

2020 VOL. 2

# CORRUPTION COST

*OVERVIEW OF  
THE PHENOMENON*



**RASHEED TI-JO RESEARCH SERIES:  
CORRUPTION**

*Rasheed (Transparency International-Jordan) was established at the end of 2013, as a non-for-profit civil society organization, through a group of activists working in the field of anti-corruption. Rasheed (Transparency International-Jordan) commenced work in Amman at the beginning of April 2014, and it represents the only official contact group of Transparency International in Jordan.*

*Rasheed (Transparency International-Jordan) aims to reinforce the involvement of the Jordanian citizen in anti-corruption activities, protect public, private and local governance institutions against corruption, enhance the efficiency and independence of control agencies specialized in the area of anti-corruption, strengthen the integrity of the legislative and judicial authorities, and reinforce the performance of Rasheed (Transparency International-Jordan) towards achieving its mission and vision.*

---

Cover photo Credits: <https://www.quoteinspector.com/>.

*You can copy, download or print Rasheed TI-JO content for your own use, and you can include excerpts from Rasheed TI-JO publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgement of Rasheed TI-JO as source and copyright owner is given.*

*Rasheed TI-JO, (2020). Corruption Cost: Overview of the Phenomenon. Rasheed TI-JO Research Series: Corruption. Vol.2.*

## Contents

Introduction.....	4
Is corruption a one-sided phenomenon? .....	4
Corruption cost in various spheres.....	6
Why is it hard to measure corruption?.....	8
Quantifying corruption .....	9
Sources .....	11

## **Introduction**

Corruption is a complex phenomenon, and its analysis is extremely difficult due to the high degree of latency of this phenomenon. This is the reason that systems for assessing corruption and anti-corruption activities are characterized by low accuracy, subjectivity of assessments, and sometimes – political engagement of the results.

Depending on its size, corruption can have a dramatic negative impact on public finances: governments receive less tax revenue and overpay for goods and services and for investment projects. However, the costs of corruption are not limited to monetary losses: distortions in spending priorities undermine the ability of the state to ensure sustainable and inclusive growth. They divert the state's resources from education, health care and effective infrastructure, etc. – precisely those types of investments that can increase the effectiveness of the economy and raise the standard of living for all.

### **Is corruption a one-sided phenomenon?**

Corruption as a negative phenomenon is familiar to all countries of the world. It is also known that only those states, where corruption is minimized, achieve true economic prosperity. After all, corruption has a decaying effect on all spheres of society: the economy, social sphere, politics, and the negative consequences generated by this phenomenon not only prevent the progressive and gradual development of society, but also pose a real threat to the interests of national security.

It would be a mistake to understand corruption as a commonplace bribe, which is only one of the varieties of this crime. Corruption today is perceived as an obtaining of material and legal advantages by circumventing laws for self-interests, as well as the solution of local private problems with the help of "right" people.

Based on the analysis of modern scientific literature, national and international anti-corruption legal frameworks, the main types of corrupt behavior can be summarized, including:

- Bribery – i.e. receiving or offering money, securities, other properties or property benefits for the actions or inactions of an official in the interests of a bribe giver;
- Extortion or fraud – demanding a bribe by an official in exchange for actions or inaction in the interests of the bribe giver;

- Abuse of official position – is the commission of any action or inaction by an official in the performance of his/her functions in order to obtain any undue advantage for himself or third parties;
- Embezzlement – misappropriation or other diversion by a public official, for purposes unrelated to those for which the assets were intended, for his/her benefit or for the benefit of another person or entity, as well as any property, public or private funds or securities or any other thing of value entrusted to the public official by virtue of his position;
- Trading in Influence – appears when a person who has a real or obvious influence on the decision-making of a public official exchanges such influence for undue gains;
- Illicit Enrichment – a significant increase in the assets of a public official that he cannot reasonably explain in relation to his lawful income;
- Money laundering – act of disguising the illicit origin of money obtained by criminal means. The need for money laundering comes from the desire of the part of the perpetrators of the original crime to conceal that a financial profit (in any form as money, real estate or luxury items, etc.) – was obtained as a result of a criminal activity;
- Kickbacks – the practice of receiving payments from interested parties in exchange for signed contracts with them to the detriment of the interests of other potential counterparties in the private sector or in the field of public procurement;
- Favoritism – this term is used to describe situations, when the decision to appoint to a post, advance through the ranks or to allocate any benefits and advantages is taken by persons responsible for this on the basis of not objective criteria, but friendly relations;
- Nepotism – similar actions within relative;
- Clientelism – a system of hierarchical relationships between two actors (usually called a patron and a client), which implies providing access to economic benefits, appointment to political posts or promotion in exchange for support;
- Conflict of interests – arises when an official provides benefits, advantages or protection to persons or organizations, whose activities are directly related to his private interests. Such an interest can be both financial and personal in nature, which as a result affects the objectivity of an official in the performance of his/her duties. It should be noted that a conflict of interest can also arise after the dismissal of an official, for example, often corporations in the private sector are interested in hiring former officials as consultants in the hope of using confidential information related to the work of state authorities for personal gain, and also their social connections and contacts with former colleagues.

## **Corruption cost in various spheres**

**In the economic sphere**, corruption contributes to the emergence and development of a number of negative phenomena and processes (Abramov, Sokolov, 2017):

1. Corruption contributes to the creation of favorable conditions for the formation and development of an organized shadow economy. This leads to a decrease in tax revenues to the state budget, the outflow of capital abroad and makes it difficult for the state to effectively fulfill its economic, political and social functions.

2. It violates the mechanism of market competition, because the winner is not the one, who is competitive, but the one, who was able to get advantages for bribes. This contributes to the emergence of monopolistic trends in the economy, reducing the effectiveness of its functioning and discrediting the ideas of free competition

3. It entails an inefficient distribution of state budget funds, especially in the distribution of state orders and the allocation of loans, thereby hindering the effective implementation of government programs.

4. It leads to an unfair distribution of income, enriching the subjects of corruption relations at the expense of other members of society

5. Contributes to higher prices for goods and services due to the so-called corruption "overhead costs" as a result of which the consumer suffers.

It should be noted that in general, the economic losses from corruption are much wider and deeper than it appears from the point of view of its simple assessment as the total value of bribes – the price paid by private individuals or firms to corrupt officials or politicians

The main losses occur due to the decisions made by agents entering into corruption relations. For example, as a result of an unfair tender, the order is received by an unscrupulous performer. Losses associated with this circumstance are much greater than the value of the bribe, which stimulated an unfair decision of the tender commission.

The real losses from corruption are significantly higher than those calculated on the basis of the volume of detected corruption acts and the investigations carried out to the end, the results of which (in turn) may be affected by undetected corruption relations

Economic losses from corruption are divided into two categories: direct and indirect. Direct losses are a shortfall in budget revenues as a result of corruption and inefficient

spending of budget funds, due to the same circumstance. Indirect losses are perceived as a general decrease in economic efficiency associated with corruption.

**In the social sphere**, the negative consequences of corruption are as follows (Luzhin, 2012):

1. Corruption implies a significant difference between declared and real values and forms a "double standard" of morality and behavior among citizens. This leads to the fact that money becomes the measure of everything in society, the importance of a person is determined by the size of his personal condition, regardless of how it is received, devaluation and demolition of civilized social regulators of people's behavior: moral standards, religious law, public opinion, etc.

2. Corruption contributes to an unfair redistribution of wealth in favor of narrow oligarchic groups, which results in a sharp increase in property inequality among the population, impoverishment of a significant part of society and increase of social tension in the country.

3. Corruption discredits law as the main instrument for regulating the life of the state and society. In the public mind, an idea is formed of the defenselessness of citizens in the face of power and crime.

**In the political sphere**, the negative consequences of corruption are manifested in the following (Abramov, Sokolov, 2017):

1. Corruption contributes to the shift in policy objectives from nationwide development to ensuring the rule of certain oligarchic clans and groups.

There is a shift in policy objectives from nationwide development to ensuring the rule of certain clans.

2. Corrupt entities hiding their capital abroad turn into a "fifth column" and contribute to the betrayal of the country's national security interests

3. Corruption undermines the country's prestige in the international arena, and contributes to its political and economic isolation

4. Political competition is declining and profaning. Citizens are disappointed in the values of democracy, which is leading to the decay of democratic institutions

5. The risk of a collapse of democracy increases based on the development of a scenario for a dictatorship coming to power in the wake of the fight against corruption

6. In addition to commodity and financial markets, power markets also appear. Corruption has become a mechanism for the sale of power in the government's own market

The danger of corruption **in the legal sphere** is derived from political and economic corruption. The fact is that law and the legal system in a sense "serve" politics and economy. Accordingly, corruption interests do not allow the development of law in the direction of creating such a legal regime in the country in which significant corruption manifestations would be inconceivable. It is of great importance that corrupt individuals actively lobby for their interests through corrupt deputies

### **Why is it hard to measure corruption?**

In the process of measuring corruption, it should be borne in mind that crime in this area is characterized by high latency, in other words, it is of the hidden nature.

The low level of recorded crimes related to violation of anti-corruption legislation does not always indicate the absence of this problem in society. Firstly, anti-corruption legislation can be ineffective, for example, if the regulatory legal acts do not clearly and unequivocally define what is understood as a conflict of interest, then in this case it is almost impossible for an individual official to be held accountable for using his official position in his own interests. Secondly, the low level of recorded crimes can be explained by the corruption in the law enforcement and judicial systems, which does not allow executing justice.

It is also impossible to judge the extent of the corruption problem through the use of content analysis, i.e. quantitative analysis of texts and text arrays with the aim of their meaningful interpretation.

It is also impossible to judge the extent of the corruption problem through the use of content analysis, i.e. quantitative analysis of texts and text arrays with the aim of their meaningful interpretation. The frequency of publications in the media on corruption and specific crimes in this area depends not only on the relevance of this problem in a particular country, but also on the degree of independence of the press and the objectivity of the reflected events.

Currently, there are a number of methods for quantitatively calculating the volume of the corruption market, which in the most general form are defined as the volume of corruption

operations in monetary terms carried out by individuals and legal entities in the private and public sectors of the economy during the year. However, experts cannot agree on which of them is the most effective. These methods can be divided into direct and indirect.

Direct methods are based on the analysis of the primary source of information, which includes checks that reveal a discrepancy between the revenues and expenses of representatives of state power and certain groups of taxpayers, as well as special surveys and surveys of citizens. However, this method is very difficult to apply for the quantitative analysis of corruption at the level of particular countries. Meanwhile, indirect methods include those based on the study of secondary sources of information, such as the estimation of discrepancies in various statistical data, monetary methods based on an analysis of the demand for cash and the volume of monetary transactions of business entities, etc.

### **Quantifying corruption**

Although measuring corruption is a difficult task, nevertheless, corruption indices are actively developed and applied in practice. In calculating such indices, three main methods are usually used, and sometimes in combination with each other.

The first one is based on the **evaluation of the corruption perception** using survey data in which respondents are asked about the extent to which their field of activity is corrupt; however, an assessment is usually asked to be given on a rank scale.

The second one focuses on the notion that respondents are asked to **report on how often** they themselves (or their friends, relatives and other people from their professional, social environment, etc.) have to deal with corruption.

The third one is to use the **characteristics available to observation and measurement**, regarding which there is reason to expect a close relationship with corruption (for example, the height of administrative barriers, red tape, bureaucracy, etc.).

According to Oldenburg, the first two methods of measurement, one way or another, are subjective in nature, this gives reason to doubt their accuracy. General perceptions of the prevalence of corruption may reflect prevailing stereotypes, rather than an objective state of affairs (Oldenburg, 1987). Surveys that record the respondent's personal corruption experience can produce distorted results due to possible sample biases, and also because even in an

anonymous survey respondents can distort the actual situation out of a sense of shame and / or fear.

The advantage of the third approach to measuring corruption – monitoring indicators related to it in one way or another – is its objectivity; however, it is important to be sure that such indicators are indeed closely related to corruption. There can be three reasons for such confidence. Firstly, in some cases, the consequences of corruption and, in particular, distortions of economic decisions caused by corruption are accessible to observation. Corruption forces economic activity to be transferred to those sectors and spheres, where opportunities are more favorable for it – for instance, because these sectors have less exposure risks. Of course, individual corruption transactions are still unobservable, but aggregated distortions can be measured and thus get an idea of the extent of corruption. Secondly, it is possible to monitor the factors and premises of corruption that are observable and measurable. For example, it is generally accepted that corruption is caused by excessive administrative barriers and generally overly burdensome regulation and frequent inspections and checks. The height of the barriers is measurable, and indeed appears to be correlated with corruption assessments (which, incidentally, are themselves obtained from surveys) (Nathov, Polishchuk, 2008).

Similarly, insufficient transparency of the government, problems with access to information, inability to ensure the rule of law, etc. also create the prerequisites for the spread of corruption. In general, corruption could be judged by the existence of formal measures and anti-corruption procedures (special agencies for investigating corruption, procurement procedures, etc.), but international experience shows that the connection between formal institutions and the law, on the one hand, and the state of the economy and public services that these institutions should support, on the other hand, may not exist (Glazer, La Porta, 2004).

Finally, corruption and other forms of socio-economic pathologies may turn out to be related to the cultural characteristics of society, including the level of trust, honesty, civic culture, etc. It can be assumed that these kinds of features affect the tolerance or intolerance of the society towards various forms of ethically dubious behavior. In this case, the scale of reprehensible behavior (other than corrupt activities, if it is easier to measure than corruption itself) can be used to assess corruption. In particular, the number of parking fines unpaid by diplomats from various countries accredited to the United Nations in New York is significantly correlated with corruption assessments in the countries concerned (Nathov, Polishchuk, 2008).

## Sources

1. Abramov R., Sokolov M., (2017). Features of Corruption in the Educational Sphere in the Context of Globalization of Educational Space. *Journal of Legal, Ethical and Regulatory Issues*. Vol. 20, Issue 1. Retrieved from: <https://www.abacademies.org/articles/features-of-corruption-in-the-educational-sphere-in-the-context-of-globalization-of-educational-space-6705.html>.
2. Glaeser, E., La Porta. R., (2004). Do Institutions Cause Growth? *Journal of Economic Growth*, 2004, Volume 9, Issue 3, 271-303.
3. Luzhin I., (2012). *Corruption and Its Public Danger*. Polotsk State University. Belarus: Novopolotsk.
4. Nathov T., Polishchuk L., (2008). Measurement and Analysis of Corruption Based on Objective Data. Retrieved from: [https://ecsoclab.hse.ru/data/2014/12/01/1104442642/%D0%9F%D0%BE%D0%BB%D0%B8%D1%89%D1%83%D0%BA,%20%D0%9D%D0%B0%D1%82%D1%85%D0%BE%D0%B2\\_02.12.pdf](https://ecsoclab.hse.ru/data/2014/12/01/1104442642/%D0%9F%D0%BE%D0%BB%D0%B8%D1%89%D1%83%D0%BA,%20%D0%9D%D0%B0%D1%82%D1%85%D0%BE%D0%B2_02.12.pdf).
5. Oldenburg Ph., (1987). Middlemen in Third-World Corruption: Implications of an Indian Case. *World Politics*, Vol. 39, No. 4.

# Rasheed for Integrity and Transparency (Transparency International-Jordan)



Rasheed for Integrity and Transparency  
Al- Sweifieh, Ali Al Taher St. 22, 2nd Floor  
T. +962 6 585 25 28  
F. +962 6 581 25 28  
info@rasheedti.org  
P.O.Box: 852806 Amman 11185 Jordan  
Website: <https://rasheedti.org>



رشيد رASHEED

TRANSPARENCY INTERNATIONAL - JORDAN  
الشفافية الدولية - الأردن