Corruption and its Impact on the Economy

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Corruption is one of the main Criticisms of Citizens to political actors, Usually made from outside and disseminated by the media. Determining the hypothesis based on answering a series of questions, answers serve to signal path links the main theme of the work. In the part of research and development contrasting theme of political corruption, economic causes and effects of corruption, Especially the impact on Certain key variables of the economy, gross domestic product, investment, government spending. A positive view of corruption as natural phenomenon, producing positive and negative externalities. Analyze the likely economic models, the focus of rent-seeking and principal agent, the MOST Widest spread in economic theory. The analysis stage of the economy of corruption, two key points, one is measuring corruption and the optimal amount of Then it ends. In the conclusions, the assumptions are answered, and if corruption That shows economy.

Keywords: Corruption economy government transparency.


METHODOLOGY

Studied literature and microeconomic development formulations was tested, measuring corruption and the impact on macroeconomic variables was investigated.

EMPIRICAL RESULTS

In an economy of corruption are microeconomic models, but the impact of corruption is macroeconomic, and does so in full in the main variables, GDP, investment,
Government spending, competitiveness, economic efficiency, etc.

INTRODUCTION

Corruption is now a popular theme in the social sciences. Rising interest is evident in the economy and in other fields, where major journals have published numerous articles on the subject. Some organizations publish indicative data on corruption. For example, Transparency International publishes a "Corruption Perceptions Index" for most countries, it is widely cited and these data are frequently used in statistical analyzes of economic performance.

The question is on the definition of the word corruption, where the scope is determined, although it seems a matter of semantics, as defined corruption issue determines what gets modeled and measured. The scope defined in Jain, AK (2001). "Corruption: a review", Journal of Economic Surveys, 15(1): 71-121.

With the exception of the rhetorical allusion to the "corruption of the economy", this paper deals with both microeconomic theoretical lines and demonstrations on the economics of corruption.

The phrase "for private gain" can be defined more narrowly, and confine it to cases where the people involved get some kind of tangible personal reward, pursuing money, status, goods or services. But while this may cover most of the cases of corruption in the real world, it excludes some important cases where individuals act corruptly for moral purposes. This is called corruption "noble causes" detailed in Noble Causes: John Miller, The Glorious Revolution (Longman, 2d Ed, 1997).

State of the art.

Defining Corruption and fields.

The word "corruption" is corruptus adjective, which in Latin means spoiled, broken or destroyed. According to the Oxford Dictionary "corruption" it is:

"Dishonest or fraudulent conduct by Those in power, Typically Involving bribery" dishonest or fraudulent conduct by some power, typically wrapped in a knavery or fanned"

"The action or effect of making someone or something morally depraved" The action or effect of making something or someone, morally depraved

One meaning of corruption in the social context is to bribe, and corruption amounts to "moral decay".

Neither of these definitions nor the Latin etymology of the word restrict the notion of corruption to the private sector. So that corruption can also occur in the public sphere.

The United Nations Office on Drugs and Crime emphasizes that "corruption can occur in the public and private domains." Its Global Programme against Corruption defines corruption as the "abuse of power for private gain" and includes the public and private sectors.

Corruption Published

Corruption has effects on the structure of society values, behaviors of individuals, ethics and economics. On this last point, it is interesting how corruption has full economic impact, that are not noticed until the government makes its management, except for extreme situations, the same endemic corruption system takes human lives (transportation accidents, easing policy security, etc.).

Through these unfortunate events, society reacts to the disease, called corruption, which is undermining the fabric of society in the management of government. But not all governments are corrupt or its members, having governance, three levels, national, provincial and municipal, each peso spent three levels should be controlled properly, in a timely manner, at all three levels of government.

Business done on the basis of bribes are more risky than projects because there is no legal rights of illegal property. Therefore the investment portfolio of the economy have higher levels of risk optimal economy. If businesses are obtained by illegal connections or payments, the entry of potential entrepreneurs to markets -in particular is discouraged, foreign investors.

The other side of corruption is transparency, in English is called "accountability" and political responsibility, accountability of governments, civil servants and politicians, citizens.

Private Corruption

In economics there are interests of all kinds. If they are identified in groups of people across different institutions, such as "lobbies" lobbies: Les "Pressure groups" aux États-André Unis- Mathiot-French Magazine of Policy-1952-Vol-2-Nro.03 Pag- 429-473 "It is not nothing but the innumerable movements, associations, unions or companies, that to defend the common interests of its members, They strive, by all means available, directly or indirectly, to influence government action and initiative and guide public opinion. These groups are nothing short of social, economic and spiritual forces of the nation, organized and active."

When we talk about lobbyists, do not judge a priori, any accusation of immorality, nor, a fortiori illegal. Another expression of lobbying is the "lobby", although the word
has American origin, is of French origin, the lobby is the corridor, the lobby and particularly the hall of Parliament, in France "to the halls" it is understood, above all, in the purely political sense. In the US government is acting and legislated registration of lobbyists. In 1995, the United States Congress passed the Lobbying Disclosure Act (LDA), which required the organizations involved in lobbying to publish

Every six months a summary of its activities, its costs and the list of lobbyists who were employees, there are 12,279 registered lobbyists in the US government Definition of Lobby in the US: Honest Leadership and Open Government Act (HLOGA).
The ultimate purpose of a lobbyist is to achieve change legislation or institutions in a given direction (or keep them as such).

To Summarize The Action Of A Pressure Group Can Be Exercised

About the members of the group, to maintain inner strength.
OPINION on in general and on the whole POPULATION.
N On the ADMINISTRATION and officials.
The powers public schools while, Parliament and the Government.
If the action is made with illegal actions on items 3 and 4 private corruption, which can be divided into two forms appear:

Active Corruption

Promising, offering or giving, directly or through an intermediary, to a person who in any capacity directs or works of any kind for a private sector entity, an undue advantage of any kind for that person or for a third party to that person should perform or refrain from performing any act in breach of its obligations.

Passive Corruption

Request or receive, directly or through an intermediary, an undue advantage of any kind, or accepting the promise of such an advantage, for himself or for a third party, when directing or working in any capacity for an entity play the private sector, in exchange for performing or refraining from performing an act in breach of its obligations.

Hypothesis

The hypothesis is based on, if there is public and private corruption, if it can be measured and / or modeled through economic models, as express theoretically, also if corruption impacts on the different economic variables, in what form.

Research and Contrast

Political Corruption

When desire aware that government policy or the allocation of securities by the competent authorities, go in a certain general or specific address, the interest where the action runs, it identifies lobbyists or interest groups lobby.blogs.ie.edu/

In recent times they have proliferated interest groups uneven and often asymmetrical, to negotiate among themselves and try to put pressure on the state in search of relative advantages granted by multiway regulations, procedures, protection, subsidies, etc. At the same time, the state tries to resolve conflicts between these groups and to coordinate their actions, trying to impose a certain direction to the economy.

How much interest groups influence policy democracies? Here's a demand for regulation in order to regulate the conduct of these stakeholders, but keep in mind the pressure within the framework of multiple pathways, there may arise actions or omissions that give rise to corruption. A corrupt government can not investigate its own corruption, thesis that is very relevant and illustrative, it points to the white of the dilemmas that stimulate the global insight into action systems and complex thought. Then, the definition of corruption in the social context is to bribe, and corruption amounts to "moral decay". Neither of these definitions and added to the above argument, we can say that the notion of corruption is not only achieved in the sphere of the public sector, but can also occur in the private sector.

Here I highlight elements that develop the relationship between political corruption and pressure groups, through different classifications of corruption, as their levels, types, approaches and perspectives, and ending point with an overall ranking of corruption for their organization, focus and sector affected.


Organisation

Organized or Centralized

They have a hierarchical structure and merge several
People in its realization, cleptocracies characterized by specific regimes.

**Chaotic or Decentralized**

Speakers interests of individuals for their own profits, such as the police requesting money to an individual for not imposing a fine for crossing the traffic light when it was red, and there is a rule that instructs you to.

**For the Industry Concerned**

**Politics**

Derived from the status of political power. It is characterized by exploitation of its functions, "the use of public office for personal or third party benefit and against the interests of the institution or community" Example of Corruption Policy: SOTO R. (2003). Corruption from an economic perspective. Public Studies, 23-62.

Where the public servant takes advantage of the authority entrusted to him under this provision and uses his position to commit corrupt acts criminalized or not.

**Judicial**

Carried by the officials who are part of judicial activity. It concerns all officials involved in judicial activity (judges, experts, secretaries, lawyers, etc.).

**Private**

Corresponding to the corrupt acts that take place within the private sector. While corruption is associated with the illegal, unlawful but no illegitimate behaviors that are not defined in the law, such it was the case when it was not established illicit enrichment. Moreover, this phenomenon brings with it an economic benefit. Corruption is a complex, multifaceted and multidimensional. Capable of permeating every stage of social life and with ranges that exceed individual actions of states.

**Impact On Investment And Economic Growth**

Corruption reduces economic growth by reducing incentives for investment? Is the answer we seek in the hypothesis. Wei (1999), on the other hand, finds evidence that corruption reduces foreign direct investment, acting as a tax equivalent to 20% of the Return of a project.

The quality of potential investors, will deteriorate because the only ones interested are those with higher skills for corruption and not the most efficient, ie entrepreneurs "friends" of the government. The rent-seeking activities become relatively more attractive than the efficient production projects that ripen more slowly, end up being displaced, if there is a prize through bribes or handouts.

**Impact On Economic Efficiency**


Available data refute the argument of bribery as an accelerator to demonstrate a positive relationship between the extent of bribery and time spent negotiating business managers involved with public officials (Kaufmann The fat that moves the wheels of trade: - Kaufmann and Wei Does "Grease Money" Speed Up the Wheels of Commerce - NBER Working Paper No. 7093 Issued in April 1999 and Wei, 1999). The corruption distorts incentives which operates the private sector by reducing economic efficiency.

**Impact As A Hidden Tax**

Economic analysis is common to find that equate corruption to tax Although both taxes and corruption impose higher costs to producers, the collection of the latter is "private" and, therefore, the potential use of these resources is lost socially productive purposes. Corruption is costly to society by being illegitimate same. On the one hand there are resources to prevent and punish corruption, and on the other hand, those involved in corrupt acts must allocate resources to avoid detection.

**Impact In The Allocation of Public Spending**

It is appreciated that a network of kickbacks in public works, or the execution of expenditure.

State (whatever this state, national, provincial or municipal), creates a distortion of public spending.

The greater the likelihood of receiving bribes is possible that a greater number of public investment projects is made that reason, they are larger than the optimum -for it maximizes the probability of receiving kickbacks in the form of incentives, overbilling, use of inferior materials,
Positive Impact of Corruption

Corruption would "oiling" the functioning of the economy when over-regulation stifles the actions of private enterprise or when the rules have been poorly designed. Corruption appears as a way to avoid the costs of mistakes made by the regulatory state. Under these conditions, corruption is positive to the extent that enables better way markets allocate resources (Leff, 1964; Huntington, 1968).

This argument attempts to associate corruption element to Coase bargaining that allows efficiently allocate resources in a market. However, forget first that often distortions are imposed for incomes in the form of corruption and are not exogenous and, secondly, that as a mechanism for resource allocation queues and corruption are not necessarily the more efficient in a dynamic context. For example, the alleged advantage depends on whether the agents involved in corruption are sufficiently "honest" for not letting his counterpart after the payment made. However, as the "contracts" corruption can not be brought to a court of law if they are not met, there are asymmetries and inefficiencies that make bribe payments can not be considered as an efficient payment to the Coase Coase theorem is considered one of the pillars of the so called Economic Analysis of Law. Subject of lively debate, criticism of the Coase theorem are, in substance, the same as all the economic analysis of law, and can be summarized as deficiencies and deviations caused by the adoption of microeconomic model of observation of individual behavior (considered rational for that model, even through the prism of their own exclusive interests: REM hypothesis, "egoist reasonable man"); add the "classic" premium, since its inception, the market paradigm of "perfect competition," purely theoretical, and that includes monopolistic or oligopolistic situations as simple faults that microeconomic approach; and sees the market as a natural area of self-regulation, regardless of the state's role as formalizing the customary rules, without which, according to many, could not be the same market at large scales. (Shleifer and Vishny, 1993).

Economic –Models

Focus Rent-seeking

This approach, which appears as the most history, is pioneering contributions to the work of Bhagwati Rent Seeking in: Jagdish N. Bhagwati- "Directly unproductive, profit-seeking Activities" - Columbia University-1982 (1982). Rose - Ackerman Rent Seeking in: Rose-Ackerman S. Corruption and Government: Causes, Consequences and Reform, Cambridge University Press, 1999 (1978), among others. In general, it is noted that since the true origin of rent-seeking behavior is the availability of them, corruption occurs when the restrictions and government intervention result in the existence of such abnormal profits.

Government import licenses, administrative controls on imports, high tariffs, etc., as the first example of induced sources of income: the initial literature search of rents (rent seeking), emphasizes restrictions on international trade. In an opposite sense, but it reaffirms the above statement, other authors find that open economies, as measured by the sum of imports and exports as a share of GDP are significantly associated with lower levels of corruption. They also note that government subsidies can be a source of income, leading to find a correlation between the levels of corruption in the presence of subsidies to manufacturing (as a proportion of GDP).

Similarly, the existence of multiple exchange rates and fees of foreign currency allocation lead to the generation of income, example of FX market in Argentina.

Some income may arise in the absence of state intervention; as in the case of natural resources, which is a natural example of a source of income from the time that such resources can be sold at a price that far exceeds its cost of operation. Sachs and Warner Revenue and corruption in rich economies: Sachs and Warners- The big push, natural resource booms and growth- Journal of Development of economics-1999 (1995) argue that natural resource rich economies are more likely than those who are not falling into a rent-seeking behavior and, consequently, a source of corruption.

The existence of low wages among public servants compared to private sector is a potential for a certain level of corruption (low intensity) source. If these servers have low salaries but have the monopoly of certain functions, they use that monopoly to raise its total revenue through non-legal supplementary income. Some of that discussion is the issue of efficiency wages, a policy of wage above its equivalent in the market in order to make more visible the punishment-the loss of the wage-if the dismissal occurs by incurring not legal practices.

As we see at this point in Argentina, the policy of discretion left open a decision against officials on private income, prices, import permits, public works etc.

-Focus Institutional (principal - agent)

The institutional approach identifies those factors that encourage the emergence of corrupt practices in organizations. From this perspective, institutions determine the rules of human interaction. Institutional analysis of corruption reveals that there are no mechanisms that create the right incentives, it will be
difficult to avoid corruption. One of the major constraints faced by agents is the set of rules that govern their behavior. The decisions of the agents are also affected by the information, skills and resources at their disposal. This situation can be analyzed in the framework of so-called problem of "mainly agent". How to detect corruption in Margit and Shi- On controlling crime officials- With corrupt and Journal of Economic Behavior & Organization, 1998.

These relationships are studied using the premises of the economic theories of the agent relationship - principal and crime (Becker, 1968, and Becker and Stigler, 1974). Corruption can be interpreted as a departure from the actions of the agents of the principal's interests. Furthermore, it can be viewed as a main chain of relationships between agents may engage in corrupt practices, and can detect and punish these acts. Margit and Shi behavioral Corruption: Joan Prats Catalafinisecular Democratic Governance in the South America. Institutions, governments, and leaders- Magazine-1996 Estudios Internacionales—(1998) introduced the possibility that also the main are corrupt. In that case the negotiation and collusion between agents and principals is possible to commit illegal acts. It starts from the idea that the rulers are agents of citizens, elected to represent their interests through the formulation and implementation of public policies.

The institutional approach is very clear. That corruption undermines the rules and the institutional framework, ends up devastating the political and economic development. It is called systemic corruption. So there are those who distinguish between systemic corruption and corrupt behavior (Joan Prats, Barcelona Governance Project) Equation incentive compatible: Alcázar and Andrade-Transparency and accountability in public hospitals: the case Peruano Working Paper R-383- Inter-American Development Bank. The first relates to systemically -the system faults that predispose corruption and the second to the opportunistic behavior of isolated individuals. If the corruption problem facing society is to isolated cases, punitive strategy since the courts have viability. But if corruption is systemic, because the rules of economic and political game facilitate the development of corruption, the judicial system is ineffective, for even when processing and condemn the corrupt, the system will reproduce the problem.

A neat way to model the subject is from the following equation Incentive Compatible (Alcázar and Andrade SURVEY Internarional TRANSPARENCY (IT): http://www.transparency.org/cpi2012/results, 1999), defined as follows:

\[ I = (1 - q)(w + c) - qF \]

Where I: expected total income of agent if he commits an act of corruption or n.

W: legal revenue agent
Q: Partly DETECTION or n
C: revenues from corruption or n
F: punishment (effective penalty)

Thus, if \( w < I \), (the legal entry of the agent is less than the total expected revenue incurred if corruption), the agent has an incentive to engage in corrupt practices. Within the definition of R, the probability of the corrupt act is detected \( q \), and punishment are included once this corrupt act is detected \( F \).

\( q \) and \( F \) represent the effectiveness of control mechanisms and sanctions in the environment in which the public servant performs his duties.

\( Q \) with a low \( F \), I increases, and thus the probability of which is greater than \( w \), so that server will have more incentives to engage in corrupt acts. In contrast, a high \( F \) \( q \), the I will be lower, thus reducing the incentive to commit corrupt acts. This is conditional on level \( w \). With a low \( w \), increases the probability that \( w < I \), and thus the incentive to commit corrupt acts.

To reduce corruption, seeking the convergence of objectives between the main (citizens) and the agent (the public server) model in question suggests the following responses (incentives and sanctions): wages above their opportunity cost (salaries efficiency), high probability of being detected the act of corruption and drastic penalties for corrupt.

Measurement of Corruption

**Survey International Transparency (It)**

Uncertainty in the economy: CORRUPTION FROM AN ECONOMIC PERSPECTIVE Public-Education nro.89-2003-Raimundo Soto. Professor, Institute of Economics, Catholic University of Chile.

This Index is based on the average of ten surveys, each with a different cover. The score given ranges from 1-10, associating less corruption at higher values.

**Product**

The outcome of the annual worldwide survey of 178 countries Ranking.

Transparency International (TI) is a non-governmental non-profit organization created in 1993 to combat corruption.

**Number Optimal Corruption**

We know the amount of corruption in the economy, based on analysis of marginal social costs and the costs
of eliminating corruption, you can plot the optimal amount of corruption in the economy.

The intersection of these curves indicates the combination of lower cost of corrupt activities and efforts to reduce corruption. This point is identified in the situation at hand (labeled \( q^* \) in Figure 1) as how exact curves are not crucial for the qualitative point. Corruption can show constant marginal social costs, and a curve for the marginal social cost of reducing corruption might hold. For most combinations such curves, the optimal amount of combating corruption will not be infinite and the optimal amount of corruption will not be zero. This measure leads to determine what is the remedy for corruption, transparency, less discretion to greater transparency, greater accountability and better management and allocation of government expenditures.

CONCLUSIONS

Not only it is defined corruption in the public sphere, as most authors define it, is common in cases bribes, gifts or choice of contracts, discretionary behavior of officials, or excessive regulation of the economy, which is a breeding ground to corruption in the public sector.

We can infer that corruption is not only generated in the public sector but in the private sector there are cases of corruption, such as corporate fraud, oligopolistic agreements, tax evasion or fraudulent conduct towards society where negative externalities are generated, as overruns and these, society pays a whole, as cost overruns, these impact on prices and quality of services, causing some type of unemployment, such as some private behaviors that end up as "rescue" example of banks and businesses, through using the instrument of the nationalization, to save them from bankruptcy, where costs are paid by the whole society.

At the point of measurement of corruption, I note that, are a set of surveys conducted, especially to companies and individuals.

There is a difficulty in measuring corruption, by the nature of the corruption itself; Who keeps statistics of corrupt acts in reality? The measure used internationally as the Index Corruption Perceptions, published Transparency International, which measures ¿?, Perceptions, which are opinions, ideas, concepts that people have to the survey, entrepreneurs, professionals and citizens who interact private sector with the public sector is done, this measure can give a trend, but it is subjective in itself.

Models of corruption, how microeconomic phenomena that can be modeled and theoretical framework of principal-agent model is proposed to explain. The difficulty is that when corruption a set of personal decisions, search of income, or maximize them, we talk about behavior and these are likely to analyze microeconomicamente.

In the impact on economic variables, corruption reduces economic growth by reducing incentives for investment, whether public works have a cost overrun, this acts as a disincentive to investment because investors want to risk on a project public, be friends, they
Are favored by public works contracts and discretionary decisions, bringing overruns, with higher taxes. Economic analysis is common to find that equate corruption to tax. Although both taxes and corruption impose higher costs to producers, the collection of the latter is “private” and, therefore, the potential use of these resources is lost socially productive purposes. Corruption is costly to society by the fact act as a hidden tax. Corruption tends to lead to distortions in the allocation of public spending in several ways. One of them due to the approval of public projects based on the ability of corrupt officials to extract benefits from it and not its social necessity.

As a finishing touch on the economic consequences of corruption takes, the impact on public spending, creating a distortion of it. Corrupt governments spend less on education and health perhaps, and perhaps more in infrastructure.

Of course corruption is not neutral to economic facts and their variables, we impacts difficult to quantify but real money.

Corruption can be a hidden tax, when people see corruption., It says this money could be used in schools, hospitals, improve assignments While both taxes and corruption impose greater costs to the producer.

The models on corruption are microeconomic, but the impact of corruption is macroeconomic, and impacts fully into the main variables as GDP, investment, government spending, competitiveness, economic efficiency, etc.

To fully address these issues, the economy must be efficient in allocating resources, and corruption can even affect points as the environment, by default behavior and damage and other issues of resource allocation for inefficiency and cost overruns.

Is the economy in this context is efficient? NO, because corruption distorts incentives in which the private sector operates, reducing economic efficiency. When the possibility of corrupting a public official is seen, there is a diversion of resources from productive activities towards those clearly called rent-seeking, which do not increase the welfare of society. The most productive businesses do not depend on the competitiveness of businesses but their ability to influence those responsible for making decisions on the regulation or the use of public funds, any resemblance to reality?

Today in Argentina, transparency should be reinforced with structural reforms of anti-corruption policies in broad agreement of all political forces and state policies.

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