

Effects of Corruption on the National Economy

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Abstract—Today, along with the economic crisis, distrust of administrative bodies of the Russian Federation and social tension, the issue of corruption is of particular significance. The relevance of this issue is due to negative consequences of corruption-related crimes affecting economic processes. The government seeks to neutralize corruption in Russia. The Russian state endeavors to ensure that public services are subject to safeguards that promote efficiency, transparency and recruitment based on merit. The Anti-corruption Council under the President of the Russian Federation was established. Russia has ratified international anti-corruption conventions. Each region has its own projects and programs to prevent corruption. In the Russian Federation, there are various centers and institutes for studying corruption-related crimes and their influence on the shadow economy. On a global scale, there are mandatory anti-corruption programs in all government bodies, organizations and institutions. The issue of corruption is discussed at conferences and forums. Recommendations on anti-corruption legislation improvement are made. The fight against corruption is an important component of the economy, politics, health care, education, etc.

Keywords—*bribery, corruption, economy, criminal liability, crime, counteraction*

I. INTRODUCTION

The first measure aimed at preventing international corruption was taken in December 2003, when the United Nations adopted the United Nations Convention against Corruption. It was drafted on October 31, 2003. UNCAC is a treaty between the UN member states, signed on December 9. It came into force on December 14, 2005. The United Nations Convention against Corruption is the only legally binding universal anti-corruption instrument. The Convention's far-reaching approach makes it a unique tool for developing a comprehensive response to a global problem. The vast majority of United Nations Member States are parties to the Convention.

According to the Convention, United Nations Member States must take measures aimed at the prevention of corruption, ensure law and order, enhance transparency in the financing of election campaigns and political parties. The Convention deals with five aspects: 1) preventive measures (corruption can be prosecuted after the fact, but first and foremost, it requires prevention); 2) criminalization and law enforcement measures (establishment of criminal and other offences to cover a wide range of acts of corruption, if these are not already crimes under domestic law); 3) international cooperation (cooperation of countries in every aspect of the fight against corruption, including prevention, investigation,

and the prosecution of offenders); 4) asset recovery (this is a particularly important issue for developing countries where high-level corruption has plundered the national wealth); 5) technical assistance and information sharing.

Currently, 186 states, including 140 signatories and 30 non-member states, are parties to the Convention. On May 9, 2013, the Government of India officially became a party to the United Nations Convention against Corruption and undertook to combat corruption. The UNCAC headquarters are located in Merida, Mexico, and New York. The Secretary-General of the United States acts as a depositary, and the United Nations Office on Crime is a secretary of the meetings of Member States.

Currently, corruption is given much more attention than in the past. At the same time, increasing economic interdependence made corruption more expensive. The transition from a relatively “clean” government to a corrupt one has the same effect on foreign direct investment as an increase in the marginal tax rate. This means that corrupt countries are more vulnerable to financial crises, as they have to rely on short-term offshores.

It is evident that corruption affects portfolio investment. Corruption is a harmful phenomenon. It takes resources from their most productive uses and acts as a regressive tax that supports the lifestyle of the elite at the expense of other people. Corruption encourages the best and smartest people to spend their time playing according to the rules of the system, rather than to innovate or contribute to the national wealth. Politically, corruption undermines the legitimacy of political systems, providing the elite with alternative ways to retain power, which are different from the democratic ones.

However, corruption includes a wide range of activities with various economic and political consequences. Despite all the academic efforts made to study corruption, there is still no generally accepted terminology for distinguishing between its various forms. To combat corruption, it is necessary to determine how it relates to the wider issue of good government.

In 2018, the scale of corruption is closely related to the political and economic indicators of the state. They depend on the efficiency of law enforcement agencies, legal literacy and human safety.

According to the research on corruption, the list of countries least affected by corruption is headed by Denmark. The top ten countries are as follows: Denmark, New Zealand, Finland,

Sweden, Norway, Switzerland, Singapore, the Netherlands, Luxembourg, and Canada.

Resentment at corruption and its negative consequences blind people. However, we have to recognize that in a number of countries corruption is not a deviation from the norm within the public administration system. It is an integral part of the government system caused by fragmentation of governments of these countries. Fragmentation is a cause of predictable, self-sustaining growth costs.

To combat corruption, it is necessary to identify and understand systemic factors that allow corruption to thrive and multiply. Corruption is a violation of individual and institutional subordination that allows officials to use public resources at their discretion.

The measures aimed at the prevention of corruption have to eliminate fragmentation of government authorities that will carry out anti-corruption reforms. Out-of-system reforms can make some progress, but fragmentation means that these reforms will always be partial and temporary. In the fragmented systems, only strong national political leaders can combat corruption due to the fact that only top political leaders can control various areas and ministries where corruption takes place in order to implement modernization programs. Expressing commitment through positive measures, even fragmented systems can form coalitions with internal and external reformers.

Corruption prevention measures taken by Asian countries is of special interest. They managed to develop the economy and society to a Western level for a very short period.

To compare corruption levels in the countries, several methods and indices are used. In addition to the Transparency International Corruption Perceptions Index (it ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and businesspeople), other corruption level indices (the Index of Economic Freedom and the Ease of Doing Business) are used.

Despite the studies carried out by reputable organizations, researchers express fear. Since the Corruption Perceptions Index and the Economic Freedom Index have significant effects on perceived levels of public sector corruption (covered by the media) and reduce opportunities for economic development, they may lower the future outcome of the country.

The lower the level of corruption, the higher the level of economic freedom. However, each of these factors depends on a number of other considerations, including the degree of importance of economic, financial and political transactions, the level and enforcement of individual rights to physical and intellectual property. Government incentives encouraging or discouraging rent-seeking behavior are also important for corruption and economic freedom levels. In addition, the level of economic well-being depends on the level of economic freedom, corruption and per capita income, income distribution and other social and economic indicators. Although these considerations largely correlate with the level of national per capita income, they do not contribute to success. It depends on the national historical experience, cultural values, and statistical data obtained by sociologists.

II. METHODOLOGY

The main causes of corruption are poor legal awareness of the society, legal culture, and ineffective public authorities. Some researchers believe that corruption can be prevented by tightening the law, upgrading the punishment for corruption-related crimes. However, the punishment for malfeasance, including all corruption-related crimes, is quite tough. One more corruption cause is weakness of the judicial system and ineffectiveness of the judiciary due to the fact that executive authorities provide poor support for judges and judicial activities, fail to enforce court decisions, etc. [1] Law enforcement agencies and courts have to protect rights and legitimate interests, private property of citizens of the Russian Federation. However, they protect government interests and state property, or interests of wealthy citizens. We can argue that the corruption component is present when delivering court decisions: corrupt prisoners convicted of serious crimes are sentenced to small criminal penalties.

III. RESULTS

In 2018, law enforcement agencies initiated 27,143 corruption cases, 6,885 citizens of the Russian Federation were convicted of corruption, including police officers - 790; municipal employees - 502; military personnel - 495; government employees - 483; employees of the Ministry of Justice (including FSPE) - 334; teaching personnel - 261; health workers - 179.

For several years, the government agencies have been implementing anti-corruption measures in legislative, executive, and judicial bodies. These measures are developed according to the Order of the President of the Russian Federation. In recent years, the National Anti-Corruption Plan has been successfully implemented in accordance with the Federal Law of the Russian Federation of February 25, 2008 No. 278-FZ "On Combating Corruption". Each message of the President of the Russian Federation touches upon the issues of corruption and legislation improvement. [2].

The authors believe that it is necessary to adopt a special anti-corruption law. In addition, the authors propose to establish a special independent government agency that will implement anti-corruption legislation. The problem of corruption goes from top to bottom, and the authors believe that it is necessary to eliminate corruption in government agencies whose officials force citizens to pay for free services and seek illegal income sources, etc.

The desire of one person to get more in an illegal way deprives hundreds of other people of the opportunity to have what belongs to them by law. The anti-corruption report showed that many Member States make law enforcement and prosecution authorities and anti-corruption agencies responsible for combatting corruption. The fight against corruption is impossible without an integrated approach, which aims at strengthening prevention and control mechanisms throughout the entire government system at the central and local levels. However, prosecution remains an essential element in combatting corruption. Corruption has to be prosecuted after the fact. Ineffective prosecution causes impunity. It is important

that prosecution services be independent, have sufficient power and resources and enjoy government support.

Corruption generates uncertainty. There are no compulsory property rights arising from a bribery. A company that obtained a benefit having bribed an official cannot know how long the benefit will last. The terms of the “contract” may have to be revised. In fact, a criminal who has violated the law may become a victim of extortion. Under the uncertainty and lack of guaranteed property rights, the company will be less willing to invest and plan for the longer term. Corruption acts involving high-ranking government officials have a significant impact on society, social and economic development, distort government policies to the detriment of the public good. High-level corruption undermines public trust and democratic principles. On the other hand, successful prosecution of corrupt officials has a huge stimulating effect on the fight against corruption.

IV. DISCUSSION

Let us give some examples.

In February 2019, in Irkutsk region, the second major investigation department of the Investigation Committee of the Russian Federation initiated a criminal case against a private businessman from Slyudyanka district. A director of the housing and communal agency of Baikalsk was suspected of committing a bribery in the amount of 100,000 rubles provided for by part 4 of Article 291 of the Criminal Code of the Russian Federation. The unlawful payment was intended to assist in the illegal return of items seized by investigators. In accordance with the requirements of the anti-corruption legislation, an official of the Investigation Department of the Investigation Committee of the Russian Federation took measures to notify him of the fact of inducing him to the. As a result of operational and investigative measures, the businessman was detained by the FSS officials. In accordance with the Criminal Procedure Code of the Russian Federation, procedural restraint measures were taken. [3, 4]

The evidence collected by the investigative bodies of the Investigative Committee of the Russian Federation for Irkutsk Region was sufficient to convict the former head of the territorial department of Irkutsk Region Forestry Agency for Katanga Forestry Vladimir Gribel, the member of the election commission of the polling station No. 860 of Katanga district, Alexander Dudelzon and the employee of the commercial organization Sergey Lazarev. They were found guilty of committing crimes provided for by part 3 of Article 290 of the Criminal Code of the Russian Federation (bribe-taking by an official), paragraph “c” of Part 5 of Article 290 of the Criminal Code of the Russian Federation (grand bribe-taking by an official), Part 4 of Article 159 of the Criminal Code of the Russian Federation (grand collusive fraud committed by a group of persons), Part 3 of Article 159 of the Criminal Code of the Russian Federation (grand fraud committed by a group of persons in a preliminary conspiracy), Part 2 of Article 291.1 of the Criminal Code of the Russian Federation (mediation in bribery), paragraph “b” of Part 3 of Article 291.1 of the Criminal Code of the Russian Federation (mediation of grand bribery). [5–8]

Having taken investigative and operational-search measures, the IC investigators assisted by FSS officials and officials of the Economic Security and Anti-Corruption Department of the Ministry of Internal Affairs for Irkutsk Region solved a bribe-taking case committed by an official. The accused man gave 200 grams of gold to a police officer (about 520,000 rubles in money equivalent) for establishing corruption ties and preventing detention of the group involved in the gold theft in licensed areas of gold mining organizations.

According to the investigators, in 2010-2011, the head of the district Shestun was using his official powers for personal gain. He organized and conducted an informal audit of financial and economic activities of the autonomous non-profit physical culture and sports development organization. Having collected required data, Shestun offered to patronize the head of this organization in exchange for illegal remuneration. During five years (from 2012 to 2018), the latter was transferring money in the amount of 9.4 million rubles and purchased sports equipment priced at 519,000 rubles for a recreation center owned by Shestun. The total amount of money obtained by Shestun amounted to more than nine million rubles.

Earlier, Shestun was charged with committing fraud and money laundering (Part 4 of Article 159, Paragraph b of Part 4 of Article 174.1, Article 289 of the Criminal Code of the Russian Federation).

Taishet Investigation Department of the Investigation Committee of the Russian Federation in Irkutsk Region initiated a criminal case against a 45-year-old resident of Novocherkassk, Rostov Region. He was suspected of committing a crime provided for by paragraph b of Article 291 of the Criminal Code (grand bribery). According to the investigators, on October 20, a truck traveling from Novosibirsk to Zabaikalsk, Transbaikal Krai, was stopped by inspectors of the State Traffic Safety Inspectorate. The cargo inspection established that instead of detergents stated in the documents, the truck transported alcohol weighing 20 tons. To avoid the removal of the cargo, the driver gave a bribe in the amount of 300 thousand rubles to an official of the Economic Security and Anti-Corruption Department of the Ministry of Internal Affairs of Russia.

Chuna Investigation Department of the Investigation Committee of Russia initiated a criminal case against a businessman suspected of committing a crime provided for by Part 3 of Article 291 of the Criminal Code of the Russian Federation. According to the investigators, on September 5, the suspect tried to give a bribe in the amount of 50,000 rubles to the official of the Economic Security and Anti-Corruption Department of the Ministry of Internal Affairs of Russia in Chuna District. He wanted to return his car loaded with timber in the amount of 20 cubic meters. The vehicle and timber were arrested and transported to the arrest site because the suspect did not have permitting documents. The entrepreneur was caught red-handed. The criminal case is investigating.

Thus, it should be noted that in the Russian Federation, corruption is an integral part of all institutions related to the economic component. Nevertheless, although corruption is undesirable for moral and symbolic reasons (it undermines public confidence in the government), some researchers prove

that corruption can be good for the economy – or at least not as bad as believed. According to the study conducted by Fabio Mendez and Facundo Sepúlveda in 2006, under free regimes, there is no linear relationship between corruption and economic growth. In fact, economists believe that “the corruption level maximizing the growth rate in free countries is more than zero. Corruption is beneficial for economic growth with low morbidity rates.” However, they recognize that very high levels of corruption are detrimental to economic growth, regardless of the type of government. [9–11]

In addition, the quality of national institutions is the main factor determining corruption consequences. In countries with a shortage of institutions, corruption does not affect economic growth, since voters cannot punish corrupt politicians. In countries with strong democratic institutions, corruption is detrimental to economic growth which is a strong guarantor of corruption prevention, because “the resource base from which officials extract rent is expanding.” One of the most important tasks of prosecution authorities is to combat corruption in all sectors. The prosecutor of Irkutsk region presented a report on corruption prevention supervision to the extended board of the prosecutor's office.

The inspections revealed two times fewer corruption-related crimes in the economic and social spheres. The corruption prevention measures were taken in 16 areas – Kirov and Oktyabrsky district of Irkutsk, Alar, Nukut, Balagan, Kuytun, Chuna, Nizhneilimsk districts, Bodaybo, Shelekhov, Sayansk Usolye-Sibirskoye, Taishet, Ust-Ilim, and Tulun. “Other districts did not take sufficient measures to identify the affiliation of corrupted officials who violated the Federal Law. In 2017, only eight cases were sent to the prosecutor’s office to initiate cases against 17 corrupted officials in 2017.

In 2018, 38 corruption-related cases provided for by Articles 290 and 291 were initiated (in 2017, this number was 44). The results are unsatisfactory due to inefficient supervision and investigation activities, poor work of the specialized department who failed to eliminate negative trends and ensure monitoring during the year. The basis of corruption phenomena is economic causes, economic interests of the subjects of corruption relations. The government having legislative resources and government officials having administrative resources, on the one hand, and clients having monetary resources, on the other hand, are involved in corruption processes. Corruption as a method for solving problems can solve social, structural, economic and political problems. Anti-corruption measures should take into account functions which corruption performs under weak institutional conditions, and aim at finding alternative ways to solve real problems in order for anti-corruption measures to be efficient. [12–15]

IV. CONCLUSION

The active use of various innovative financial products, services and technologies contributes to greater financial market stability, increases market capitalization and operational efficiency of banking institutions, contributes to the sustainable long-term dynamic development of banks, deepens the innovative component of the economic growth of the country. Corruption is a crucial problem of the 21st century (the 20th

century was characterized by a great ideological struggle of democracy, fascism and communism). Today, most of the countries recognize the legitimacy of democracy and pretend to hold competitive elections. However, these political systems differ from each other by government policies aimed at meeting public ends or acting to the advantage of the elite.

Corruption is an international problem. It is characteristic of all countries without exception. The countries can differ only in the scale of this social evil. In all countries, there are difficulties in combatting corruption due to the lack of desire, efforts to develop a strategy for combatting corruption, and the lack of money and practical knowledge. Corruption is not a problem of developing countries or countries in transition. One of the important measures to prevent corruption is to control incomes and expenses of persons whose activities are associated with corruption risks. The list of those who should report their incomes was expanded.

According to the Criminal Code of the Russian Federation, the following crimes are corruption-related ones: mediation in briber; illegal participation in business; violation of the financing procedure; smuggling; impact on the result of a sporting or commercial competition. In order to minimize dangerous consequences of the phenomenon under consideration, joint efforts of scientists, researchers, lawmakers, law enforcement agencies, and courts are required.

With this consideration in mind, it is possible to amend the Russian criminal law that criminalizes offenses against any individuals who says that he can influence a decision of the public official by giving him a bribe regardless of the results of this influence. These amendments will significantly enhance the ability of the government to prevent corruption, contribute to the goals of criminal punishment and solve the problems of the criminal law of the Russian Federation. Today, corruption in Russia and other developed countries with efficient market economies should be considered as an element of the criminal law mechanism provided for by the norms of the Criminal Code of the Russian Federation. It is worth noting that this crime includes a multi-structural social and economic phenomenon that causes negative results of the development of any Russian region. In all countries, bribery is a crucial problem; its goal is to extract income in favor of both the bribe giver and the bribe taker.

In the Russian Federation, the corruption component is a barrier to the economic sustainability, i.e., it prevents citizens' well-being from growing, causes unemployment, poverty and hinders the stability of civil society. Studying the facts of corruption over the years, we conclude that bribery has a negative effect on the economy. Corruption inhibits advancement of the economic path, is detrimental to economic growth. Corruption creates a shadow mechanism in the judicial system, public healthcare system, construction industry, education system and other types of infrastructure. For the Russian economy, corruption is a disastrous alternative to both the state and society as a whole. Corruption contributes to organized criminal groups that use their financial power to penetrate into legal business, intimidate, racket and create a climate of fear and uncertainty. In the countries with weak institutions, the police can be overloaded which prevents them

from catching criminals. This fact encourages more and more people to become corrupt, take and give bribes, thus undermining the efficiency of law enforcement measures, creating a vicious circle that affects the investment climate, and curbing economic growth. Since corruption is a cause of the organized crime, the police and other government agencies can become criminals. In this case, businesses will have to deal with corrupt officials and competitors who will pay the police or tax inspectors for harassment and intimidation.

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