cases the money flow has a negative balance. Apart from very exceptional cases (see the example of Georgia mentioned earlier, i.e. the case of a very poorly functioning state) the amounts spent detecting and combating corruption significantly exceed the advantages obtainable through corruption.

THE POSITIONING OF CENTRAL AND EASTERN EUROPEAN COUNTRIES' PREVALENCE OF CORRUPTION

Below we evaluate the prevalence of corruption of the Central and Eastern European region. While accepting the criticism of the
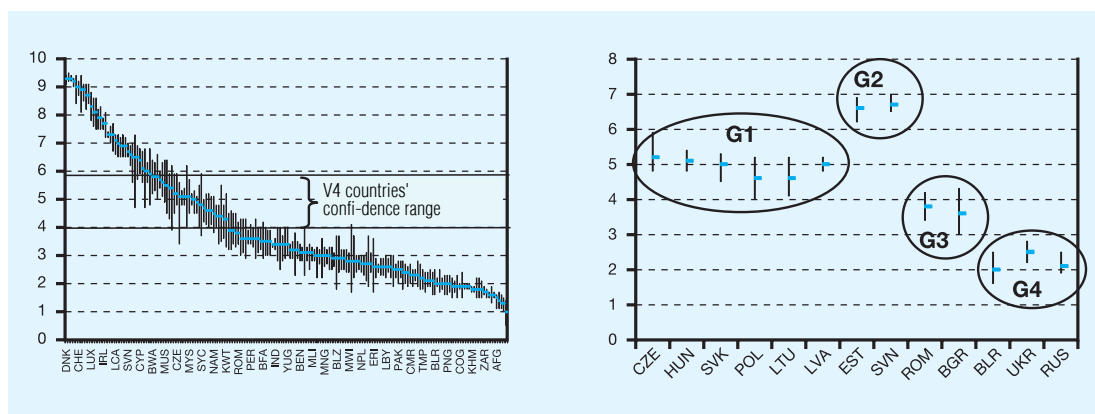
Transparency International Corruption Perception Index (CPI) – for lack of a better, more widely available indicator – we decide to use it to compare the countries of the region. Based on the V4 countries we plotted the CPI values for all reported countries, and the confidence range specified by the organisation. Based on the confidence ranges it can be stated that there is no significant difference in the perception of corruption in the V4 countries; they constitute identical groups (G1 group *on the right side of Chart 1*). *On the left side of Chart 1* it can be measured that the countries of the group were classified to be moderately infected by corruption. However, it can also be stated that the G2 group (Estonia and Slovenia) are considered significantly cleaner while the G4 group (Belarus, Ukraine and Russia) are significantly more corrupt. The G3 group constitutes a transition between the G1 and G4 groups.

If we compare all observed countries with the level of corruption in the V4 countries, we can separate the following groups among the European countries.

◗ *European countries with significantly lower levels of corruption:* Denmark, Sweden, Finland,

DEVELOPMENT OF THE CORRUPTION PERCEPTION INDEX AND THE PERCEPTION OF CORRUPTION IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

Source: Transparency International. Own editing based on Corruption Perception Index 2008

Switzerland, Iceland, Netherlands, Luxembourg, Austria, Hong Kong, Germany, Norway, Ireland, Great Britain, Belgium, France, Slovenia and Estonia.

◗ *Moderately corrupt European countries, where the level of corruption does not significantly differ from that of the V4 countries:* Bulgaria, Croatia, Cyprus, Czech Republic, Georgia, Greece, Hungary, Italy, Latvia, Lithuania, Macedonia, Malta, Montenegro, Poland, Portugal, Romania, Serbia, Slovakia, Spain and Turkey.

◗ *European countries with significantly higher levels of corruption:* Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Moldova, Russia and Ukraine.

THE TENDENCIES OF CHANGE OF PERCEIVED CORRUPTION IN THE CENTRAL AND EASTERN EUROPEAN REGION

Below we present the change of the level of corruption in the countries of the region. *(See Chart 2)* Based on the seven year average of the WBI Control of Corruption indicator, the tendency of change (+ = improving situation; – = deteriorating situation) and the pace of change we can divide the countries into four groups plus one:

- relatively good corruption situation with an improving tendency [Estonia (EST), Latvia (LVA), Slovakia (SVK), and Slovenia (SVN)];
- relatively good corruption situation with a deteriorating tendency [Czech Republic (CZE), Hungary (HUN), Lithuania (LTU), and Poland (POL)];
- relatively bad corruption situation with an improving tendency [Belarus (BLR), Romania (ROM), and Ukraine (UKR)];
- relatively bad corruption situation with a deteriorating tendency [Russia (RUS)];
- moderate corruption situation with a deteriorating tendency [Bulgaria (BGR)].

The deteriorating tendency is a warning sign for the V4 countries (except Slovakia) and calls attention to the importance of the fight against institutionalised corruption.

Chart 2

THE CHANGE OF CORRUPTION SITUATION OF CENTRAL AND EASTERN EUROPEAN COUNTRIES AS A FUNCTION OF THE AVERAGE VALUE OF THE CONTROL OF CORRUPTION INDICATOR AND THE AVERAGE PACE OF CHANGE (2002–2008)
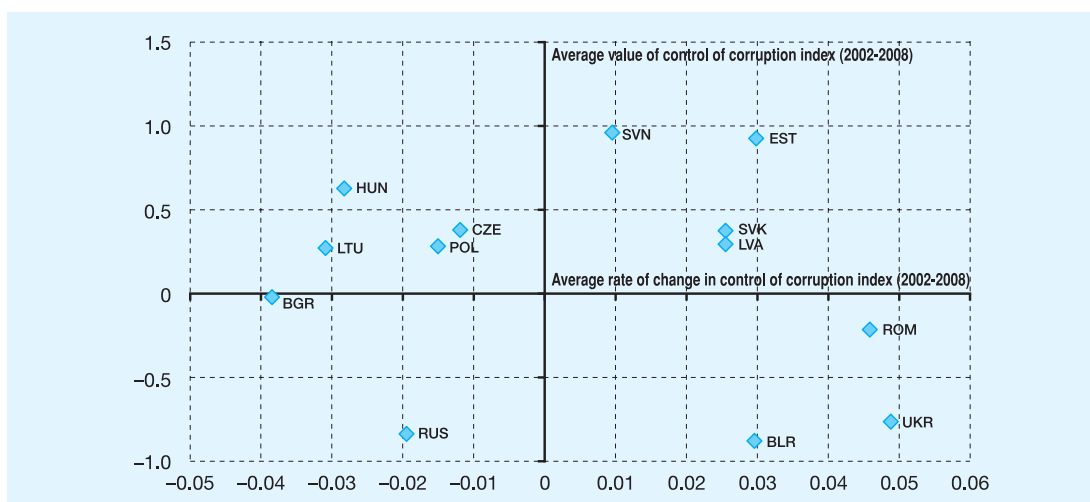
Source: Own editing based on World Bank Institute 2010

TASKS OF THE FIGHT AGAINST CORRUPTION IN HUNGARY

The fight against corruption is a complex task, even for a country moderately infected by corruption. According to the theoretical model, for moderately developed countries such as the V4 countries, the social costs exceed the – otherwise difficult to quantify – social benefit which results from corruption. An important part of the success of this process is *the mapping of corruption risks*.

In Hungary, the State Audit Office elaborated a recommendation that applies the integrity-based approach. (Báger et al., 2008) The word 'integrity' originates from the Latin expression *in-tangere* which means 'untouched'. In other words, the term designates someone or something uncorrupted, inviolate and irreproachable; furthermore it alludes to virtue, incorruptibility and the condition of purity. Integrity is used to evaluate the performance of individuals and organisations. A number of similarities can be identified in another proposal, which was formulated by a group of scholars by the name "Bölcsek Tanácsa" ["Committee of Wise Men"]. (Csermely et al., 2009)

Collating and agreeing with the two proposals, we summarise their essence. In terms of the operation of the administrative system, fulfilment of the following is necessary for success in the fight against corruption:

- the highest level of commitment to the real fight against corruption, to this end restructuring of the institutional system and increasing the efficiency of organisations involved in the detection of corruption;
- preparation and launch of a national anti-corruption programme;
- reconsideration and amendment of the legislation of areas infected by corruption (political party financing, electoral, public procurement, subsidies, etc.);

- increasing the role of publicity and transparency: guaranteeing access to information and research results relating to integrity and creating maps showing public corruption risks;
- integrity-oriented development of Hungarian (external and internal) audit practice and administrative culture;
- promotion of improvement of public sector transparency and public confidence;
- development of public procurements, grant applications, as well as their monitoring system;
- encouraging the change in administrative culture;
- encouraging publicity (including the press) and the participation of civil society;
- launch of a programme aimed at the reduction of corruption within health care;
- development of the efficiency of the internal audit of state institutions and their inclusion in the fight against corruption.

The above proposals were formulated within a national framework; however, one must see that corruption has become a cross-border phenomenon. Countries are increasingly confronted by the fact that companies – which often have become multinational – of other countries corrupt influential officials, simultaneously affecting several countries. (Just to mention, in matters concerning the countries of the region, the sale of the SAAB Grippen fighter jets or the sale of Daimler government cars.) All of this suggests that in the fight against corruption it is necessary but not sufficient to create and consistently implement an appropriate national strategy. For success, coordination of the corruption strategies of countries operating in the same economic-social system and co-operation in certain areas are also necessary in order for national objectives to be achievable.

SUMMARY

Corruption is an socio-economic phenomenon rooted in deep traditions with a heritage of many millennia. In a certain sense it is a part of human culture. Corruption – with a few exceptions – is detrimental to society as a whole, even if some individuals can profit from it.

In general there is a reverse correlation between socio-economic development and corruption. The complex social transition from a poor, tradition-based country in a healthy, liberal democracy also entails a drastic (dramatic) reduction of corruption. The transition of corruption can not be precisely allocated to the path of transition, but it follows a transition trend toward lower corruption. The transition is culture-dependent; on the same cultural base the transition is similar. *Culture is an inferior explanatory factor of corruption.* Fluctuation can be observed in the transition trend. The increase in inflation often associated with economic transition increases corruption and initiates interaction with the culture in the short term (5–10 years). Over-regulated countries – of low economic freedom – tend toward higher corruption. The political conclusion that can be drawn: *acceleration of the transition helps cure the disease of corruption.* (Paldam, 2002)

For these reasons the fight against corruption is an important task, the organiser of which can be the government; but at the same a high degree of commitment is necessary to effectively implement it. There is also a need for inter-sectoral co-operation between the governmental, economic and civil sectors. The government can contribute to the co-operation by *developing control mechanisms*, *improving the efficiency of detection* and, through judicature, by *reducing the probability of impunity* with the encouragement of conduct which complies with norms (simultaneously eliminating corruption as a norm). The economic sector can participate in the reduction of corruption by preferring competitive neutrality and *raising fair competition* (market conduct) *to a norm,* while civil society, including the free press, can do the same by *demanding publicity* and seizing the opportunity for control, provided by publicity.

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