

ON THE LOGIC OF CORRUPTION GENERATING

Professor PhD Emil DINGA*, Senior Researcher

”Victor Slăvescu” Financial and Monetary Research Center,
Romanian Academy, Romania
Email: emildinga2004@yahoo.com

Abstract: *The paper aims to examine, from a logical point of view, the corruption phenomenon, under certain perspectives: its definition, the criteria to classify it, the main classes of corruption, the mechanism of its arising, and the basic impact of different classes of such a phenomenon. In this context, five classes of corruption are identified and characterized, putting into evidence the „emergence area” of corruption phenomenon. One of the significant issue of the paper addresses the costs involved by the corruption phenomenon – in this view, the paper approaches, however, the accountable costs only. Finally, some directions to block, on short term, such a phenomenon are indicated.*

Key words: *corruption, corruption typology, corruption costs, corruption generating.*

JEL Classification: *D73, D86, G28.*

1. Introduction

The term corruption is immanent to the market economy and democratic society. The explanation is very simple: the democratic society (and its economic expression, the functional market economy, respectively) is structured and operates on the basis of predefined and transparent rules. The majority behavior of the members of society is to adhere to those rules. Obtaining a legal advantage outside of the rules of the game is not possible, therefore there is always the temptation to violate these rules in order to benefit from an additional, undeserved advantage (according to the precepts of social justice) and unwarranted (according to the precepts of social justice). This temptation has its headquarters in human nature (it is based on free rider behavior, which seems to be constitutive of human nature, although, obviously, the role of the cultural matrix in this matter must not be underestimated). This is the fundamental reason for which the rule of conduct (of any kind, including economic behavior) has as its inalienable component the sanction for the possible violation of the rule. And this is the fundamental reason why the claims (and political declarations) on the eradication of corruption must be viewed with caution, and those actions (and political statements) that relate to the intention of intelligent management (keeping under control) and the maximum limitation of that phenomenon. The implications of corruption are extremely complex (and they are not, note bene, totally and permanently negative), but for the moment, we are interested in discussing its costs.

First of all, to say that, in our opinion, corruption is *the social phenomenon in which a civil servant¹ uses his/her social position to claim/gain an advantage of any kind, undeserved and unjust, in exchange for exercising/not exercising a role for which is paid.* Although, by extension, the concept of corruption can be (and is) also used in situations where public money is not involved, for now we prefer to restrict the discussion to this social section. However, some comments on the state of non-involvement of public money in the phenomenon of corruption deserve to be retained.

* Emil Dinga is Professor of Theoretical Economics, and Economic Epistemology, senior researcher and supervisor for doctoral and post-doctoral programs in the economic field, at Romanian Academy.

¹ Since the name of a civil servant is a term of legal jargon, it would be more appropriate to talk about state employees, i.e. about those individuals working in the public sector (called civil servants) and about those individuals working in the private domain of the state (and representing contract staff).

(a) by public money we understand the monetary value of State-owned assets (that is, the public and the private sector of the state¹) as well as the monetary value of the legal obligations of citizens to public budgets (for example, the income tax which the private persons due to the public budgets, or the corporate tax on profit which the economic organizations due to the same public budgets, etc.);

(b) all that is not a public money is a private money (eg net salary, bank deposit of private persons, dividends received by private individuals after tax, etc.);

(c) the phenomenon of corruption implies the fulfillment of at least one of the following two conditions: 1) an employee within a state/government organization (either civil servant or contract staff); 2) public money should be involved in the phenomenon in question;

(d) situations that do not check lit. (c) does not generate corruption phenomena, but other phenomena of non-compliance with legal norm, which do not concern us in this paper (bribery, deception, commission, etc.).

Figure no. 1 shows a view of the abstract mechanism of generating the phenomenon of corruption.

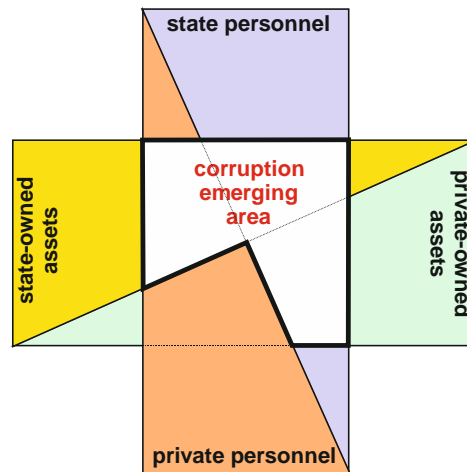


Figure no. 1. The abstract topology of the corruption emerging area

A simple logical formalization of corruption is as follows:

$C = (A_{pr} \wedge P_s) \vee (A_s \wedge P_{pr}) \vee (A_s \wedge P_s)$, where: C is the corruption phenomenon, A_{pr} is private assets, A_s is state assets, P_{pr} is staff of private persons, P_s is staff of state (or public) persons.

2. A typology of corruption

In order to obtain a typology of corruption, we will organize the analysis according to the phenomena likely to occur, within the corruption generation area identified in Figure 1, in relation to the attitude, respectively the actions (or inactions) of the staff employed in the state organization/institution. A schematic diagram for this is shown in Figure 2. The diagram operationalises three criteria simultaneously, each in two hypostases: positive and negative (the negative hypostasis is obtained by logical negation of the positive hypostasis):

¹ The state's private domain is represented by state-owned assets that are involved in the production of goods and services delivered to the consumer through the market (as opposed to public goods belonging to the public sector and delivered to the consumer out of the market, i.e. free of price).

- the nature of the norm in place: the obligation to do, or the interdiction to do;
- the attitude (behavior) of the staff committed to the state: execute (do), respectively not execute (abstain);
- the economic significance of the phenomenon produced: implicit tax or implicit fee.

The three criteria, each of which in the two hypostases, can be placed in a Karnaugh-type representation (Figure no. 2), so each cell in the chart checks the three criteria concomitantly, but only in one of their specific hypostases.

Such a chart functions like a Mendeleev-type table, in that it logically exhausts the possibilities of corruption, even if, in the economic reality, a certain possibility is not actual.

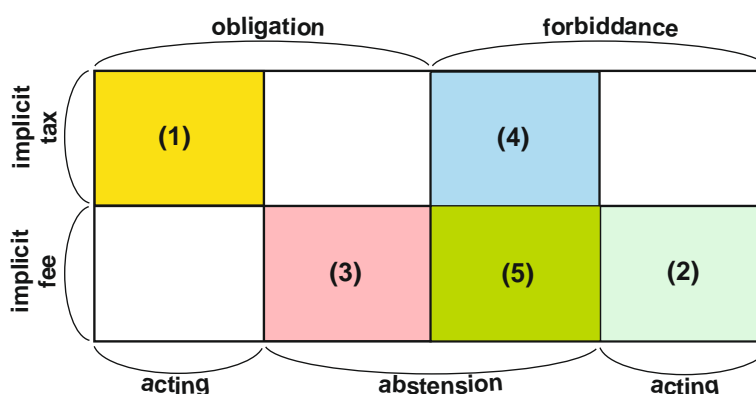


Figure no. 2. The logical scheme to infer the typology of corruption

We therefore have five classes of corruption, two of which are based on the obligation to do, and three are based on the prohibition to do, two of which have the economic significance of a tax (here called default or implicit tax) and three that have the meaning of a default or implicit charge (here named implicit fee¹).

- (1) *The case of the provision of a service that the state staff has the obligation to provide.* If the civil servant claims (and receives) an advantage of any kind in order to perform a service to which he is bound by his duties to perform, this advantage is a unilateral transfer (without equivalent in actual service provision), so it has the economic content of a default/**implicit tax**. Indeed, the state staff is obliged (and paid, even by the applicant in question, through the explicit, official tax he pays to the state budget) to provide a service. He will provide this service, but he will claim an additional advantage. Since, for that additional advantage, it does not provide a distinct service, it is apparent that the advantage in question gains the content of a sui-generis tax. For example, the issuance of any certificate, to which the applicant is legally entitled.
- (2) *The case of providing a service that the state staff is not obliged to provide.* If the state staff claims (and receives) an advantage of any kind in order to perform a service to which they are not bound by its duties, this situation is somewhat bizarre in the context of the discussion here since it means that state personnel uses its position (or infrastructure to which it has access through its position, etc.) in order to obtain benefits, in return for which it offers a counter-service. From

¹ The tax and fee concepts are the following: a) tax: ineligible binding legal levy which the state realizes against the citizen, without providing direct and immediate counter-benefit; b) fee: the statutory mandatory levy that the state makes to the citizen, with direct and immediate counter-benefit.)

the point of view of the applicant for that service, the advantage procured to state personnel equates, economically, with an *implicit fee*. From the perspective of the state personnel, this is at least a breach of service duties (or, perhaps, abuse of service or the use of state patrimony for personal purposes). It is, however, questionable whether the described situation can be categorized as corruption. Indeed, part of the definition of corruption is found: the exploitation of public position in personal interest, but another part - that is, the provision of a service to which it was bound - is no longer found. We consider, however, that the situation discussed here should also be described as a corruption situation on the following grounds: a) if the state staff in question did not have a public office, it would no longer be a target for the one who requires him to provide a service (to which public-sector staff are not obliged, but which he can perform only by virtue of the civil service occupied: for example, he makes a recommendation - which means, in legal terms, influence); b) even if he/she provides a service, in exchange for the remuneration received from the applicant, that service can be provided only by using the public patrimony (either as a corporeal asset or as an image), therefore it can be presumed that there is a loss of public asset, generated by the provision of a service for personal benefit.

- (3) *The case of non-execution of an action by state personnel bound to exercise it.* It is a species of the previous case (of point (2)), since the refusal to exercise an action to which it is bound, abstaining in favour of an applicant who, in exchange for that abstention, procures the public servant an advantage, is logically equivalent to the provision of a service which he was not obliged to (abstention to perform an obligation is not mandatory). Therefore, this time, too, we are faced with an *implicit fee* in terms of economic content. For example, a lawyer in a public institution does not exercise, in due time, an appeal to the court.
- (4) *The case of non-performing of a prohibited activity by state personnel.* We consider that the costs associated with this case fall within the *implicit tax* category, for the following reasons: a) by law, mandatory service provision by state personnel means here to refrain from doing, therefore it is a supply of a service to which state personnel is bound; (b) since state staff receives an advantage in order to refrain from pursuing an action for which it is paid (by the state) not to perform it, it results that the official receives an undue and unjustifiable advantage in order to do what is already bound and paid to do.
- (5) *The case of performing of a prohibited activity by the state personnel.* We consider that the costs associated with this case fall within the category of the *implicit fee*, for the following reason: the applicant for the service of a forbidden action is therefore entitled to a service he is not entitled to, in exchange for the undeserved and unjustified advantage of the state personnel; the civil servant secures a service in return for the benefit received (whether or not the amount of that service is equal to the amount of benefit received).

3. About the Costs of Corruption

Corruption involves a whole range of costs (both for its existence and its „eradication"). The least important (short-term and impact-related) are accounting costs. That is, those explicit costs that accompany the casual manifestation of the phenomenon of corruption. We will continue to say a few words about this type of cost of corruption. The accounting cost of corruption is, of course, the cost of corrupting state personnel, that is, the advantage that the applicant for a service (to whom he or she is entitled or not entitled) will procure to state personnel to provide him with a service to which he was,

however, entitled to perform or to provide him with a service which the official was forbidden to perform, or for the official to refrain from performing a function which he was required to exercise.

In all these categories of accounting costs (as we have seen, they are economically impact on the fiscality), the cost to the public budget is added to the fact that corrupt civil servants do not declare the extra income obtained undeservdly and unjustifiably as a result of corruption and, therefore, do not pay tax on the total income of these revenues (North, 1990). The question is whether this loss is absolute or relative. Clearly, the loss suffered by the budget is a relative one because the taxes on the amounts procured as an undeserved and unjustifiable advantage to corrupt civil servants were once paid by those who directly bear the accounting cost of corruption (in the idea that the respective earnings are earned in a way but even if these incomes are themselves the result of corruption, one can assume that somewhere at the end of the „chain” somebody paid taxes for them.) However, it is very interesting to discuss here a monetary multiplier of corruption, which is manifested by an implicit increase of taxation (through the additional taxes and fees paid by the applicants, as we have shown, for the corruption of the staff of the state). This conclusion is particularly true in the long run, as there will be a temptation of those who want to bear the cost of corruption (those who offer the advantage to the corrupt state personnel) to obtain the necessary monetary amounts by occult ways (either from the underground economy, or based on an internal chain of corruption - lower links of state staff, etc.), which will increase the number of links that obtain undeclared income, thus untaxed.

The implicit fiscal effect of corruption is of a seriousness that can not, in any case, be overestimated. Additional fiscal pressure changes consumer, savings, and investment behaviors, alters even tax compliance or social compliance behaviors, alters the playful spirit in the economy, with extremely damaging effects on the normative coherence of the behavior of members of society.

Limiting corruption (through the drastic limitation of corruptibility causes and, especially in the short term, by blocking mechanisms which objectifies the corruption) is, for all these reasons, a definite (unconditional) public requirement (Bryson, 2010).

4. Is there „added value” in the corruption phenomenon?

This issue goes beyond the objectives of the present intervention, but a short answer must undoubtedly be affirmative. As any behavioral deviation in the economic field (and perhaps not only in the economic field), in certain „doses”, in certain areas, and at certain times or periods, the phenomenon of corruption can unlock economic mechanisms or processes that would otherwise remain impediments (for example, inflation, and unemployment, and the underground economy, and the parallel exchange rate, have some beneficial short-term functions at local level and below a certain degree of intensity). This issue should be considered in good faith, without false taboos and, of course, from a scientific perspective. As I said, we reserve this examined for a future opportunity.

5. Can the phenomenon of corruption be blocked?

It has been rightly said that in corruption, as in love, two are needed. Therefore, a strategy of blocking the phenomenon of corruption should be done at both ends: the one who corrupts (or does a corruption attempt), respectively the one that is permeable to corruption (accepts the advantage of accepting corrupt behavior). Of course, in the long run, the solution lies in the educational process and in raising the standard of living on society as a whole, that is to say, in increasing the social responsibility of the individual through the integration of moral values in the current axiological and praxiological matrix.

The problem, however, is to solve the problem in the short term. We believe that here, the following lines of action could be used:

(a) effective separation of policy-making from their administration – more precisely, the institutional separation of the National Authority for Fiscal Administration (NAFA) from the Ministry of Public Finance (MPF);

(b) developing internal audit capability (both of compliance and of performance) in state organizations, institutions and authorities (both in the public and private sector of the state);

(c) the strict application of the prohibition to work in the system for persons proven to have been subjected to corruption (either as origin or as an agent of the corruption mechanism);

(d) limiting the politicization of the occupation of executive functions in state organizations, institutions and authorities (including the private domain of the state, where it seems the corruption is even stronger and more extensive than in the public sector);

(e) introducing and respecting the impartiality of the person in charge of the position of secretary general of public institutions and authorities, except in the cases provided for by the criminal law.

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