

EVALUATION OF CORRUPTION PREVALENCE IN THE CONTEXT OF THE DEVELOPMENT OF THE LATVIAN ECONOMY

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Abstract. *The paper analyses some trends in the development of the Latvian economy and the evaluation of the prevalence of corruption, based on the results of different international studies. The initial situation analysis in the field of the economy does not indicate any direct negative correlations as to the scope of economic and financial corruption. Major essential studies on corruption admit that corruption is related to an ineffective, non-transparent public administration system, it facilitates irrational use of public resources, increases the uncontrollable economic segment, decreases the population welfare level, undermines confidence in public institutions, etc. Prevention and combating of corruption, despite the strivings of law enforcement authorities, are considered to be insufficiently effective. In the studies practically no attention is paid to the possible positive elements of corruption, which are hard to be identified. In the paper the author also outlines unconventional aspects of corruption.*

Keywords: *economic development; corruption; gross domestic product; prevention and combating of corruption.*

Introduction

Corruption as a socially unfavourable phenomenon has been widely studied in economic (Līva, 2015, Arhangeļska, 2012), social (Balcere, 2009), politological (Kārklīna, 2006), legal (Kalniņš, 2001), philosophical (Vilks, Ķipēna, 2000), culturological (Ķezēna, 2012) and other scientific fields. Comprehensive studies have been undertaken on the conceptual perception of corruption, its prevalence and determinants, forms of manifestation, consequences and the influence on socially economic and political processes, identification of effectivity of preventive and combating measures. Despite the long history of corruption and many attempts to prevent it, the importance and topicality of this phenomenon have not disappeared. Just on the contrary – it is being investigated much widely and more intensively. Corruption now is the persistent element characterizing the contemporary society. However, in any society, within the period of its development, its features and characteristic values, methods of assessment can transform. More and more often corruption is

recognized not as a socially legal phenomenon with properly functioning regularities but as the phenomenon of our subjective perception. Materials depicted by the mass media and projected in the public more often become the decisive factor in surreal perception of corruption. The aim of the paper is to identify its effect on the present socially economic processes, considering the latest objective and subjective parameters characterizing corruption and its possible decisive factors. Corruption as a historically stable phenomenon must be viewed and analysed on the basis of the latest study results. By writing the paper, the author has mostly used the methods of descriptive and complex analysis.

Corruption perception score

The annual Corruption Perception Index, published by Transparency International (TI), is one of the most commonly used indices to identify the existing corruption level in the country (Corruption Perception Index, 2016). The Index is made by cooperation of analysts and scientists in the whole world. Besides this Index, there are published also other annual studies, for instance, the Global Corruption Barometer (Global Corruption Barometer), the Bribe Payers Index (Bribe Payers Index), and others. TI does not deal with the study of individual corruption matters. It cooperates with other civic organizations, enterprises and state institutions in order to point to the risks and single corruption cases. Within the TI corruption perception index, corruption is defined as „the abuse of entrusted power for private gain”. The Corruption Perception Index (CPI) scores the countries correspondingly to the extent how corruption is perceived by politicians and officials. The index consists of many elements – it is a summary of survey results. The data on corruption are acquired from surveys of experts, representatives of civic environment and businessmen, carried out by different independent institutions of good reputation. In the Index, there are used surveys carried out by independent institutions. The Corruption Perception Index is not the measurement of the actual state, but its perception index, depicting the local and international experts' views, among them also businessmen views on problems of corruption, and looking at it from different aspects.

IN TI released a summary of the Corruption Perception Index 2016, Latvia with the score 57 ranks 44th among 176 countries. Comparing it with the year 2015 (Corruption Perceptions Index, 2015), Latvia has increased in the Index by 2 points, which has been the best score up to now, yet, it ranks lower in the total score of countries, comparing it with the last year, when Latvia was 40th. The experts say that Latvia's decline by 4 positions signal stagnation in corruption decrease. According to the data of the Global Corruption Barometer of 2016, the perception level of corrupted state institutions has increased. The Latvian Parliament is perceived as the most corrupted one, while 71% of the population

estimate the government's fight with corruption as being poor.

In surveys carried out also in Latvia, we have got the data on: corruption cases of public office abuse for one's personal financial (or party's political) benefit; the influence of bureaucracy and the state mechanisms on economic activities; intolerance of the public and media to corruption; effectivity of legal and political sanctions towards officials who abuse their position for private benefit, the government's capacity to combat corruption successfully; the possible level of corruption, starting from minor bribery to the highest level of political corruption. In survey.

We can agree to the arguments pointed to by the European Commission, that the Corruption Perception Index, like an objective situation assessment in relation to the actual corruption level, is questionable:

1. Explanations of the index score for each region and country are specific and they have to be identified separately;
2. Perception of honesty as a concept and as a morally ethical category in policy can be contradictory;
3. TI reports basically rely more on qualitative, rather than quantitative parameters. Qualitative assessment is based on each individual country's assessment, considering its achievement. The attention is addressed to the elements which could be estimated as positive ones, and whose influence could be insufficient. Sufficiency and insufficiency assessment is individual and quite different. Quantitative approaches to the detection of the CPI play a lesser role, chiefly due to its difficulty to measure the corruption level numerically.
4. Perception surveys, taking into account the hidden nature of corruption, during the time are revealing different parameters on the scope of the prevalence of the phenomenon. Surveys are carried out in different social groups, using different question and response variants. By their definition, surveys are limited by a set of specific questions and responses received, and greatly depend on the respondents' openness. Results of surveys are also undoubtedly affected by the events during the interviews;
5. Countries, while taking stricter measures against manifestations of corruption, record and disclose more cases, which are later widely depicted in the mass media and the public gets informed about them. Surveys of the CPI can create negative dynamics – a greater number of people, much earlier than before, can learn about the new, higher corruption perception level. Responses can be the result of political activity, linking the popularity of a certain government to the effectivity or ineffectivity of policy implementation. However, the perception of

wide prevalence of corruption can be considered an inefficient policy index itself.

6. Alongside surveys of perception, there have also been studies done as to the link between some economic and social parameters and corruption. For instance, corruption is described, considering the potential link with the economic growth rate, as the allocation of public funding, the Internet network and 'difficulties in collecting trustful, comparable high quality data in all Member States, as well as clearly demonstrate the link between these factors and corruption. At last, it is difficult, on the bases of these links, to make clear conclusions aimed at policy (ES Pretkorupcijas ziņojums, 2014).

Assessment of corruption impact

The effect of corruption on the development of Latvian economic policy may have three trends: a) alongside the increase of corruption, there is an increase in Latvian economic parameters because informal relationships, lobbying, more intensive use of a staff position (in private and public interests, in the company interests, active and passive corruption, etc.) intensify and activate socially political and economic processes; b) corruption negatively affects the development of the Latvian economy, ruining reliability to the state administration system, it increases the segment of „shadow” economy, and deforms the financial sphere; c) corruption does not have an essential impact on economic development in Latvia. The second probable relationship model of corruption and economic development is dominating in publications. It is important to say that there are practically no studies done in Latvia to reveal a direct correlation between corruption prevalence, the assessment of its coverage and economic development parameters. To disclose this relationship, there are traditionally used the results of other countries and research structures. In the study, commissioned by the European Parliament to the institute „RANDEurope”, corruption was identified to cost Latvia up to 5.67 billion US dollars (5.08 billion euros) per year. We can conclude that each year, as a result of corruption, Latvia is losing from 13.16% to 19.24% of GDP (Pētījums: Korupcija Latvijai var izmaksāt līdz pat pieciem miljardiem eiro gadā, 2016). Thus, during 5-10 years, Latvia might be „robbed” and GDP indices would be tragic, which, perhaps, may not be like that.

Relying on the survey of the Bank of Latvia (LB) in 2015, the national GDP index in the last years has been increasing. The Latvian economy, after recovery from the economic crisis, indicates prospects for the growth of the Latvian national economy (Latvijas Bankas pārskats, 2016). However, in order to draw objectively grounded conclusions, one needs a scientifically confirmed

assessment of corruption prevalence, as well as reliable socially economic development parameters. Only then it is possible to draw a reasonable conclusion on the impact of corruption on economic and social processes.

Predominant are the views that corruption prevalence and its growth adversely affect the development of the national economy and social status. Thus, firstly, corruption causes ineffective and irrational distribution and use of the national financial and material resources, dealing with the use of public power for satisfaction of one's private interests. Secondly, corruptive relationship can reduce the scope of investments in different fields of the national economy (construction, public service, finances, etc.). Thirdly, corruptive activities determine the reduction of national financial incomes, failure to pay taxes and duties. Fourthly, corruption favours devaluation of trust to the state administration institutions. The aspects of negative impact of corruption would be possible also to replenish, but, all in all, we could draw conclusion that it deforms the principles of justice and legality, promotes the increase of social inequality. Nothing new and innovative is included in these statements. These statements as to corruption, are, probably, as old as corruption itself. And still, during the period of time, with the transformation of approaches to learning and assessment, one can approach corruption also from a different, a modern unconventional point of view. Such an approach might be comparable also to the assessment of the already overcome crisis and the global financial crisis. No doubt that the crisis was viewed as a socially negative and unfavourable process.

In 2008, 2011 the public experienced a deep economic crisis: industrial and agricultural production decreased, the service market was contracted, the system of commercial activity control was minimized. The extent of the „grey” and „black” economy increased. One could see also an increasing social crisis: sharp increase of the unemployment rate, reduction of social benefits and guarantees, health care services got much more expensive, insecurity in the educational sphere, etc. No doubt that devaluation of moral values began to increase and violence was expanding.

Interpreting the term „crisis”, its etymology from Greek (*crisis*) means the turning point, a hard transition status, a decision. Socially economic crises have a tendency to recur, and they are of a cyclic character. From a socially political aspect, we can formulate the question – whether the crisis is not only a social deviation, social pathology, but also a logical phenomenon and, by its nature, quite normal. The mentioned approach, when assessing the crisis, is becoming all the more justified, since it is being interpreted as a challenge, as new opportunities, revaluation of current values, etc. Crisis is the basis for the new development, and also for something new and the success which is hard to identify. Thus, crisis as a process with the negative content can include in itself also the basis for revaluation of values.

Would not it be possible also to analyse and evaluate corruption from a different aspect – as a phenomenon which can include in itself the positive things which are hard to recognize. Firstly, corruption in the public, as well as in the private sector widens the scope of economic, financial, political and social activities and their coverage. Economic activity segments are acquired, which in the rational and planned environment are recognized as not being perspective. Secondly, possible corruptive activities can promote the functioning of economic, financial, social and political subjects or their „viability”, which can be declared as unprofitable. Governance mechanisms and resources can maintain segments, considered as being not prospective (regions, districts, branches, companies). Thirdly, corruption can contribute to the attraction of investments in the activities, which are not supported in the social environment, though constitute the further added value (e.g., in social and health care systems). Fourthly, corruptive acts are supported by the use of an unconventional approach (not only by active and passive corruption or abuse of office) in the solution of complicated socially economic and political situations. How can one assess the distribution of 20 million EUR of the national budget in 2017, being based only on the „deputy quotas” of the current parties, i.e. according to the proposals of individual deputies and joint parties (Deputāti konceptuāli atbalsta 2017.gada valsts budžetu, 2016)? In 2015, amending the draft budget, the decisions had been adopted in such a way on the distribution of 9.8 million EUR (Latvijas Republikas 12.Saeimas rudens sesijas astoņpadsmitā sēde, 2015). Corruptive signs to such an approach for the distribution of the budget mean that politicians, outside the scope of common public financing policy, are distributing the budget to separate projects. The distribution of the budget funding shows that the deputies encourage granting bigger or lesser sums of money to municipalities which are governed by the representatives of the respective political parties, or who have ambitions to demonstrate themselves in the respective territory; the entire Latvia, however, is not covered equally. Funding municipal projects considerably differs. Despite the fact that public power resources are used for the satisfaction of private needs or the needs of respective political parties, they are still invested in socially significant projects (e.g., 9 million for the maintenance and development of infrastructures). The question remains disputable, whether the respective municipalities, objects of the infrastructure and the projects would acquire adequate and necessary resources, if there were no „deputy quotas”, and certain lawmakers’ individual goodwill.

Theoretically we can admit that corruption destroys the public legal basis, deforms the principle of legality where it is respected. But what about the countries where the law rules and the law is observed. Is corruption there widespread, and can it influence the economic, social and political situation of these countries (e.g., Denmark, Finland, Sweden, Norway)?

In the calculations of the World Governance Indicators 2016 (Worldwide Governance Indicators, 2016), parameters which describe the quality indicators of the state administration are used as well. Thus, the legal regulatory quality criterion includes parameters which depict the government's ability to make and implement rational policies and to adopt effective legal acts, which facilitate the development of the private sector. In these parameters there may be included indicators which fix the measures which are contrary to the market economy, an inadequate control mechanism of prices and the financial sphere, excessive interventions and business regulation. The indicator analysed in Latvia has a negative trend (in 2005 Latvia in the world's rating was 77th, in 2010 – 80th, but in 2015 82nd). In the Rule of Law Index 2016 (The Rule of Law Index, 2016) Latvia was not included among 113 countries. It is significant that the Law Supremacy (the highest legality index was only for the Scandinavian countries (1st position – Denmark, an index value of 0.89; 2nd position – Norway, an index value of 0.88; 3rd position – Finland, an index value of 0.87). Estonia, with a legality index value of 0.79 among the 113 countries, ranks in the highest 14th position. Comparing to Transparency International: the Corruption Perception Index 2015, we can say that the highest positions in the world with the lowest corruption perception index are taken by: Denmark (1); Finland (2); Sweden (3); Norway (5). We can conclude that on the basis of the results of international studies, there are countries where the law, the rule of law determine low corruption and its perception level. The countries have a stable political situation and a sufficiently high social service level. On the other hand, in the countries where legal regulation and rule of law indicators are low, corruption prevalence is sufficiently high. These countries can face political inertness and certain instability, as well as rather high social insecurity.

Researchers of corruption and economic development (Houston, 2007; Svensson, 2005) differentiate the influence of corruption on the national economy into two groups: corruptive acts (corruption), which decrease economic opportunities and its progress; corruptive acts which expand and develop economic opportunities. Besides, one can divide the mentioned influence of corruption on the economic activities into microeconomic (enterprise) and macroeconomic (national) levels. Let us try, however, even to a small extent, analyse a correlation between corruption prevalence and economic growth indicators. We have already mentioned, that in the Transparency International 2016 report, the summarized Corruption Perception Index ranked Latvia in 44th position among 176 countries. First position in the index was shared by Denmark and New Zealand with a score of 90. The third country with a score of 89 was Finland. Comparing GDP indices within the last three years (2014-2016), Latvia's GDP indicator (USD per capita) was unsteady with the overall GDP indicator's tendency to a slight decrease (2014 – 15656; 2015. – 13618; 2016. – 14258). It is

true that the GDP indicator in 2016, in comparison with 2015, still slightly increased. If we compare the dynamics of GDP indicators in the countries with a low corruption perception index, then we can draw some, sufficiently interesting conclusions. Firstly, no doubt, that in these countries the GDP indicator per capita is much higher than in Latvia (in New Zealand 2.5, Finland – 2.9, but in Denmark – 3.7 times). Secondly, it is a paradox, but in the countries with a low corruption perception index, and with low corruption prevalence, the GDP indicator within the last three years has dropped considerably more than in Latvia. So, for instance, in New Zealand the GDP indicator in 2014-2016 has decreased by 16.4%, in Finland – 14.8%, but in Denmark – 13.7%. (List of Countries by Projected GDP, 2016) Thus, the fall in GDP in these countries with low corruption prevalence in no way has directly affected not only, probably, the total quality of these countries, welfare, but also the perception of corruption. Therefore it would be necessary to admit that more significant corruption prevalence and its perception determinants might be connected to the state's economic development trends. We can acknowledge that cultural and historical traditions, overall and legal consciousness, might be essential in the social value system in respect to corruption prevalence, in comparison with economic parameters and mechanisms of national economy management.

Conclusions

The paper analyses some trends in the development of the Latvian economy and the evaluation of the prevalence of corruption, based on the results of different international studies. The prevention and combating of corruption, despite the strivings of law enforcement authorities, are considered to be insufficiently effective. Despite the long history of corruption and many attempts to prevent it, the importance and topicality of this phenomenon have not disappeared. More and more often corruption is recognized not as a socially legal phenomenon with properly functioning regularities, but as the phenomenon of our subjective perception. The annual Corruption Perception Index (CPI), published by Transparency International (TI), is one of the most commonly used indices to identify the existing corruption level in the country. Within the TI corruption perception index, corruption is defined as the abuse of entrusted power for private gain. In surveys carried out also in Latvia, we have got the data on: corruption cases of public office abuse for one's personal financial (or party's political) benefit; the influence of bureaucracy and the state mechanisms on economic activities; intolerance of the public and media to corruption; effectivity of legal and political sanctions towards officials who abuse their position for private benefit, the government's capacity to combat corruption successfully; the possible level of corruption, starting from minor bribery to the highest level of political

corruption. Theoretically we can admit that corruption destroys the public legal basis, deforms the principle of legality where it is respected. Therefore it would be necessary to admit that more significant corruption prevalence and its perception determinants might be connected to the state's economic development trends.

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