

The effects of national corruption economics essay

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INTRODUCTION

Echoing shifting social surroundings, corruption has full-grown in sophistication and convolution. This paper focuses on the phenomenon of collective corruption public administration. Collective corruption is an individual appearance of the social communication among the people subjugated by individual computation and unorganized benefits that takes place when alliance becomes a controlling, essential weapon in following private gain. The hazard of conspiracy in corrupt speculation is that as the corruption acquires well designed and skillfully harmonized in its combined form, it may turn out to be less blunt and therefore further difficult to identify, or more evident and ever more legitimized as an suitable form of financially viable intercourse. The term corruption is inclined to carry an image of confidentiality and conspiracy that necessitate the participation of the slightest possible number of individuals. Corruption, as a whole, is a concealed exchange due to the illegal character. Corruption takes place, for example, when an officer misuse public funds for their personal use, a school principal organizes " back-door" admissions for someone for his own benefit, or a public official accepts bribes from his assistant in exchange for favorable action. These practices are either conducted by a single person who seeks to enrich him/herself in an individualized manner or occur between two parties where a patron (usually an official) grants his/her client (whoever is willing and able to pay for it) desired preferential treatment in exchange for goods or services. Corruption, in reality, is more complex than its heuristically useful definition. Echoing changing social environments, corruption grows in sophistication and complexity in terms of causes, forms and characteristics.

Corrupt practices of different types are found to permeate the operations of both private and public sector concerns. Research entails that corrupt practices carried out by both public and private officials generally relate to two types-Administrative and Legislative. Administrative Corruption encompasses acts like bribery, misuse of government resources, embezzlement of public funds, and extortion. Legislative corruption and bribing political authorities to gain undue advantage at a later stage (Kurer, 2005). This paper focuses on administrative corruption, specifically, the embezzlement of funds by the public officials. The paper tends to infer the relationship between the behavioral practices of embezzlement of funds by public administrators to the low basic salary received.

BACKGROUND

Corruption is a general phenomenon, which is neither new. Corruption existed since existed in many forms during time immemorial. A brief review of history and penal codes exploited in different ancient cultures and civilizations clearly show that the bribery was a major crisis among the Chinese, Jews, Japanese, Romans and Greeks as well as the Aztecs of the modern World (Thakur, 1979: 7). In prehistoric India, there was comprehensive corruption that dominated life of the common (Thakur, 1979: 12). According to " corruption prevailed on a larger scale in India during the ancient period and the ones that followed" (Padhay 1986: 26). This true explains the nature and degree of boost of corruption from the medieval to the current state of time in the countries of the Indian sub-continent and others around the world. One of the utmost evils of medieval government and organizations was the extortion of privileged and the present (Sarkar,

1935: 83). The bribery was apparent during the British rule or the colonies all around the Pacific. There was regular and organized corruption linking almost all representatives and administrators at different ranks in political and directorial hierarchy. It was an essential belief amongst the officials of "making hay while the sun of British Raj shone" (Dwivedi and Bhargava, 1967: 7)." If corruption has been an age-old phenomenon, deep-rooted evil and an universal malady afflicting each and every society in one form or another at one time or another" (Padhay 1986: 1), then this is that why the corruption is highlighted majorly in the present time. There are many approaches that have intense focus on the characteristics of corruption. While these approaches highlight that they don't explain the connotation of fraud or corruption to any agreement or satisfaction. There are four main conflicting analyses on the classification of corruption. These descriptions have come from functionalists, moralists, social constructionist realists and social censurists. The moralists say that "the corruption as an immoral and unethical phenomenon that contains a set of moral aberrations from moral standards of society, causing loss of respect for and confidence in duly constituted authority" (Gould, 1991: 468). A renowned proponent of this observation, Nye, describes corruption as "a behavior that departs from the formal duties of a public role (discretionary or appointive) because of private-regarding (individual, close family, private clique) affluence or status gains, or violates rules against the exercise of certain types of private-regarding influence" (Nye, 1997: 417). Excluding that this analysis/description of corruption experiences a number of restrictions. It has a propensity to individualize the societal occurrence and challenges to dichotomize as to differentiate between good and bad. In this method the communal contexts are

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disregarded and the space between formal customs and the fundamental practice-girded standards are not analyzed (Caiden and Caiden, 1977). The functionalists typically look at the corruption as the actual purpose that it has major part in socio-economic growth and development. Assertions are through by the functionalists that the corruption accompaniments as a replacement for the market structure; suggests an acceptable option to violence; increasing the public contribution in public policy (Leff, 1979; Gould, 1980). Some of the functionalists consider that bureaucratic and political leaders may observe a state-run interest in aggressively pursuing or standing a certain level of the administrative corruption (Klitgaard, 1988). The chief condemnation against this phenomenon are that they pay no attention to the political meaning of deviance and require a contemplation of power, attention and social constitution in their examinations and at same time the entire question of genesis of corruption is not well thought-out (Lo, 1993: 3). The two moderately recent perceptions, i. e., social condemn and social structure reality, view corruption drastically differently from other approaches, i. e. moralists and functionalists. Both approaches are likely to look at the corruption from a extensive societal point of view. Proponents of the social censure think that in accepting corruption one be supposed to take into concern the power of the state to construct a particular structure of social relationships and transfer the theoretical importance to the interaction of law, philosophies and the supporting economy (Lo, 1993: 5). Alternatively, social structure reality observes the corruption as challenging and the players involved can be considered by linking them to appropriate information on their social level, stakes and interests in system plus the political, social and economic conditions in which they operate (Pavorala, <https://assignbuster.com/the-effects-of-national-corruption-economics-essay/>

1996: 25). In analysis of the huge number of approaches and analyses on corruption, it is not as easy to have the same opinion on an unanimous description of the term. Two characterizations of corruption can prove practical. Shorter classifications of corruption include " bribery, abuse of power, preferential treatment, extortion, patronage, fraud, theft, malfeasance deceit, and illegality" (Caiden, 1991a). The broader definition of corruption refers to " use of one's official position for personal and group gain and that includes unethical actions like bribery, nepotism, patronage, conflict of interest, divided loyalty, influence-peddling, moonlighting, misuse or stealing of government property, selling of favors, receiving kickbacks, embezzlement, fraud, extortion, misappropriation, under- or over-invoicing, court tempering, phony travel and administrative documents and use of regulation as bureaucratic capital (AAPAM, 1991). In conformity with these two definitions of corruption the following definitions of political corruption and administrative corruption are adopted here. Political corruption is " the behavior of (elected) public officials which diverges from the formal components - the duties and powers, rights and obligations - of a public role to seek private gain" (Kramer, 1997). Administrative corruption is defined as " the institutionalized personal abuse of public resources by civil servants" (Gould, 1991). In both cases public officials (elected and appointive) can convert public office into private gain in many ways. The menace of corruption related to embezzlement of public funds earns a vivid relation to the pattern of low payment structures offered to the public government officials. It is found that in economies like Tanzania the salary received by the public officials was not sufficient to cover their domestic expenditures. This contributed as one of the factors as to whether an official would or

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would not embezzle. This embezzlement practice of the public officials related to the tax revenues enhances fiscal pressures on the economy of the region, like Tanzania making it weaker (Fjeldstad, 2003). The above fact thus calls for more detailed analysis on the subject in order to draw useful inferences.

LITERATURE REVIEW.

The question is " Why is the corruption or the exploitation of public office for personal gains, supposed to be common in some countries than others?, what are the reason behind such Embezzlement behavior among the public sector employees in such countries. Is the higher level more prone towards such behavior or the low level employee is the sole cause of corruption in such countries? To explain that there are many theories correlate this with meticulous historical and cultural civilizations, political institutions, intensity of economic development, and government course of action. This literature review will analyze the several key elements of ' perceived corruption' and there reasons of existence among nations of different regions. And the variables that causes such need of corruption among the public administration.

The antecedents and effects of national corruption: A meta-analysis: William Q. Judge , D. Brian McNatt , Weichu Xu ,

In this article, an analysis of 42 experimental studies was conducted to summarize the bribery and such behavior within a holistic academic framework. In broad-spectrum, variables within the economics, political/legal, and the socio-cultural class were likewise correlated with state corruption. In addition, this article showed some events of corruption, which
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are more forceful than the others. This article identified some great and useful insights for the future researchers, which might want to discover. According to the article, Corruption usually occurs where public administrators have a straight accountability for the stipulation of a regulation to employees or individuals of a private sector corporation (Rose-Ackerman, 1997: 31). it has gained importance as the contact between states of varying fraud levels participate and interrelate in performance for regulars with the growth of the global financial system. According to the World Bank estimation, over \$1 trillion in bribes are paid yearly inside the global economy (Gonzalez- Velazquez, 2004). also, unreliable evidence propose that corruption is central economic concern facing Turkey (Economist, 2004), Russia (Economist, 2005), China, the African continent, Poland and Indonesia (Doh, Rodriguez, Uhlenbruck, Collins & Eden, 2003). Indeed there are political economists which argued that," In less than a half-decade, the worldwide backlash against corruption has swept like a firestorm across the global political landscapes. Governments have fallen. Longtime ruling parties have been hounded out of office. Presidents, prime ministers, parliamentarians, and once mighty corporate chieftains have been grilled by prosecutors and herded into the docket. Italy, France, Japan, South Korea, India, Mexico, Columbia, Brazil Israel: no region, and hardly any country, has been immune" (Wang & Rosenau, 2001: 26). Moreover the article tells us that the majority of such studies have fail to explain one another, their measurement of corruption varies from one another too (Eigen, 2002), and furthermore there are inconsistent theoretical suppositions and frameworks are used which makes such literature not evident enough to identify the problem. This piece of literature was intended to create a future argument <https://assignbuster.com/the-effects-of-national-corruption-economics-essay/>

for the researchers to better conclude the degree of previous circumstances and penalty of the corruption, its impact on other issues, whether the contact is lessening or deteriorating over time, and to recognize anomalies plus the gaps in literature for the future reference. The methodology suggests the Meta analysis for the whole situation. It has been used comprehensively in a variety of subfields of the international business plus such concerns like determinants of entrance mode choice (Zhao, Luo & uh, 2004), country-of-origin effects (Peterson & Jolibert, 1995) and cultural distance effects (Tihanyi, Griffith & Russell, 2005). As result of this, the study seeks to have a systematic review of the literature on the corruption and amalgamate its findings. The article also talks about the " inter-disciplinary model of corruption" developed by Collier (2002). He developed a representation of the corruption by combining game theory with institutional perspective, which he defines as " institutional choice perspective on corruption". This model also focuses on the internalized world of agent who engages themselves and others in corrupt behavior, and the external agents which serves to restrain and/or legitimize dishonest behavior. He insightfully explained that " the corruption is not an economic phenomenon only, but also a ethical one. Since morality is influenced by, as well as influences, the socio-cultural norms of society, the socio-cultural institutions are also very important. Furthermore, political/legal and economic institutions serve to constrain as well as legitimate certain behaviors". (Collier, 2002) Numerous studies have showed that the country's on the whole GDP per capita is indirectly proportional to corruption. Authors of these studies have argued that the poverty makes individuals more prone to give and accept bribes (e. g., Husted, 1999; Paldam, 2001; Serra, 2006). Therefore, a country's

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intensity of economic growth may be methodically related to corruption. Authors have found that the greater is the exposure an economy has to international economic opposition, the lower it has the element of corruption in there public systems. Competition can proceed as a medium to restrain the economic malfeasance (e. g., Ades & Di Tella, 1999; Serra, 2006; Treisman, 2000). This study also focuses on the checks and balances of/to governmental authority and accountability. Previously, authors have disagreed for the), political openness (e. g., Sandholtz & Gray, 2003), impact of legal origin (e. g., Aggarwala & Goodell, 2009), political instability (e. g., Park, 2003), political structure (e. g., Goldsmith, 1999) and overall government effectiveness (e. g., Shleifer & Vishny, 1993) on the corruption. Masculinity and the power distance were also created some predictions of corruption in the system (Park, 2003), Furthermore, there have even been a few studies examining the socio-cultural effects of corruption. For instance, Gupta and associates (2002) found a positive relationship between corruption and educational inequality. In addition, Akhater (2004) found that the level of corruption was negatively related to the level of human development within his study of 85 nations. Managers are often meeting head-on with the unsympathetic economic and moral realities of corruption while working for multi-national corporations (Zekos, 2003). According to Collier 2002, several social scientists have attempted to describe the cause and effect relationship of corruption across the nations as their effort to assist global reform and international business ventures. However, owing to the theoretical nature of the literature, different measurement procedures, failure to look besides the disciplinary lens and lastly the lack of ability to gather the results and form one idea has made it hard to get to the bottom <https://assignbuster.com/the-effects-of-national-corruption-economics-essay/>

of the problem and inter-disciplinary understanding of the issue. As a result, the study includes the previous work to provide the greater prospects of this field and to help improve it even further. Moreover, the study took into account approximately 511 correlations from 42 empirical studies regarding the issue of corruption. Three different institutional approaches were used such as economic, political and social aspects in order to understand and examine the circumstances which lead to corruption. With correlations ranging from .40 to .45, it was found that each three of the macro-environmental factors were foretelling about the corruption. Additionally, the impact of corruption as a result of these three factors was also determined. It did not come as a surprise that all three of the determinants were linked to the corruption in one or another way, however, political/legal being the biggest contributor amongst the three. Scholars have agreed upon the causality and previous antecedents to be among the political and socio culture aspects of corruption while they still haven't agreed upon the economic aspects rather if it is antecedent or effect as it is majorly considered as both. The two most commonly used measures for finding out the corruption rates were CPS which produced on an annual basis by Transparency International (48%) and CCI commonly used by the World Bank (27%) for corruption measurement. The remaining 25% of the studies used several other measures; however, to much disbelief they did not yield any constructive outcomes. Additionally, there are many other available details on the dependability and soundness of these measures. Cutting it short, it is recommended that for future analysis of quantitative comparative analysis of corruption, the measures that will produce better and valid results would be CCI and Transparency International. As a final point, it was observed that <https://assignbuster.com/the-effects-of-national-corruption-economics-essay/>

there exists a stronger correlation amongst antecedents and effects of corruption. Studies conducted before 2000 showed higher impact than the ones conducted after these. Therefore, the results have different explanations. One of the explanations could be that measure to find out the rates and sizes of corruption are improving over the years. Another justification would be the understanding on the aspects of corruption is maturing with time. One repercussion of this finding for upcoming research is that corruption researchers should be encouraged to study corruption longitudinally over time, and that if the study period spans numerous decades then be bothered with reading between the lines.

The determinants of corruption in Italy: Regional panel data analysis. Alfredo Del Monte , Erasmo Papagni ,

There are several measures that indicate the existence of corruption in the Italian society. This paper examines the determinants of fraud in Italy by using statistics on cases filed against the public administration at local level. The statistics show that the economic variables like intensity of development, government consumption plus political and cultural influences like presence of the voluntary organizations, party concentration; absenteeism at elections drastically affects corruption. Corruption slowdowns the economic growth (Mauro, 1995, 1998; Bliss and Di Tella, 1997; Mo, 2001; Del Monte and Papagni, 2001; Méndez and Sepúlveda, 2006), decreases the authenticity of administration in the eyes of the governed, can influence political solidity (Anderson and Tverdova, 2003), and is a key constituent in the incapability of the poor to take benefit from development prospects (Bardhan, 1997; Abed and Gupta, 2002). Treisman (2000) discovers that the

monetary variables explain corruption less than the social political variables. A feasible reason for that is the economic variables are exaggerated by "non-economic structural" contents in both short and long run while the economic variables influence the institutional variables just in long run. In a cross fragment analysis, institutional difference among the countries is so immense to clarify the unpredictability of corruption. It is said that "greater the existence of the state, the greater is possibility for corruption. The authoritarian states encourage bribery because the profits are dogged more by government strategies than by conventional management or entrepreneurial talent. According to the study It has been observed that in a primary agent structure where the crisis of the principal is to propose an institute to administer the bureaucracy, it may not be competent enough to eradicate corruption, as costs might exceed benefits (Acemoglu and Verdier, 2000). Also, that the corruption can enhance state intervention, because a firm can use bribes to get favorable government policies. Acemoglu and Verdier (2000) propose that, when watching bureaucrats becomes difficult, bureaucrats must receive high wages and administration intervention must decrease. In case if government involvement continues despite of the fact that difficulties are faces in monitoring, the number of public administrator and their wages must increase substantially, as a result the option of corruption is expected to increase with the magnitude of government and wages of public sector, compared to the case where corruption is not possible. However, this does not imply that government intervention is harmful. An increase in administration intervention increases corruption but, by increasing the number of public servants and wages, corruption can be controlled, even though public spending increase too but not because of

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increase in intervention but also to stop corruption. Thus the connection between public expenditure and corruption is not clear and the causal relationship goes in both directions. Kolinsky and Shavell (2001) observed both resources to be owed to law enforcement and exposure of bribery and most favorable fine structures. Though, detecting corruption is not only a dilemma of the range of assets to be allocated and of fine structures but depends very much on the efficiency of the institutions that provide information on which detection and enforcement are based. According to the study another influence on corruption is devolution. The affiliation is still wage. In centralized system rivalry among authority reduces opportunities for such activities but also decentralized political structures are more disposed to corruption. Prud'homme (1995) and Tanzi (1995) have recommended that the corruption is greater at local level because of better understanding and frequency of communication between individuals and officials at more decentralized stages." We may expect a democratic system to be less corrupt than a dictatorship, because of political competition. However, in a democratic system, the higher the level of political corruption, the lower may be the likelihood of emergence of a political party that promises clean government". (Tanzi, 1995) Ostrom (1990) suggested that "small-scale institutions enable a group of individuals to build on social capital thus created to solve larger problems with larger and more complex institutional arrangements." Putnam in 1993 figured out the point of "civiness" of Italy's entire regions in 1970 and creates an extraordinary concordance connecting the performance of local governments and the level to which political and social life in these regions approximates the best of civic society. Putnam also suggested that little economic growth plus low

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social wealth would escort a society push into a "vicious cycle", exhausting its social capital and converting it into a less civic community. The opposite also holds, and a community with economic development and high social capital can enter a virtuous cycle leading to a productive community (Putnam, 1993). One of the most attention-grabbing particulars about corruption is that it differs to a great extent and not only from corner to corner but also in periods of time within a specified state. A number of authors (Myrdal, 1968; Huntington, 1968) believe that in the initial development stages of a country on both economic and social level, the chances and opportunities for corruption are dramatically high. This explains a lot about why there seems to be high corruption rates when a country gains its status of an independent country. Other things assured, the theory helps a lot in explaining the fact that there exists an inverse relationship between corruption and economic development as in the initial stages of growth, corruption rates are high and when the economy experiences a boom the rates of corruption fall (Treisman, 2000). A book was published in 1974 which talked about the different mechanisms that might have contributed in the stability of the Italian political system and also about how inefficient is the public administration of Italy is. The highlighted mechanism was the system of political patronage which is referred to as "Clientelismo" which gave the Italian citizens the opportunity to gain rewards by directly being in contact with the politicians and through special laws like "Leggine". However, these rewards and political appointments were not for the purpose of enhancing the overall efficiency or to hire professional experts. The book did not consider corruption as the hot-shot problem of Italy however; it did become a major issue for Italian economy in the 80's and it became a

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problem which was intolerable by a lot of citizens (Cazzola, 1988). In the 70's a large exogenous increase in the encouragement for political corruption was experienced from both the demand and supply sides argues the author (Golden, 2000). Reasons being the following: A law was passed in 1974 which stated that the public companies will not help political electoral campaigns. As soon as these donations and funding became illegal, the law on public financing criminalized existing practices. A change in the leadership policies of the Socialist Party redefined the political system of Italy as one of the massively corruption at a political level. The shared incumbency benefit of the Christian Democrats became stronger in the late 70's. Socialists believed that there exists no genuine political opposition and that the currently governing parties were not defenseless therefore, facilitating services should be charged. The lack of foreign competition for government contracts gave Italian firms the economic possibility and the incentives to pay the bribes expected of them. Another factor that supports the view that the degree of corruption varies between regions is because there is always an environment of competition between political parties. Therefore the corruption rate is higher if a country is being governed by one part for a very long period of time. Italy started opinionated about the corrupt parties in the beginning of the 90's and the opinion became stronger in the second half of the decade. The practices that abstained from challenging the institutional power in any way were tolerated as long as there was no threat to communism however; the corruption practices became questionable after the fall of the Berlin Wall. One of the justifications for Italy would be that it had economic reasons for starting a campaign against corruption. Moreover, the cost of corruption in Italy started to

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increase tremendously and is one of the very reasons for the budget deficit face by the Italian economy. Hence the people of Italy supported the magistrates in investigating the cases for political corruption. At the end of the 1995 era, the magistrates went on to arresting more than 1300 business, political and government officials. However, the regional data is not of the view that variables are of use in finding out the corruption rates especially for smaller regions because each country has different factors contributing to the corruption and dishonesty amongst the country. Variables being the wages of bureaucrats, commercial policies, legal system, institutions that make property rights secure, judicial systems, etc.

Embezzlement of Funds by Public Administrators and its Impact on the Economy

Myint (2000) relates that one of the major reasons public officials embezzle public funds, is for their own personal use. Public officials usually engage in embezzlement on an individual basis. Embezzlement behavior of government officials is strongly related to the low salary payments provided to them that, in turn, fail to support their basic needs. Further, the embezzling done by these government officials is found to negatively impact the economy of the emerging markets, thereby increasing their internal and external debt, while deteriorating economic and social structure (Myint, 2000). Ante (2010) reflects that the practice of the public or government officials relating to the embezzling of public funds has considerable impact on the economic and social structure of a country or region. In the case of emerging markets such types of exploitative practices of government officials drains resources from the regional economy and tends to be one of

the significant factors resulting in economic and social disparity. Public funds created and conserved to serve the needs of the poor of the society, being exploited by government officials leads to depriving the poor of their social and economic safety net. (Ante, 2010). Trebilcock and Prado (2011) observe that the activity related to embezzlement or misappropriation of public funds by government officials tends to have significant consequences pertaining to the large scale reduction of funds meant for development purposes. Thus, misappropriation of public funds deters the government body of the region from effectively pursuing the goals set for programs like the United Nations Development Program, which helps cater to the needs and growth of the deprived population. Misappropriation or embezzlement activities carried out on a spontaneous note thus contribute to the vicious circle of making the economy weaker. Thus, government bodies fail to accomplish development projects related to urban and rural development activities (Trebilcock and Prado, 2011). Menzel (2005) reflects that the activity related to embezzlement of public funds happens to become a matter of serious concern pertaining to the management and sustenance of ethical organizational norms. In turn it is observed that misappropriation of funds conducted by one government official contributes to the encouragement of such embezzlement activity by the former's colleagues and subordinates leading to further misappropriation of public assets. The level of misappropriation or embezzlement activities also tends to disturb the ethical framework of other organizations in government, semi-government or otherwise thereby graduating to a vicious framework of fund or asset misappropriation (Menzel, 2005).

Relation of Low Basic Salary to the Embezzlement Behavior by Public Administrators

Brownfield (2011) reflects that the pattern of corruption relating to embezzlement or misappropriation of public funds gains increased incidence in emerging economies. Government officials serving in the emerging or developing economies are often complain of insufficient compensation structure. The payment structure of the government officials of such countries are formulated in terms of market rates owing to which the officials in public concerns of emerging economies are subject to low pay scales. In Cambodia, public officials depend on rampant misappropriation of funds to support their families. Again, ethical and legislative standards in such regions are weaker in nature, and the absence of proper laws to combat corruption, contribute to the further escalation of the problem (Brownfield, 2011, p. 178). Odhiambo-Mbai (2003) further finds that the behavioral patterns of public government officials, relating to embezzlement of public funds, reflect on the deterioration of public interests and also to the loyalty and accountability parameters relating to the region at large. The above fact has been further elucidated through an evaluation of the Kenyan market where misappropriation activities related to public funds are on the rise on. A major issue attributed to the rise in unethical practices is the degradation of the services provided to the public. The government officials are often subjected to pay that is below market rates, creating a disparity in the living standards of such people in comparison to the same category of people occupied in private concerns. Moreover, public sector employees and officials were also found receive sub-standard health and housing benefits. Owing to the above reason the people become all the more dependent on

embezzlement activities to compensate for the disparities. (Odhiambo-Mbai, 2003). Quah (2001) discusses a case of police officials in Singapore. The officials in the police department of the country were found to reflect reduced accountability and loyalty to their service and to the people of the country as they were continuously involved in activities related to extortion of money and bribes and also embezzlement of public funds. These people were actively involved in such manipulative activities owing to a growing disparity where police officers pertaining to external countries like Europe deputed in the region earned a greater income. These people being paid less than their European contemporaries had lesser concerns for their jobs and thereby depended actively on misappropriated funds for meeting their private needs (Quah, 2001).

Structuring of Basic Salary to Reduce Fund Embezzlement Behavior

Goehring (2007) reflects on a case of Kazakhstan and how the government of the region is closely working to help improve the wage and salary conditions of public sector employees to reduce the incidence of activities related to misappropriation of public funds. The government of the region has come to understand that development of the living and payment standards of the people working in the public sector concerns through reduction of disparity between them and their contemporaries employed in private firms would act as a potential strategy in enhancing loyalty and accountability. Moreover other additional measures taken by the government of the region to enhance motivation and accountability of the government officials includes reduction of hierarchical layers and also in

assisting people to gain further growth opportunities. The payment structures of the concern needs to encompass both basic salary and also other housing and medical benefits. Again the salary structure needs to encompass specific amounts for training purposes that in turn augments the total salary (Goehring, 2007). Heilman and Ndumbaro (2002) also reflect on how the government of Tanzania worked in not only developing the pay standards of the people employed in public sector concerns but also worked in the development of the social and educational standards of the people living in the regions. Social and educational developments were also combined by training operations carried out in the local public sector and private sector concerns thereby enhancing the accountability and loyalty parameters of the people in the region to serve in a better manner. These activities put in place helped the local officials employed in the Tanzanian public sector gain enhanced motivation in terms of accountability and loyalty to the concern and the society at large (Heilman and Ndumbaro, 2002). Mutahaba (2005) further elucidates on the reforms in the salary structures by the government of Tanzania to help reduce the amount of embezzlement activities carried out by public government officials. It is observed that reforms to the basic salary structure concept were enhanced to reach at least the minimum level of living wage. This meant that the salary structure of the officials would be formulated based on changing market rates. In the second case, the salary of the qualified government officials was taken to be raised to such amounts that would match the salaries of their contemporaries working in private sector concerns. This strategy was taken to reduce the level of mismatch involved. Similarly the salary structure of the Public Servants was adequately revised to encompass value additions in the <https://assignbuster.com/the-effects-of-national-corruption-economics-essay/>

form of specific allowances. Finally, public servants would also be subjected to performance evaluation structures where the salary structure would be increased depending on the betterment of their performance levels as would result from the evaluation process. Accordingly separate ranks were made and related to the officials depending on the increment gained in their performance levels. All these structural changes brought about in the salary structure of the public sector officials tended to equalize their position with the people working in private concerns and thereby led to reduction of disparities amounting to embezzlement behavior.

The dynamics of corruption with the ratchet effect: Jay Pil Choi, Marcel Thum

The author in this article has used the ratchet effect to explore the dynamics of corruption by using Shleifer and Vishny's (1993) corruption model. They devised two time period model to find how government officials manipulate prices and effect entrepreneur's decisions. In study the entrepreneurs are required to purchase license from government to open business. The authors have used a different version of Shleifer and Vishny's model and introduce a second period in the model. In first period the entrepreneurs purchase a license, while during the second period, they have to renew their license incurring a specific fee. in such particular scenario the government officials can persuade more and more entrepreneurs to get into the second period. The officials anticipate the gain in their incentives by price discrimination based on the number of people entered in first time period. The entrepreneurs thus delay their decisions to enter in to second time period for the license renewal to get a discount the fee. The social benefit for the

second period increased where officials offer discount for new entrepreneurs and negatively affect the future prices. The potential entrepreneurs will thus enter late so they can benefit from reduce pricing in second prices. In this way fewer entrepreneurs enter in first period. The social benefit will therefore decrease for first period. The overall welfare will depend upon the relative benefit of two periods. The study also examines the impact of strength of official's possession on corruption level. The try to explore that whether the job rotation policy help diminish corruption or not. In social welfare context the job rotation policy will benefit only if the new corrupt official can differentiate his extortion activities between already entrepreneurs and new ones. The rest of paper used the same version of two- period model of corruption dynamics. However, the previous paper of same author is different from this study in two ways. Although both papers have used different assumptions about the information available to the government officials about the entrepreneurs in second period. The previous paper assumes that the entrepreneurs are not known so that the firms can disguise them as new entrance. On the other hand the current study has identified entrepreneurs to offer discount prices. In this way the government officials in the previous study of the authors cannot manipulate the price against the first period entrance in the second time period. This shows that there is no benefit and no ratchet effect for the entrepreneurs to delay their entry to get high discount later. Moreover, previous study analyzes a different type of ex post opportunism for government officials. Thus, there is sunk investment associate with the first entrance. If the choice of technology is not a decision variable for entrepreneurs then it will not distort entry decision. However if the technology choice was left to the entrepreneurs

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then they will adopt "fly-by-night" policy. They will definitely go for the technology with least sunk cost so they can react more flexibly to future demand of corrupt officials. The government officials will demand varying amounts of money if the entry decisions are made by the entrepreneurs. This can be a new explanation for the arbitrariness that entrepreneurs face often in corrupt environment. Both the studies are based upon the research by Shleifer and Vishny (1993) and Di Tella (1997). The main exploration of Shleifer and Vishny study is how the negative consequence of corruption depends on "the industrial organization of corruption." They argue the negative effects of corruption will heighten, when the corruption activities are decentralized. The organizations involved in corruption demand bribery to maximize their revenue but they ignore the negative externalities. Biss and Di Tella (1997) find the relation between market competition and corruption. They examine that competition is not an exogenous parameter as corruption affects firms endogenously in free market equilibrium. In model where extent of entry and corruption are co-determined by deep competition parameters then their relationship between competition and corruption is very complex. The model in this study has used the dynamic approach to corruption where in which the government officials get the bribe comes back to demand more to explore the exorbitant opportunism.