

ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

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CORRUPTION AND ECONOMIC DEVELOPMENT: THE ROLE OF THE STATE**КОРУПЦІЯ ТА ЕКОНОМІЧНИЙ РОЗВИТОК: РОЛЬ ДЕРЖАВИ**

Urgency of the research. Corruption as phenomenon is an immanent feature of transformation economies' institutional environment. It is often a result of weak institutions that prevent the formation of free and competitive markets and the deepening of international economic relationships and political integration, and it restrains economic development.

Target setting. The current agenda questions include: Evaluating the economic causes of corruption; the ways of eliminating corruption; and the degree of state corruption and its impact on economic efficiency.

Actual scientific research and issues analysis Theoretical and methodological aspects of corruption analysis and its influences on the economy are presented in the works of such scientists as D. O. Kalmykov, V. V. Kolesnykov, V. O. Mandybura, S. V. Maksymov, S. S. Sulakshyn, M. I. Khavroniuk, A. L. Hillman, among others.

Uninvestigated parts of general matters defining. The study will research the state channels which influence the level of corruption and the country's economic development indicators.

The research objective. Detecting the correlation between the country's level of corruption and its economic efficiency, as well as improving the state's economic policy directions in the prevention of and fight against corruption.

The statement of basic materials. The article deals with the economic causes of corruption at micro and macro levels. The authors made the analysis of the relationship between the level of Ukraine's corruption and its economic development indicators, the reciprocal dependency between the country's economic situation and the level of its corruption. The institutional reforms aimed at fighting corruption are examined.

Conclusions. The questions relating to the anti-corruption struggle should not contain only the punitive approach that can be seen in the formation of various institutions. Another important consideration is the set of institutional and socio-economic conditions that form a favorable environment for corruption. This in turn contributes to the deterioration of the economic situation of the state. A comprehensive approach to state policy implementation should be formed in order to eliminate the economic causes of corruption and its consequences in the economy.

Keywords: corruption; public institutions; economic development; economic performance; state economic policy.

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Актуальність теми дослідження. Корупція як явище, більш притаманне трансформаційним економікам, стало іманентною рисою їх інституціонального середовища. Воно породжене слабкими інститутами та перешкоджає формуванню ринку вільної конкуренції, запобігає поглибленню міжнародної економічної та політичної інтеграції, стримує економічний розвиток.

Постановка проблеми. На порядку денному гостро стоять питання оцінки економічних причин корупції, способів їх усунення, і впливу рівня корумпованості держави на її економічну ефективність.

Аналіз останніх досліджень і публікацій. Теоретичні та методологічні аспекти аналізу корупції та її впливів на економіку представлено в роботах таких вчених як Д. О. Калмиков, В. В. Колесников, В. О. Мандибуря, С. В. Максимов, С. С. Сулакшин, М. І. Хавронюк, А. Л. Хілпман тощо.

Виділення недосліджених частин загальної проблеми. Потребують дослідження канали впливу держави на рівень корупції та показники економічного розвитку країни.

Постановка завдання. Виявлення кореляції між рівнем корумпованості країни та її економічною ефективністю, а також удосконалення напрямів економічної політики держави в ході запобігання та боротьби із корупцією.

Викладення основного матеріалу. У статті розглянуто економічні причини корупції на мікро- та макрорівнях. Проведено аналіз взаємозв'язку рівня корумпованості держави з показниками економічного розвитку країни, виявлено зворотну залежність між економічним становищем країни та рівнем корупції. Дано оцінку інституційним реформам, спрямованим на боротьбу із корупцією.

Висновок. В питаннях боротьби із корупцією недостатньо карального підходу, що проявляється у створенні різноманітних інституцій. Важливим виступає й сукупність інституціональних та соціально-економічних умов, які формують сприятливе середовище для корупції. В свою чергу, це сприяє погіршенню економічного становища держави. Необхідно застосувати комплексний підхід до реалізації державної політики з метою усунення економічних причин корупції та її наслідків в економіці.

Ключові слова: корупція; державні інституції; економічний розвиток; економічне становище; державна економічна політика

Urgency of the research. The development of a democratic state in Ukraine is associated with the complex processes of transformation in economic and socio-political legal relations. The organization

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of a comprehensive anti-corruption policy involves: coordinating the relevant actors activities; conducting a comprehensive situational analysis of the conditions in the country; identifying the corruption threats; drafting educational and preventive measures; creating control mechanism for implementing the state anti-corruption programs; and the criminal proceeding as the form of the final measure. All these elements occupy leading positions in the process.

Corruption is an evidence of the chaos typical in a transitional state and a "stumbling block" for modernization of the domestic economy. It has become a preeminent feature of Ukraine's institutions and has spread to all areas of socio-economic and political activity. Corruption blocks the formation of free competition and open markets; prevents international economic expansion and political integration, and restrains domestic economic development. In Ukraine, the scope of this phenomenon has reached huge proportions, and has led to significant precautions from the international organizations, foreign and domestic investors and partner countries concerning the feasibility and security of continued cooperation. The list of negative consequences is large, leading to the conclusion that the state should implement a more comprehensive approach to reduce simultaneous corruption and increase the economic development level, and that implies radical changes are necessary in both government and society.

According to Transparency International [9], in terms of corruption in 2016, Ukraine had the same indicator (29 points) as Kazakhstan, Nepal and the Russian Federation, and shared 131st place with them; and over the past four years, Ukraine even exceeded these countries in the corruption level.

Target setting. Therefore, the questions of the economic causes of corruption and the impact of state corruption on Ukraine's economic efficiency are currently high on the agenda. In addition, it is necessary to improve the main directions of the economic policy within the state and that would contribute to cutting down the sources of corruption.

Actual scientific researches and issues analysis. The questions of corruption causes and the steps to be taken to overcoming it were researched in the works of D. O. Kalmykov, V. V. Kolesnykov, M. I. Khavroniuk, V. O. Mandybur. The connection between the economic development and the research of its methodological basis was conducted in the works of S. V. Maksymov, S. S. Sulakshyn, A. L. Hillman and so on.

The research objective. The purpose of the study is identifying the correlation between the level of corruption in the country and its economic efficiency, as well as making some recommendations for developing further anti-corruption public policy.

The statement of basic materials. The phenomenon of corruption is thoroughly investigated in the domestic and foreign specialists' works, especially in the legal and political spheres. However, many researchers agree that the problem of corruption should be studied in a more comprehensive manner that might reveal the reasons for its appearance in other areas, in particular, in the economic sphere.

In the process of the analyzing the sources and the impacts of corruption it is advisable to start from the microeconomic aspects (the behavior of officials and private citizens, who enter into corrupt agreements) and proceed to the macroeconomic ones – spreading the influence of these transactions onto the development indicators of the national economy. In total, there are five aspects of corruption – personal, economic, business and power incorporation, ideological and shadow economy [5, p. 5-6].

At the level of individuals (subjects of corrupt acts), the corruption behavior is explained by the desire to benefit from the corrupt activities. This is a latent, extra-legal form of the socially unauthorized relationship of exchange, distribution and appropriation of economic benefits. It is caused by excessive bureaucracy and a weak property rights. It is conducted through the officials' rent-oriented behavior, in which the key to state services access and national resources is located.

The deep motivational causes for corrupt activities are the institutional factors (education, national mentality, historical traditions), as well as the desire for the rational behavior in the conditions of an unstable institutional system. Corruption could be also seen as a creation of capital. Capital transfers everything into commodities, including the tendency to commercialize public services and management [2]. Pure public goods (in essence, public services), which are produced monopolistically by the state, have non-market characteristics, but the recipients of the corrupt rent turn them into goods. The unsatisfactory economic conditions in the country also contribute to this process. In particular, it all shows up with the implementation of "reforms at all costs", despite having weak socio-economic and

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legislative basis and an institutionally unprepared economy. It can be noted that the secondary economic causes of corruption in Ukraine are: the imperfect legislative framework (in the field of taxation, public procurement, privatization of the state enterprises, granting of social privileges, foreign economic activity, etc.); low productivity due to technological weakness and the prevalence of rent search over business interests; the low degree of market deregulation and the weakness of state-sponsored competition mechanisms. The aforementioned aspects undermine the level of confidence in the government and its ability to pass meaningful decisions, which lead to reform rejection or resistance, and in such a way, slows down economic growth and development.

The beneficiaries of corruption are all the parties participating in it. The benefits include both material (monetary) and non-monetary rewards, as well as the public services admissions. Each participant in a corrupt transaction has its utility function, which could be maximized when it is correlated with the risk (expenses) that the person could take relative to the corrupt activities. It is known that greater flexibility in deciding whether to enter or not to enter into such contracts could be achieved by the realization of the punishment probability, rather than the severity of such punishment.

According to V. O. Mandibury research [3] corruption generates the effect of a "criminal money multiplier", which is defined in the following way: The corrupt officials, using different budgetary funds theft and appropriation schemes, facilitate criminal money redistribution among other members of the criminal community. In order to reveal this effect, the monetary approach could be used. It is formed by comparing the unit weight M0 (the money supply outside the banking system) growth rates with the average level of this indicator of the countries with the market economy and a low shadowing percentage, which is 5%. In Ukraine in September 2017, according to the reports of the National Bank of Ukraine, this figure reached the mark of 27.2% (M0/M3 ratio, %). Common trends of this indicator in Correlation with the Corruption Perception Index (CPI) are given in Tab. 1.

Table 1

Monetary indicator of corruption and CPI in Ukraine, 2012-2016

Indicator	2012	2013	2014	2015	2016
Monetary aggregate M0, billions UAH	203,25	237,78	282,95	282,67	314,39
Monetary aggregate M3, billions UAH	773,2	909,07	956,73	994,06	1102,7
M0/M3 ratio, %	26,3	26,2	29,6	28,4	28,5
CPI*	26	25	26	27	29

*the higher the indicator is, the less is corruption

Source: created by authors the on basis of [4; 9]

It is noticeable that during the 2012-2016 period, the share of cash outside the banking system increased, and the peak of this growth was in 2014. At the same time in Ukraine, both the monetary index and the corruption perception index started their gradual decrease since 2014, which may indirectly mark (some) slow, positive shifts.

From a macroeconomic point of view, the corrupt acts more likely occur in the countries with higher levels of poverty or the bigger gap between the poor and wealthy. This is clearly illustrated on the Fig. 1, which shows the dependency between the GDP per capita and CPI.

The world's population is dominated by the low-income countries, and their distribution on the graph shows a rather low CPI. The correlation coefficient between both indices is equal to 0,747, which gives us a high confidence level of the tightness of the interrelation. It is fair to say that the CPI dispersion level for these countries varies significantly - from low values (14 points - Sudan, Yemen) to rather high (65 points - Bhutan). Hence another fair suggestion can be made: the level of a government's corruption can be influenced by the following factors: the state structure; territory and demographic factors (Sudan and Yemen are countries with a multimillion population and republic forms of government, while in Bhutan the population is about 700 thousand people and it is a constitutional monarchy). From this point of view, corruption can appear to undermine the democratic basis of state governance and promote authoritarianism.

It should be noted that this type of analysis (the correlation between CPI and economic growth rates in the countries of the world) did not reveal any significant dependencies. It is fair to say that, in

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2016 the countries with a low level of corruption have economic growth rates around 0 or have negative figures. In the countries with high rates of corruption, the dispersion in the rate of economic growth is significant, but a considerable part of the countries show positive growth rates.

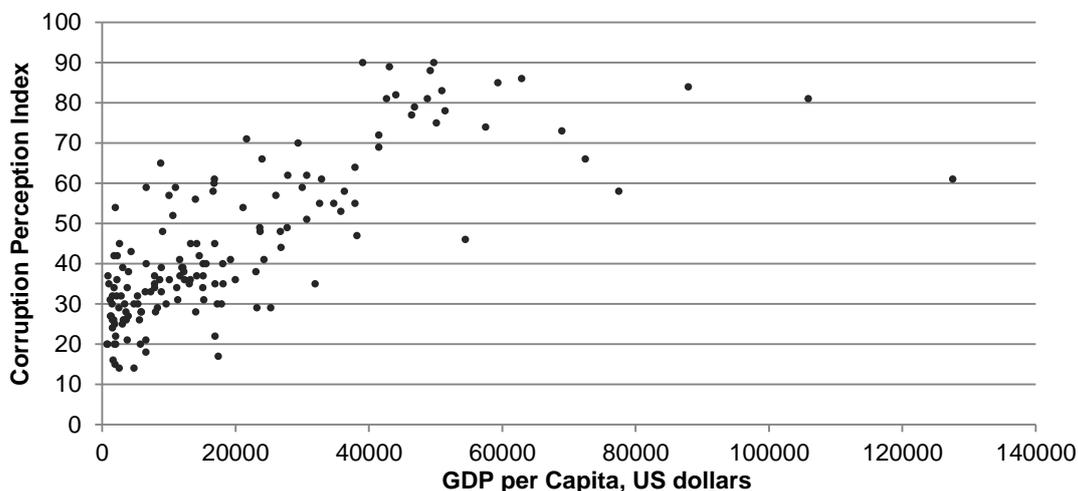


Fig. 1. The dependency between the GDP per capita and CPI in the countries of the world, 2016
Developed by authors based on data [6; 9]

This paradox can be explained by the fact that the rate of economic development of the poor countries grows more rapidly as a result of the globalization processes, which causes the relatively high growth rates of real GDP.

Corruption holds the state's poverty level in place by redirecting the major share of the financial resources from the official economy and depositing it in offshore accounts; or it appears in the form of personal, nonlabor income, which is not officially declared. According to A. L. Hillman [7], corruption reduces tax revenue and makes public expenditure policies ineffective for achieving social goals. As a result, the volume of external investments is decreasing, and its efficiency is waning, which causes a significant gap between the real GDP and potential GDP.

These indicators in Ukraine, combined with the indicators of corruption perception and corruption control (Tab. 2), indicate a close correlation between the two.

Table 2

Indicators of economic development and corruption in Ukraine, 2012-2016

Indicator	2012	2013	2014	2015	2016
GDP per capita, US dollars	8475,5	8629,7	8683,6	7948,1	8271,8
GDP per capita growth rate (annual %)	0,49	0,20	-1,14	-9,44	2,72
Foreign direct investments (billions, current US dollars)	8,2	4,5	8,5	3,0	3,4
Net investments in nonfinancial assets (billions of UAH)	7,9	8,5	7,0	3,7	2,7
CPI	26	25	26	27	29
Control of Corruption Index*	12,8	11,37	14,90	14,90	19,71

*the higher the indicator is, the better is the control of corruption

Source: [6; 9]

Foreign direct investments are moving in the same direction and decreased in 2013 and 2015, presenting the low CPI and GDP per capita. After the investment climate improvement in 2016, foreign investment figures increased from \$3 to \$3.4 billion dollars (US). However, in the same year the domestic investments figures showed a reduced rate, and stayed on the point of UAH 2.7 billion.

Particular attention should be paid to the fact that the World Bank's index of corruption control demonstrates the effectiveness of the new model of anti-corruption institutions. First of all, attention is paid to the corruption offenses investigation structures and the punishment of convicted persons: the

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Specialized Anti-Corruption Prosecutor's Office (as the part of the General Prosecutor's Office) has been established and the National Anti-Corruption Bureau of Ukraine (NABU) has been formed, around which have been many discussions, for a long time. And if the economic factors were influenced by external factors - military and political events, state currency policy, etc., then, from the methodological point of view, the calculation of corruption perceptions and corruption control indicators is mainly connected to political and legal factors.

It is important to say that in developed countries a great list of anti-corruption functions is dispensed among structures which already exist. At the same time, there could be many structures, and there is no separate institution specifically responsible for corruption issues. It is obvious that the need for the aforementioned anti-corruption institution appears only when the existing bodies are not capable of managing the anti-corruption activities efficiently.

However, even after the creation of the new anti-corruption institutions and the redevelopment of the state strategy in this area, there remains a significant number of contradictions. These contradictions concern both legal and regulatory framework and organizational mechanism.

In fact, the functional analysis of all the anticorruption activities actors, which includes President of Ukraine, Verkhovna Rada of Ukraine, Cabinet of Ministers of Ukraine, the National Agency on Corruption Prevention, the National Anti-Corruption Bureau of Ukraine, the Specialized Anti-Corruption Prosecutor's Office, the internal affairs bodies, the state administration and local government bodies, shows that there is a significant amount of functional duplications, which creates barriers between the appropriate institutions, and stymies corruption prevention effectiveness.

The analysis of the sociological polls conducted by the Center for Insights in Survey Research [8] and other institutions makes it possible to highlight the following problems of anti-corruption activity in modern Ukraine (Fig. 2).

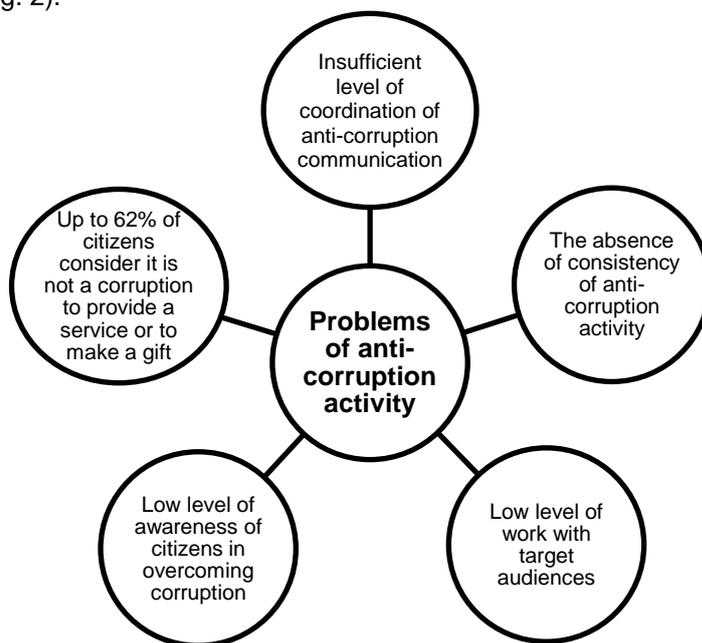


Fig. 2. The problems of anti-corruption activity in modern Ukraine

The problems of combating corruption in Ukraine consists of an insufficient level of coordination of anti-corruption communication; the absence of consistency of anti-corruption activity; low level of work with target audiences, low level of awareness of citizens in overcoming corruption and the fact that up to 62% of citizens consider it is not actual corruption to provide a service or to make a gift.

Therefore, despite the active and constructive measures in 2014-2016, the status of the fight against corruption presents the grounded data, which shows that Ukraine has still not created the right

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conditions for the systematic resistance to this anti-social phenomenon and the institutions it influences. The structural and functional mechanism of fighting corruption requires serious reconsideration of the legal framework and the current anti-corruption strategy in order to optimize the functioning of existing institutions.

The achievement of the anti-corruption struggle must be a comprehensive progression, combined with institutional, socio-economic reforms and the implementation of relevant state policy.

Particularly, the economic policy should be aimed at the elimination of unreasonable taxes and other privileges, at business deregulation, increase of the financial resources access etc.

A gradual completion of the institutional reform (creating anti-corruption bodies and improving their legislative framework improvement) should complement the key components of the complex approach. Improvements in the legal framework of property rights protection will significantly affect the corruption index rankings.

It is important to create new information policy vectors, which are aimed at boosting access to information concerning public services, state and municipal institutions functions, transparency in the budgetary process and the process of public procurements, the officials' incomes declaration; and discouraging positive attitudes towards corruption activities in society. At the same time, the desire to increase real incomes in the economy will lead to the reduction of the rent-oriented behavior and activities. The lowering of the state institutions bureaucratization and transferring public services to electronic format will also help discourage bribery.

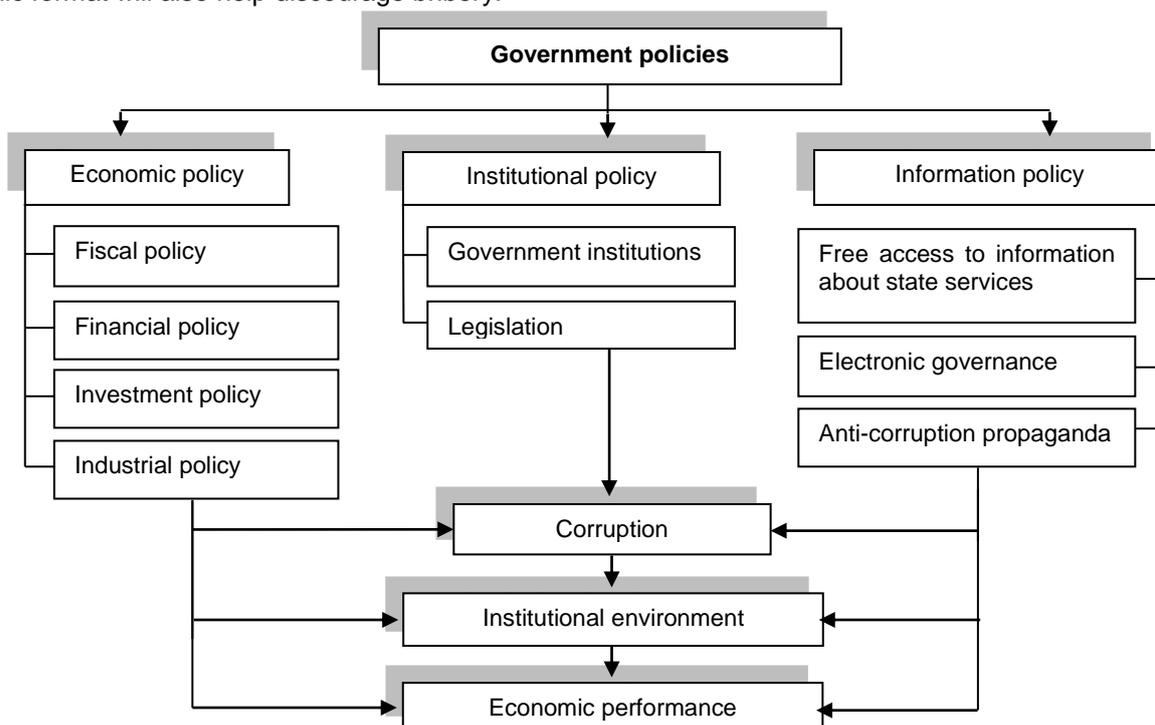


Fig. 3. Scheme of complex of state policies influencing on corruption, institutional environment and economic performance

Source: created by the authors

Fig. 3 generalizes the information above and demonstrates the concept of a complex approach to state policies in order to overcome corruption and thus to increase the economic performance of Ukraine. A coherent government policy will help to reduce state corruption and also improve the institutional environment and promote the country's economic development.

Conclusions. Corruption and economic development are interconnected phenomena and have a reciprocal effect. In other equal conditions, the efficiency of the economy and the productivity are

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higher in countries, which have low corruption ratings. In such cases, the other motivating powers are included; in particular, work motives, but not the rent taking motives.

In addition to economic, legal and social factors, the level of corruption can be influenced by the geographical and demographic factors.

It can be stated that in recent years a number of anti-corruption institutions were created. Thus, a peculiar model has been created, in which there are multi-purpose and highly specialized bodies, bodies with preventive functions, as well as structural units with anti-corruption functions, that are operating inside the public administration bodies. The existence of such a model brings the possibility to talk about the existence of political will and the legislators' efforts that are aimed at fully solving the problem of corruption. However, the practice shows that an intensive branching is connected with problems of the powers' distribution and the interaction complexity.

At the same time, the institutional restructuring of the anti-corruption system will prove insufficient for overcoming the problem. Unless the economic conditions change, it is useless to believe that institutional reform will be sufficient. Therefore, the state should adopt a comprehensive approach to the problem of corruption and focus its actions not only on the political and legal aspects, but also on forming the parallel measures of economic and information policy in order to create better conditions for legal economic activity, which will have the positive reflection on the states' economic development indicators.

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