

CORRUPTION AND ECONOMIC GROWTH

Haitham Sultan Al-Maaytah¹

¹Master of Business and Finance Economics, Jordan

haitham_maitah@yahoo.com

DOI: <https://www.doi.org/10.58257/IJPREMS38332>

ABSTRACT

Administrative and financial corruption is one of the most prominent problems that many countries in the world suffer from, both developed and developing countries, and its size and effects vary depending on the economic and social nature of the country. Three standard models were used to measure the impact of corruption on economic growth, namely (economic growth, public debt, and budget deficit). The study concluded that corruption, public debt, and budget deficit have a negative impact on economic growth. Corruption and the general budget have a positive impact on public debt, while the gross domestic product has a negative impact on public debt. There is no impact of corruption and debt on the budget deficit, while there is a negative impact of the gross domestic product on the budget deficit.

Keywords: Administrative corruption, financial corruption, public debt, budget deficit.

1. INTRODUCTION

It is difficult to quantify corruption in countries and societies due to the secrecy of its practitioners, and therefore it is difficult to estimate its consequences. Many studies have proven the negative effects of corruption on the level of economic activity, poverty, unemployment and inflation rates, and the poor quality of services provided to individuals. Corruption has devastating effects on individuals and societies at the economic and political levels. Corruption is an act of transcendence over the law, as it contributes to the illegal redistribution of income by administrative corruption through breaching the law and exploiting the position to achieve personal benefits. It is an act that violates the law and Sharia, in the absence of oversight, integrity, transparency and justice. There are economic effects of corruption on economic growth, public debt and the deficit in the general budget. In this field, there are many theories that explain the phenomenon of corruption and show its positive and negative effects, which will be addressed later.

The phenomenon of corruption is considered a worrying phenomenon worldwide due to its negative effects at the economic, social and political levels. The World Bank defines corruption as the abuse of public office to achieve private gains. Transparency International defined corruption as the abuse of entrusted power to achieve private gain in the public and private sectors and civil society, and covers both material and non-material gains. Corruption is not a local phenomenon, but rather a global phenomenon that varies in severity from one country to another, and developing countries are considered the most affected by corruption.

The problem of the study is that there is an aspect of ambiguity in the impact of corruption on economic activity. Corruption can affect many aspects of economic activity such as (economic growth, public debt, general budget).

This topic raises many questions, including, for example: What is administrative corruption? What is meant by financial corruption? What is the impact of corruption on the public debt of the countries under study? What is the impact of corruption on the budget deficit of the countries under study? These questions and others will be the focus of our study, hoping to find satisfactory answers to them

The importance of the study is that it addresses a topic related to a phenomenon that most countries in the world suffer from, which is corruption in its financial and administrative forms and its impact on economic performance

Accordingly, we will divide this research into two sections. The first section will be devoted to studying the nature of corruption and its theories. As for the second section, we will discuss the relationship between corruption and economic activity.

First section

The Nature of Corruption and its Theories

The First requirement

Nature of Corruption

The concept or meaning of financial and administrative corruption has a special meaning and definition, as it has multiple manifestations and images, as well as motives and reasons that push people, whether employees or officials, to rush towards it and carry it out or undertake it. Accordingly, we divide our study in this requirement into two branches. In the first, we discuss the definition of financial and administrative corruption and its manifestations or images, and in the second, we discuss its motives and reasons.

Definition of corruption in language: Corruption in language dictionaries comes from (fmand), the opposite of salih, and corruption in language means invalidity. It is said that something is invalidated, meaning it is invalidated and diminished. Corruption is the opposite of righteousness. It is corrupted, corrupts, and corrupted, corruption, corruption, and corruption, so it is corrupt. Sibawayh said that it is a plural of halki because of their similarity in meaning and its import (Abu al-Husayn, n.d., p. 321).

The word corruption appears in the Holy Quran in several places, such as in the Almighty's saying: "For those who do not desire exaltation upon the earth or corruption" (Surat Al-Qasas, verse 83), as well as His saying: "The only reward of those who wage war against Allah and His Messenger and strive upon earth to cause corruption is that they should be killed or crucified or their hands and feet should be cut off on alternate sides or they should be exiled throughout the land. That is for them a disgrace in this world, and they will have a great punishment." (Surat Al-Ma'idah, verse (33)). Definition of corruption in terminology: As for the technical term, corruption is "the deviation of something from moderation, whether the deviation is little or much, and its opposite is righteousness" (Ma'adabada, 2015, p. 11), and it was said that corruption is "the opposite of righteousness and its reality is the deviation from rectitude to its opposite" (Abdul Fadir, 2014, p. 21). Definition of corruption in legal terminology The draft United Nations Convention against Corruption defined it as "the commission of acts that represent the improper performance of duty or the misuse of position or authority, including the Actions in anticipation of an advantage or in pursuit of an advantage promised, offered or requested directly or indirectly.... (United Nations Convention against Corruption, 2003)

It is noted that the legal legislation, especially the Iraqi penal legislation, does not mention a specific legal definition of the concept of corruption, neither in the Penal Code nor in other penal legislation, except for what was indicated by the Integrity Commission Law No. 30 of 2011 in force, which was mentioned in Article 1 thereof in explaining the meanings of some expressions, as the above article stated the meaning of the issue of corruption.

Definition of administrative corruption: It is difficult to find a unified definition of administrative corruption, and this difficulty is due to several reasons and the multiplicity of forms of expression. Therefore, several definitions have been given for this phenomenon, and among the definitions given for administrative corruption is the definition of Transparency International, which defined it as (the exploitation of power for private benefit). As for the World Bank, it defines it as (the abuse of public office for private gain) (Ismail, 2014, p. 28). It is noticeable in the two definitions that they limited administrative corruption to the public sector without the private sector, while administrative corruption also includes the private sector, but in our opinion it is less severe than in the public sector due to the availability of serious and fair oversight in the private sector, unlike what exists in the public sector.

Administrative corruption has been defined in many ways, including the misuse of authority by the concerned employee in the public or private sector in order to achieve private moral or material gains through various illegal means, whether secretly or publicly (Al-Rifai, 2015, p. 45). Definition of financial corruption: Financial corruption in terminology is the misuse or transfer of public funds for a private interest or the exchange of funds for a specific service or influence. It is also known as "bad and deviant behavior that results in significant material losses for citizens and social institutions and affects development and then the state as a whole, which burdens it with burdens that it may be able to do without, such as debts, for example, and the state's policy may deteriorate if corruption spreads and it does not control public money."

The second requirement

Corruption Theories

Ibn Khaldun (1377, p. 325) indicates that corruption has negative effects on individuals in society with limited income, as it pushes them into poverty and the inability to secure their needs for living requirements, which is the beginning of the collapse of countries and societies. Ibn Khaldun believes that some officials may be a source of corruption by exploiting their political positions by harnessing laws and decisions for their personal interests. He also believes that the best solution to such a phenomenon is to combat it to save societies and civilizations. Ibn Khaldun agrees that the spread of corruption is due to the low level of oversight and weakness in combating such a phenomenon and the absence of transparency and integrity.

The concept of corruption can be defined linguistically as the opposite of reform and goodness, and that it is the misuse of power to achieve personal and private gain, or the use of their influence for illegitimate forms (Begovic, 2014, p. 63). Financial corruption is defined as: everything that is contrary to financial rules and regulations in order to obtain illegal financial gains or is contrary to rules and behaviors by companies or individuals to obtain personal benefits (Jlidan, 2014, p. 98). Administrative corruption is defined as: everything related to the administrative and legal aspect of companies and institutions, and it means any illegal, immoral, or material behavior issued by employees through exploiting their positions and jobs for their personal interests at the expense of the public interest, thus wasting the state's economic resources and negatively affecting the economic and social development of the state (Khader, 2016, p. 158).

The emergence of the phenomenon of corruption is due in the beginning to the low moral level and conscience of individuals practicing corruption. Ibn Khaldun urges the regulatory bodies to address corruption, monitor it and observe it through anti-corruption systems. He also urged the media to carry out the process of awareness, guidance and mobilization of public opinion to combat corruption and confront its repercussions, and to participate effectively in rebuilding and establishing national institutions that work to improve the standard of living and education of society. Among the sayings of Ibn Khaldun is that "corruption is often born only from the womb of backwardness and poverty" (Al-Duwaibi, 2006, p. 79). While the moral theory came to explain and analyze the phenomenon of economic corruption, and both (Wert, Simkin 1990, p159) who are moral scientists were interested in corruption, especially in developing countries in their book (Corruption in Developing Countries), they indicated that the main reason for the phenomenon of corruption is the love of money, gluttony and low morals, and this theory was interested in shedding light on training non-corrupt public employees (Salem, 2003, p126). The dependency theory focused on the capitalist system, which works on the fact that corruption allows for the development of developing societies, through corrupt practices to which societies are subject and through which they achieve their interests and control economically and politically. This control takes several forms, including financial aid, capitalist interests, threats to economic powers, and the distribution of political benefits. Here lies the axis of corruption in the ruling political power and foreign domination. This theory also indicates that corruption is considered functional corruption linked to certain individuals and groups, and that corruption exists at the level of external and political organizations and institutions and multinational companies, and their undertaking of parasitic, unproductive activities such as drug and spoiled food trade, black market trade, tax evasion, and other corrupt activities (Salem, 2003, p. 136). While the structural functional theory sees the importance of an ideological justification for corruption, because its idea revolves around the fact that the harms are greater than the public benefits, corruption plays a functional and structural role in managing affairs in all their forms, and the scholar Karl Frederic, (2000, p98)) believes that corruption reduces the rate and intensity of tensions, as each axis of corruption needs a certain amount of deviations and transgressions in order to grow and develop, and (Colin, 1998, p268) also believes that corruption plays a major and positive role in eliminating public routine, and despite the positive effects of corruption, there are negative and destructive effects on the individual and society (Al-Duwaibi, 2006, p86). The functional modernization theory aimed to explain the transitional phase of the phenomenon of corruption in developing countries, and to focus on social, psychological and cultural considerations as they contribute significantly to explaining the spread of the phenomenon of corruption among industrial societies, Western Europe and North America, and its increase in developing countries as well. The contributions of the theory came in supporting and supporting the dominant powers socially, and abroad, where there are unequal relations between the countries of the periphery (Nour, 2010, p. 148). The game theory is considered one of the theories that expressed corruption as part of the rational, rational calculations used by the owners of various economic interests, to make all decisions that guarantee their interests. This method is widely used in soft developing countries, and corruption in developing countries proceeds in a planned manner, as it is widely accepted by individuals and society, and it also enters into all mathematical calculations in political and economic processes (Mohamed Al-Badawi, 1998, p. 68).

Section Two

The Relationship Between Corruption and Economic Activity

First Requirement

The Relationship between Corruption and Public Debt

Public debt can be defined as: "The funds that the state borrows externally or internally from institutions and individuals when the state's revenues are not sufficient to cover its expenditures in emergency situations to achieve the government's goals by financing its development projects" (Al-Lawati, 2019, p. 45).

Public debt is one of the tools that contribute to stimulating the increase in local liquidity, and it is a financial component that can contribute to diversifying economic financing methods, and thus contribute to driving the wheel of economic growth. This study focuses on clarifying the impact of corruption on public debt, and on knowing the extent of its impact on the relationship between public debt and economic growth.

Corruption also has devastating effects on the individual and society, as it is considered a public issue represented by its social impact in eliminating the prestige of the law, which in turn poses a threat to economic growth, in addition to its administrative impact, as corruption works to redistribute income among individuals illegally, and to cause sudden changes and transformations in a short time in the social structure, because the effects of corruption exceed the economic effects in general (Amer, 2018, p. 268). Theories of the economic effects caused by the phenomenon of corruption and its impact on the levels of economic growth and public debt confirm that corruption works to cause a change in the growth rate in the average per capita share of the gross domestic product, and it also affects the rate of public debt, as

the more corruption increases, its effect increases the levels of public debt, and that public debt (linked to financing the financial deficit) can work to stimulate aggregate demand, thus leading to an increase in government spending, and thus increasing consumer spending through an increase in demand for goods and services, and on the levels of welfare and growth in society, thus increasing the inflation rate with an increase in the rate of public debt and causing a decrease in growth rates (Hamidi, 2017, p. 187). Reducing corruption can play an important role in contributing to mitigating the negative impact of public debt on economic growth and maintaining economic sustainability. Governments and international organizations should strive to improve the quality of their institutions in order to maximize the benefit from revenues in the long term (Eunji, Yoonhee, 2017, p358).

Many studies and research have revealed that public debt and its accumulation have negative effects on economic growth and on the general budget deficit, due to its impact on reducing the economic growth rate and increasing the budget deficit due to its accumulation in the long term, and increasing its local and external burdens (Sandri, Simon, 2014, p82). The effects of corruption appear on various economic aspects, including indicators of economic growth and development and on economic activity as a whole. There is also an inverse relationship between the economy's ability to compete externally and the spread of corruption, and corruption has effects on economic variables through: increasing and strengthening inflation, increasing unemployment and poverty levels, affecting economic growth, strengthening external debt, and increasing the general budget deficit (Mohsen, 2011, p257).

Despite the importance of borrowing in solving economic problems and crises that the state may go through, excessive borrowing or even exposing these funds to illegal use, through a form of corruption that primarily affects these borrowed funds, creates several problems, especially if these loans are directed towards non-productive sectors and activities (Hamidi, 2017, p. 185). On the other hand, there are negatives to borrowing, including: increasing the deficit in the general budget, and the increase in the expenditure side compared to its revenues, and thus increasing the public debt and affecting the general budget deficit by increasing as well, and affecting imports and the state's ability to import at the level of consumption, investment and production, and if this ability is exposed to weakness, it will affect the state with several economic crises, especially if the state is unable to import its basic necessities, and increasing the levels of public debt subsequently leads to an increase in the tax burden on the members of society, and borrowing leads to inflation, deterioration in national production, increased public expenditures, decreased purchasing power, and an increase in the general price level (Saleh, 2005, p. 96).

second requirement

The Relationship Between Corruption and the General Budget Deficit

The state's general budget can be defined in general through the availability of two basic elements: estimating the size of public expenditures and revenues during the next fiscal year. The other element is that it is adopted and approved by the legislative authority and agrees to the estimates of those expenditures and revenues. The government or executive authority estimates expenditures in the areas of public activity of the state in its various aspects such as education, public health, agriculture, industry, justice and other aspects of public spending. As well as estimating the revenues expected to be obtained from taxes, fees or cash issuance, and other forms and elements of the state's public revenues. Then, it presents the draft general budget of the state to the legislative authority, which in turn examines, studies and discusses it in order to ensure the soundness of the foundations on which these estimates were built, and then approves the government program intended to be implemented for the coming year. This was approved by the legislative authority of the state. This method also focused on the supervisory aspect through the supervisory bodies on the financial departments, to ensure that spending is done for the allocations allocated to it, and that these procedures are carried out in a legally sound manner, and that the expenditures have achieved the goal of spending them or are expenditures that have been paid. The budget deficit is considered a shortfall in the state's estimated revenues in paying its expenditures, and it is a negative budget balance in which the state's revenues are less than its expenditures (Aday, 2010, p. 168). The general budget may be subject to manipulation of the laws and economic systems governing economic activity in the country in order to achieve private gains for a certain group. Forms of corruption include: bribery, favoritism, embezzlement, exploitation of power and influence, tax evasion that reduces government revenues, and spending on less productive projects (Khalil, 2016, p. 378), and other illegal activities that negatively affect economic activity due to the waste of public money, slowdown in economic growth, and comprehensive development, resulting in economic crises and obstacles in the long term, threatening the security and stability of the economy in Arab countries, and that the general budget and its improvement affect achieving economic stability in treating and controlling inflation, and this is done by reducing public spending and treating the recession, and achieving stability in the general price level, by reaching high growth rates and achieving a balance in the balance of payments (Tanzi, 1998, p. 167). Corruption also negatively affects economic growth and the low level of private sector investments by increasing the volume of public investments at the expense of private investments, and leads to the deterioration of the country's infrastructure, reduces

the attraction of foreign investments, reduces job opportunities, employs less qualified and experienced people, and tax revenues, all of which exacerbates the deficit in the general budget (Amer, 2018, p. 246). Reducing corruption requires implementing strategies and plans to unify efforts to combat and fight corruption, and includes the principles of transparency, justice and governance, and implementing an advanced step to continue improving the provision of government services and internal and external investment in human capital, which are factors that reduce the level of corruption (Al-Khawaja, 2012, p. 84). One of the most prominent problems caused by corruption in the relationship between the general budget and economic growth is that it exposes public funds to waste and loss, due to the exposure of its resources to smuggling, exploitation and cases of financial corruption. This leads to an increase in their financial burdens, so countries resort to borrowing, which leads to an increase in their debt to cover their expenses and rebuild the infrastructure. These long-term loans entail high-cost debt service, thus affecting the state's general budget and economic growth. The better the rates of the gross domestic product, the better it will be for the general budget, the public debt and the standard of living of individuals. The phenomenon of financial corruption has economic and social effects.

Third requirement

The Relationship Between Corruption and Economic Growth

Economic corruption is a multifaceted and complex phenomenon that appears in several different aspects and its causes and effects vary. Corruption greatly harms economic growth levels and its effects appear clearly in the long term on economic growth. Many studies have shown the positive impact of corruption on economic growth, using several indicators of corruption, including corruption perceptions (CPI) and corruption control (CC). Corruption is also a phenomenon present in all countries, and is considered an abuse of public office (public authority/public interest), through achieving private personal interests and purposes. On the social level, corruption increases unemployment rates, crime rates in society, and the feeling of inequality and injustice among members of society, thus collapsing moral values (Abdul Majeed, 2013, p. 65).

Corruption has several effects on the level of economies as a whole in general, including economic growth, which in turn leads to a decrease in its rates through the gross domestic product, foreign direct investment, government spending efficiency, and net public exports.

There are also several theories by scholars who have explained the relationship between corruption and economic growth, including Keynesian theory confirmed that corruption has negative effects on production rates, consumption rates, government spending, local and foreign investment, and net exports. The theory also confirmed that the effects of corruption destroy economic growth and reduce investment rates and foreign aid. It also exceeded the effects of economic growth and affected the effectiveness of investment performance and the allocation of government resources, thus affecting the deficit in the general budget, foreign investment, net international trade, increasing the deficit in the trade balance, and reducing current capital. All of these factors are affected by corruption, which affects the development and prosperity of countries' growth (Abdul Majeed, 2013, p. 75). According to researcher Tanzi (1998), corruption causes the destruction of the government spending structure of countries, increases the levels of this spending, and decreases the rates of education and health. Wedma Ann, Bronson (1995) believe that corruption has a positive effect on economic growth. It is also one of the points of view that supported the idea of bribery, which they liken to the oil that drives the engine. He explained that bribery has positive effects that motivate citizens to do their work to the fullest extent, thus increasing economic efficiency and stimulating economic growth (Ann, Elliot, 2000, p. 367).

On the other hand, Knak, Keefer and Davri see that there is strong evidence of negative effects on economic growth (Lambass, 2005, p78).

(Brunetti, 1998) sees that there is a negative effect of corruption on economic growth, while Ann MO (1992) found that corruption has a negative and significant effect on economic variables, GDP, political rights, level of political stability, and capital formation (Lambss dorff, 2005, p86).

Corruption has an increasing effect on the general budget deficit, and to cover this deficit, countries resort to more borrowing and thus increase public debt, and that the funds coming from public debt are supposed to stimulate economic growth by investing these funds in projects with high productivity, but with the presence of corruption, this will not happen, and therefore it is possible that the effect of public debt on economic growth is negative in the presence of corruption, and the result that can be reached is that corruption affects the relationship between the three study variables, which are the general budget, public debt and economic growth.

2. CONCLUSION

After we finished preparing this research, we tried to clarify the nature of administrative and financial corruption and theories of corruption, and we addressed the relationship between corruption and economic growth, and we reached a set of results and recommendations as follows:

First: Results

1. There is a positive impact of corruption on public debt in the Arab countries under study, and this result is attributed to the fact that corruption works to cause a change in the rate of public debt, so the more corruption increases, the more its effect increases the levels of public debt
2. Corruption does not have an impact on the general budget in the Arab world for the countries under study

Second: Recommendations

1. The countries of the study should activate the role of anti-corruption departments by providing constitutional guarantees by encouraging them and enhancing their independence, because combating corruption has a positive impact on the gross domestic product (incentive rewards to control corruption).
2. Work to reduce public debt and review its spending, as governments must direct it to the most efficient productive sectors and reduce the direction of public debt towards consumer spending.
3. Establishing the values of integrity and justice and training employees and administrators on the importance of professional and functional behavior and interest in its ethics, through awareness campaigns and creating a state of awareness to combat corruption.

3. REFERENCES

- [1] u Al-Hussein, Ahmed bin Fares bin Zakaria, (n.) Dictionary of Language Standards, Dar Al-Fikr, Beirut
- [2] United Nations Convention against Corruption for the year 2003 issued by General Assembly Resolution No. 4/58 dated October 31
- [3] Ismail, Muhammad Sadiq (20114) Administrative Corruption in the Arab World, its Concept and Various Dimensions, Al-Manhal Printing
- [4] Boris Begovic (2014), Opinions on Corruption, Causes and Results, Publication of the Center for Special International Publications.
- [5] Jlidan, Saud (2014), Aspects of Financial Corruption, Al-Arabiya News Channel Website, Stock Markets.
- [6] Hamidi, Bani Khalid (2017), The impact of corruption on economic welfare, Journal of Economic and Financial Research, Department of Economics
- [7] Khader, Majd (2016), Definition of administrative corruption, Mawdoo3 website, Money and Business.
- [8] Khader, Majd (2020), The concept of economic growth, Mawdoo3 website, Financial Economics.
- [9] Khalil, Ahmed, (2016) Evaluating the long-term and short-term effects of local public debt on economic growth: Applied evidence on the Egyptian economy, Cairo University, Faculty of Economics and Political Science.
- [10] Al-Khawaja, Hamdi (2012), The impact of corruption on economic and social aspects, Ministry of Endowments and Religious Affairs, Anti-Corruption Commission, Ramallah, Palestine.
- [11] Al-Rifai, Salama bin Salim (2015), The National Anti-Corruption Commission and its role in combating financial corruption. A comparative study, Al-Manhal for Printing
- [12] Salem, Hanan, (2003), The culture of corruption in Egypt, a comparative study of developing countries, Cairo, Dar Misr Al-Mahrousa.
- [13] Amer, Abdullah (2018), "The Impact of Corruption on the National Economy", Dunya Al Watan Magazine.
- [14] Abdul Fadil, Mahmoud (2014) The Concept of Corruption and Its Standards, Al Mustaqbal Al Arabi Magazine, Issue 309 (Beirut, Center for Arab Unity Studies)
- [15] Abdul Majeed, Abdel Fattah (2013), Corruption and Economic Growth in Egypt, an Analytical Study, Faculty of Commerce, Mansoura University, Department of Economics.
- [16] Adai, Nour (2006), Corruption and Its Impact on the Public Economy, Iraq, Ministry of Finance, Economic Department, Tax Policy Department.
- [17] Adai, Nour, (2010), Corruption and Its Impact on the Public Economy, Ministry of Finance, Economic Department / Tax Policy Department, Baghdad.
- [18] Al Lawati, Haider (2019), What is Public Debt?, Lusail Magazine, Issue (252).
- [19] Mohsen, Alaa, (2011), A Group of Lectures on Corruption Delivered at the Financial and Accounting Training Center, Ministry of Finance, 2011.
- [20] Mohamed El-Badawy, El-Sayed Abdel-Ati and others, (1998), The nature of the sociological study of corruption in the problems of Egyptian society, Alexandria, Dar Al-Ma'rifah Al-Jami'ah.

-
- [21] Ma'badah, Adam Noah Ali (2015) The concept of administrative corruption and its standards in Islamic legislation, Damascus University Journal for Economic and Legal Sciences, Issue 2. Volume 21 (Damascus, Damascus University)

Foreign references:

- [22] Eunji Kim, Yoonher He, Sangheon Kim,) 2017), Public Debt Corruption and Sustainable Economic Growth, Korea,.
- [23] Fredman, Benjamin (1988). reckoning, n.y: random house.
- [24] Tanzi, V.; Davoodi, H.R. (2000)Corruption, Growth and Public Finances; IMF Working Paper; International Monetary Fund: Washington, DC, USA,.