Factors Breeding Corruption

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ABSTRACT: *Factors considered were literacy, expenditure on education, ethical standards of the public sector, judicial or legal effectiveness and corporate governance. Among the above factors, only three of the variables, namely literacy, unemployment rate and public sector ethics index can be said to breed/cause corruption at a significance level of 5%. However, corporate governance index becomes a significant factor only at 10% significance level.*

Keywords: Education, Unemployment, Governance, Corruption.

I.   INTRODUCTION

Corruption is said to be prevalent whenever an individual is able to use his/her position and or power to divert public funds or resources from public interest to his/her personal interest. However, for this to happen, the individual in question must have control over public resources or funds, which means that he/she must be in the government.

The aim of this term paper is to analyze the factors that breed corruption. Why do people choose to be corrupt over being honest? At times being corrupt may be the only way to fulfill wants. Corruption may avoid punishment. Sometimes people follow the examples set by politicians and judges. Yet there are situations when corruption is the only way out (people with very low wages may feel so). Two powerful forces that guarantee prevalence of corruption are **selfishness** and **greed**. The following observation of Solomon makes this point clear,

"*A mere lover of silver will not be satisfied with silver, neither any lover of wealth with income.*" (Ecclesiastes 5:10)

However, the basic causes of corruption are: existence of a clear opportunity; little chance of getting caught (this is due to lack of accountability mainly due to (a) lack of transparency and

(b) weak enforcement); low income level; the attitude, circumstances, poverty and/or scarcity of goods may make average populace disregards the law.

In general, there are umpteen factors that breed corruption. For instance, strength of civil liberty (level of press freedom), ability of people to form NGOs (non-governmental organization) and the level of structured, active political competition are some factors that determine corruption. Corruption level is negatively related to these factors.

While others like, quality of a country's legal system, existence of effective anti-corruption laws, probability of being caught and punished, credibility and ability of police and judiciary are a few legal factors that determine corruption. However, these factors have negative relationship with level of corruption.

Some other factors that may case corruption are illiteracy, poverty, unequal distribution of income, unemployment level, quality of governance, public sectors ethics etc.

Yet there are some other factors that breed corruption, examples would be, level of bureaucratic intervention in the economy, number of rules and regulations, level of accountability of public official over provision of public service, wages of the public servants, extant and effectiveness of auditing and monitoring systems in the governments and the number of monopolistic economic settings in an economy.

Related Work:

Factors breeding corruption may be clubbed under broad heads of political factors, bureaucratic factors, legal factors, economic factors and transnational factors. The following is a literature review which highlights the findings of various writers, where one or more of the above mentioned factors are said to be the cause(s) of corruption.

Rose-Ackerman (1999) and suggest that the role of the government can make corruption difficult to be detected implying that the role of the government itself can be considered to be a factors that breeds corruption. Goel and Nelson (1998) note that through increasing red tape a larger government may render existence of corruption. However, Graeff and Mehlkop (2003) say that larger governments may contribute to corruption by means of regulations which lead people to resort to illegal means. However, Goel and Nelson (2008)'s findings, which are contrary to their previous findings for the United States (Goel and Nelson (1998)), are that, "a larger

public sector presence is associated with less corruption, all other things equal, which perhaps reflects greater public vigilance against such behavior or stronger institutions that act to combat such activity."

While La Porta et al., (1999) and May et al., (2002) are of the opinion that the size of the government is a major cause of corruption, i.e. larger governments lead to more corruption. They and infer that larger governments may use up a lot of resources to monitor corrupt government activities by means of making appropriate policies and establishment and enforcement of good governance standards.

Elliott [1997] observes that types of government activities may be more important than the size of their budgets as cause of corruption as corrupt governments do not easily obtain funds either through loans or taxations. However, La Porta et al. (1999) show a positive correlation of the total government transfers and subsidies relative to GDP with corruption.

As per Harry Seldadyo and Jakob de Haan (2005), who reexamine the factors that determine corruption, "Our results suggest that welfare is an important variable in determining corruption. Various measures of welfare are found significant and robust in explaining corruption. At the same time government at national level plays an important role via the quality of bureaucracy, government effectiveness, and government official wage. This is followed by government at sub-national level as seen as degree of decentralization. Apart of government, military is another factor influencing corruption variable. Lastly, institutional variable like political freedom, judiciary system as well as information determine corruption robustly."

U Myint, "Corruption: Causes, Consequences and Cures" observes that institutional weaknesses such as weak judicial and legislative systems, bureaucratic red tape and political instability lead to corruption. The author also says that, "corruption and such institutional weaknesses are linked together and that they feed upon each other. For example, red tape makes corruption possible and corrupt officials may increase the extent of red tape so that they can get more bribes".

Stephen F. Brown and Joshua Shackman, "Corruption and Related Socioeconomic Factors: A Time Series Study" find that increases in GDP per capita increase corruption in the short run while the same leads to a reduction of corruption in the long run.

As per Transparency International Bangladesh, "Corruption Database Report 2005" (Released on July 5, 2006), "Leading among factors responsible for corruption were monopoly of discretionary power, lack of accountability and the authority's failure to take steps against corruption and absence of deterrence". While some literature on corruption involving the police is of the opinion that the major factors that lead to corruption are low salaries, lack of training and education and the police environmental factors.

Zipparo L., "Factors which deter public officials from reporting corruption" are of the opinion that there exist certain factors that deter public sector employees from reporting corruption at the workplace. They find that, "Concern about not having enough proof was the most commonly reported deterrent, followed by the absence of legal protection from negative consequences. The factors which were reported as deterring the least number of respondents were the absence of role responsibility for reporting corruption and not being directly affected by the corruption. Respondents from lower income groups were more likely to be deterred from reporting corruption in the absence of encouraging factors. In addition, a relationship was found between a lack of information about mechanisms for reporting corruption and a negative attitude toward reporting corruption."

The book, "The Role of Parliament in Curbing Corruption" which is edited by, Rick Stapenhurst, Niall Johnston and Riccardo Pellizo hint that existence of special licenses, biased judicial sentences, policy protection, chances of tax evasion and regulations or chances to expedite government procedures are factors that lead the government officials to demand and/or accept bribes.

II.   THE MODEL

In order to see if factors such as literacy, expenditure on education, ethical standards of the public sector, judicial or legal effectiveness and corporate governance lead to corrupt behaviour, a simple linear regression model was used.

Following is the model used to analyze the significance of the factors breeding corruption.

$$C = \alpha + \beta_0 L + \beta_1 ED + \beta_2 G + \beta_3 U + \beta_4 PSEI + \beta_5 JLEI + \beta_6 CGI + \varepsilon$$

In the above model, C represents the CPI (corruption perception index) which lies between 0 and 10 (0 being the most corrupt and 10 being the most clean), α is the intercept, L represents the literacy rate, ED is the expenditure on education (as a percentage of GDP), G is the Gini index which lies between 0 and 100, U resents the unemployment rate (the percentage of the population which is officially recorded to be unemployed), PSEI is the public sector ethics index which lies between 0 and 100, JLEI is the judicial/legal effectiveness index lying between 0 and 100 and CGI represents the corporate governance index which ranges between 0 and 100 (For the last three indices, i.e. PSEI, JLEI and CGI a higher value implies a higher ethical standard. These are the ratings given by the country's enterprise sector).

The data pertains to the year 2005 for 81 countries from Transparency International and the World Bank. The

Table 1. Results are summarized in the following table.

	Coefficients.	Std. Error	t	P>|t|	95% Conf. Interval	
Literacy	0.030955	0.007758	3.99	0	0.015494	0.046417
Exp. on Education	0.001914	0.002967	0.65	0.521	-0.004	0.007827
Gini Index	-0.01098	0.010242	-1.07	0.287	-0.03139	0.009437
Unemployment Rate	-0.0208	0.009215	-2.26	0.027	-0.03916	-0.00243
Pub. Sec. Eth. Index	0.060582	0.012962	4.67	0	0.034749	0.086415
Jud/Legal Effectiveness	0.006127	0.012658	0.48	0.63	-0.0191	0.031354
Corp. Govern. Index	0.016842	0.009628	1.75	0.084	-0.00235	0.036031

As is evident from the above table, only three of the variables, namely literacy, unemployment rate and public sector ethics index can be said to breed/cause corruption at a significance level of 5%. However, corporate governance index becomes a significant factor only at 10% significance level.

III.   RESULTS

The data show that *as literacy, expenditure on education, PSEI, JLEI and CGI increase by one percent the CPI increases by 0.030955, 0.001914, 0.060582, 0.006127 and 0.016842 respectively; which means that the corruption decreases and the country becomes cleaner. As for the other factors, i.e. Gini index and unemployment rate, a one percent increase in these variables leads to a decrease of 0.01098 and 0.0208 respectively, in CPI.* These results conform with intuition.

Thus, as per the results, the major factors that lead to corruption are literacy, expenditure on education, ethical standards of the public sector, judicial or legal effectiveness and corporate governance.

IV.   CONCLUSION

In order to solve a problem, it is important to understand the factors that cause that problem. Thus in this case if we can control for the factors such as literacy, expenditure on education, ethical standards of the public sector, judicial or legal effectiveness and corporate governance then we can control corruption to a large extent, if not uproot it.

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