

## Poverty and Inequality as Predictors of Corruption

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### Abstract

*Corruption is a widespread phenomenon and one of the major determinants of poverty. The low number of cases where corruption has been eradicated leads to the conclusion that this scourge is a persistent one, and difficult to eliminate. Combating corruption is therefore a crucial part in the poverty reduction process.*

*This study sets out to investigate the link between corruption and poverty, to show the correlation between the Corruption Perceptions Index (CPI) and poverty and inequality. Also, the paper aims to determine how the Corruption Perceptions Index has evolved at a regional and global level, as well as to analyze the level of corruption in relation to a country's development level, and the level of poverty and inequality as predictors of corruption.*

**Key terms:** Corruption Perceptions Index, gross domestic product, poverty, inequality

**JEL Classification:** C40, D12, O12

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### ➔ Introduction

Corruption is a cause of poverty and a barrier to successful poverty eradication. It could destroy the efforts of developing countries in order to alleviate poverty. The corruption's relations to poverty are numerous and common. In the public sector, corruption delays and diverts economic growth and deepens poverty. Alternatively, poverty invites corruption, as it weakens economic, political and social institutions.

Corruption affects the states' efforts to recover from a bad financial situation and the fight against poverty. Equally, corruption erodes democracy, leads to the degradation of society, and to contrasting distributions of wealth or power. (Johnston, 2005)

Broadly speaking, corruption is a departure from morality, honour and duty. As an expression of the relationship between authorities and citizens, corruption is the discretionary use of position or function, by resorting to illicit or illegal means in order to obtain personal or group interests.

High levels of corruption aggravate the living conditions of the poor by distorting the entire decision-making process connected with public sector programs. Corruption deepens poverty by hampering productive programs, such as education and health care, at the expense of larger capital intensive projects, which can provide better opportunities to extract illegal incomes. Alternatively, social and income inequalities in poor countries make greater imbalances in the distribution of power and encourage corruption (Ndikumana, 2006).

## ➤ Literature review

Specialist literature on integrity takes into account aspects that create a favourable context for unethical behaviours, identifying different causes that favour the phenomenon of corruption and explaining the differences that exist between different states from this point of view. Thus, transition countries that face the lack of resources and inappropriate pay of officials involved in fighting corruption are more exposed to corruption than rich countries that can allocate resources to anti-corruption and anti-corruption systems and to attract and retain competent people or to motivate existing ones to be immune to temptation.

Friedrich (1989) said that “we are talking about corruption whenever a power holder, a public servant or any public official is determined by financial or other rewards, such as the promise of promotion, which is not prescribed by law, to take action that favours the reward, thereby causing damage to the public and its interests”. Nye (1961) regards corruption as “activities that deviate from the formal duties of a public function in favour of private, pecuniary or status gains obtained by individuals or groups”.

Also, the political regime strongly influences the phenomenon of corruption, with presidential regimes being more affected by corruption than parliamentary ones. In this respect, Riggs (1997) notes that all presidential regimes, except for the United States, have suffered major crises (coup, civil wars) between 1900 and 1985. On the other hand, only 13 of the parliamentary regimes experienced similar experiences during this period, most of which took place in the interwar period (Germany, Italy, Spain, etc.).

The economic outlook for defining corruption provides an explanation for the much higher incidence and the much higher level of violation of public integrity rules in poor countries or in the ones transitioning to democracy and a market economy, where resources are fewer, the salaries of civil servants are low and law enforcement systems are less effective, the probability of the offender getting punished being less likely. (Radu and Gulyas, 2010)

*Poverty* is defined as an economic condition generated by both the lack of money and basic living needs, such as food, water, utilities and housing. There are different approaches and countless debates on poverty definition, but the lack of a safe and stable income, able to provide predictability of the continuous meeting of one’s basic needs, are the key elements of absolute poverty indicators. Therefore, poverty can also be defined as the economic condition of a lack of predictable and stable means to meet the basic needs of living.

The definition and the limits of poverty vary considerably between countries and nations. For example, wealthy countries generally use more generous poverty standards than poor nations. Even among the rich nations, standards are very different. Thus, there is a risk that figures will not ensure comparability between countries, even when the same method is used. (European Commission, 2010)

The Corruption Perceptions Index (CPI) is an instrument launched in 1995 by Transparency International that addresses corruption as a social phenomenon. The CPI is analyzed annually at the level of 180 monitored countries, indicating their position on the corruption perceptions. The countries’ ranking in the Transparency International ranking is based on a score of 0 to 100, where 100 is the lowest level of corruption.

The Transparency International Report for 2017 reveals corruption as a burden in more than two-thirds of states, despite attempts to combat global corruption. Reducing corruption is a lengthy process, but in recent years many countries have progressed too little or made no progress at all.

Over the past six years, the CPI score has improved significantly in several states, including Côte d’Ivoire, Senegal and the United Kingdom, while in other countries it has fallen, including Syria, Yemen and Australia.

In 2017, New Zealand and Denmark are in the top rankings with a score of 89 and 88, respectively. Syria, South Sudan and Somalia are ranked 14, 12 and 9 points, respectively. The region with the best results is Western Europe, with an average score of 66 points. The regions with the lowest results are Sub-Saharan Africa (average score 32), Eastern Europe and Central Asia (average score 34). (Transparency International, 2017)

In terms of the Corruption Perceptions Index 2017, more than two-thirds of the 180 countries and territories are below the average, from 0 (very corrupt) to 100 (without corruption).

## ➤ Research methodology

The paper addresses a quantitative research of information collection (descriptive and experimental studies, surveys) and data analysis (statistics, content analysis). The survey aims to detect how the Corruption Perceptions Index has evolved over the period 2010-2017 globally, analyzing the perceptions of corruption per capita gross domestic product (GDP) and poverty and inequality as predictors of corruption.

The methodology of scientific research is predominantly qualitative and theoretical, and in order to achieve the proposed objectives, we have used specific methods to analyze the content of reports and studies, statistical records, analyses and publications of various bodies, organizations and institutions, such as Transparency International, the World Bank, Eurostat.

In this regard, we have collected data from Transparency International Global Corruption Barometer, Global Integrity and the European Commission, the European Anti-Fraud Office and the World Bank, with the aim of analyzing corruption-related variables in the world. Variables have been used regarding the dynamics of the corruption phenomenon, such as the Corruption Perceptions Index, GDP per capita and poverty as a predictor of corruption, and the indicator of inequality in the countries of the world (GINI).

GINI represents “a multi-dimensional set of measures and actions in the fields of social protection, employment, housing, education, health, information and communication, mobility, security, justice and culture, aimed at combating social exclusion” (INSERT, 2014).

## ➤ Research analysis

The research starts from the premise that the analysis of the CPI’s global evolution is important in the present context from the perspective of understanding and combating this phenomenon.

Transparency International reports highlight the link between corruption and inequality, creating a vicious circle of corruption, unequal distribution of power in society and unequal distribution of wealth. (Transparency International, 2017)

Considering that wealthy countries can allocate more resources to put in place preventive measures and, in general, to the anti-corruption systems, we have analyzed the Corruption Perceptions Index against the level of country development, i.e. gross domestic product per capita.

Chart 1 highlights the perceptions of corruption per capita GDP at the level of sample countries in the analysis, on all continents of the globe, according to table below. As we can see, there is a close link between the level of development and the perception of corruption.

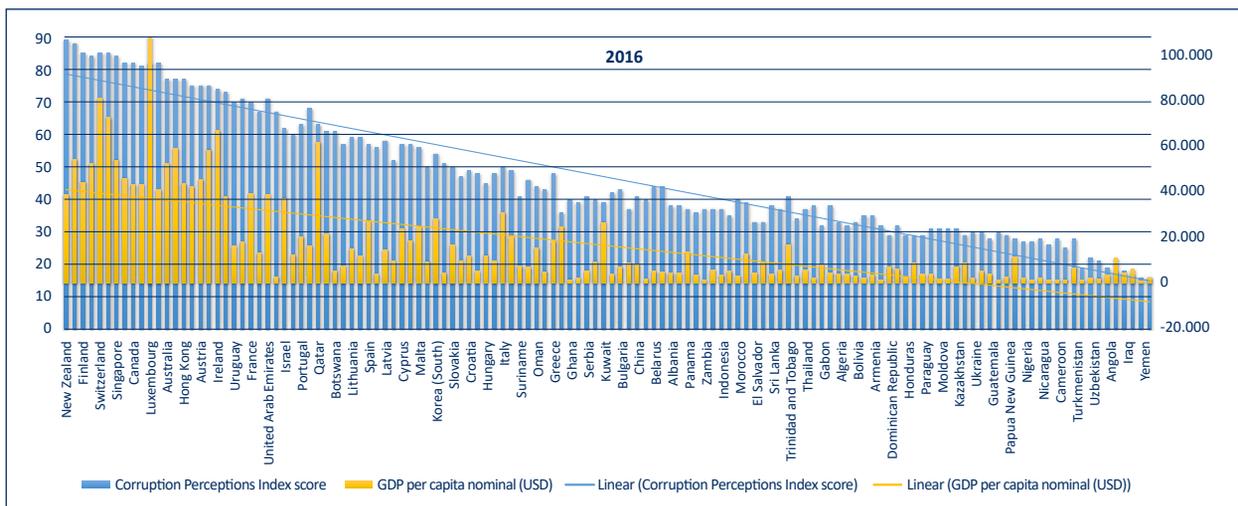


Chart 1. Evolution of the global CPI in relation to GDP per capita

Source: Made by the authors according to the World Bank, Transparency International.

### Countries in CPI vs. GDP analysis

Country	CPI score	GDP per capita nominal (USD)	Country	CPI score	GDP per capita nominal (USD)	Country	CPI score	GDP per capita nominal (USD)	Country	CPI score	GDP per capita nominal (USD)	Country	CPI score	GDP per capita nominal (USD)	Country	CPI score	GDP per capita nominal (USD)
New Zealand	90	38,066	France	69	38,537	Korea (South)	53	27,633	Bulgaria	41	7,091	Thailand	35	5,662	Guatemala	28	4,102
Denmark	90	53,243	Chile	66	12,910	Namibia	52	4,428	Brazil	40	8,587	Timor-Leste	35	2,104	Myanmar	28	1,307
Finland	89	43,492	United Arab Emirates	66	38,050	Slovakia	51	16,648	China	40	8,261	Gabon	35	7,741	Papua New Guinea	28	2,517
Sweden	88	51,604	Bhutan	65	2,635	Malaysia	49	9,546	India	40	1,719	Guyana	34	4,492	Lebanon	28	11,271
Switzerland	86	79,578	Israel	64	36,557	Croatia	49	11,858	Belarus	40	5,092	Algeria	34	4,129	Nigeria	28	2,260
Norway	85	71,497	Poland	62	12,309	Jordan	48	5,092	Jamaica	39	4,870	Egypt	34	3,806	Mauritania	27	1,244
Singapore	84	53,053	Portugal	62	19,759	Hungary	48	11,903	Albania	39	4,210	Bolivia	33	3,276	Nicaragua	26	2,115
Netherlands	83	45,210	Barbados	61	15,955	Romania	48	9,439	Bosnia and Herzegovina	39	4,289	Vietnam	33	2,164	Bangladesh	26	1,404
Canada	82	42,319	Qatar	61	60,733	Italy	47	30,294	Panama	38	13,515	Armenia	33	3,596	Cameroon	26	1,303
Germany	81	42,326	Slovenia	61	21,370	Saudi Arabia	46	19,922	Mongolia	38	3,704	Pakistan	32	1,474	Kenya	26	1,522
Luxembourg	81	105,829	Botswana	60	5,082	Suriname	45	7,347	Zambia	38	1,231	Dominican Republic	31	7,083	Turkmenistan	22	6,694
UK	81	40,412	Dominica	59	7,412	Montenegro	45	6,809	Colombia	37	5,623	Ecuador	31	5,997	Cambodia	21	1,228
Australia	79	51,593	Lithuania	59	14,899	Oman	45	15,080	Indonesia	37	3,636	Honduras	30	2,551	Uzbekistan	21	2,131
Iceland	78	57,889	Costa Rica	58	11,749	South Africa	45	5,018	The FYR of Macedonia	37	5,060	Mexico	30	8,699	Republic of Congo	20	1,981
Hong Kong	77	42,963	Spain	58	27,012	Greece	44	18,078	Morocco	37	3,101	Paraguay	30	3,986	Angola	18	3,360
Belgium	77	41,491	Georgia	57	3,908	Bahrain	43	24,119	Argentina	36	12,425	Azerbaijan	30	3,759	Venezuela	17	10,755
Austria	75	44,561	Latvia	57	14,141	Ghana	43	1,551	El Salvador	36	4,330	Moldova	30	1,872	Iraq	17	4,334
USA	74	57,294	Grenada	56	9,600	Solomon Islands	42	2,028	Maldives	36	9,247	Djibouti	30	1,908	Libya	14	6,169
Ireland	73	65,871	Cyprus	55	23,425	Serbia	42	5,294	Sri Lanka	36	3,870	Kazakhstan	29	7,138	Yemen	14	1,075
Japan	72	37,304	Czech Republic	55	18,326	Turkey	41	9,317	Peru	35	5,727	Russia	29	8,838	Sudan	14	2,381
Uruguay	71	15,864	Malta	55	24,298	Kuwait	41	26,146	Trinidad and Tobago	35	16,717	Ukraine	29	2,052			
Estonia	70	17,896	Mauritius	54	9,322	Tunisia	41	3,777	Philippines	35	2,991	Iran	29	5,124			

Reporting the Corruption Perceptions Index to the population’s poverty level is relevant. Poverty is often defined by economic standards based on income levels and access to basic human needs, such as food, water and housing. Poverty is often described as ranging from extreme to moderate. The World Bank is the main source of global information on extreme poverty and sets the international poverty line. The poverty line was revised in 2015 – since then, a person is considered to be in extreme poverty if he or she lives with less than 1.9 USD per day. This measure of poverty is based on the monetary value of a person’s daily consumption. (Roser and Ortiz-Ospina, 2017)

Taking into consideration the World Bank’s ranking of countries according to the percentage of their population with an income of less than 1.9 USD purchasing power parity, and analyzing globally, according to Charts 2 and 3, it can be seen that the Corruption Perceptions Index decreases linearly, as the poverty level increases.

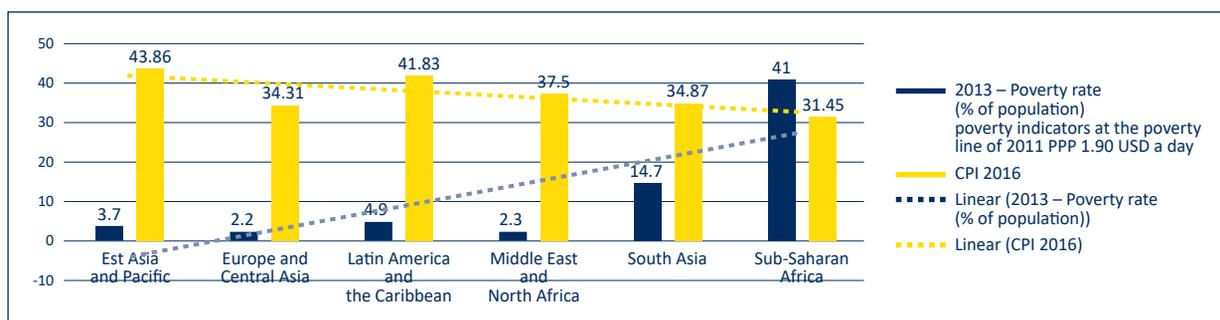


Chart 2. CPI in relation to the population’s poverty level

Source: Made by the authors according to the World Bank, Transparency International.

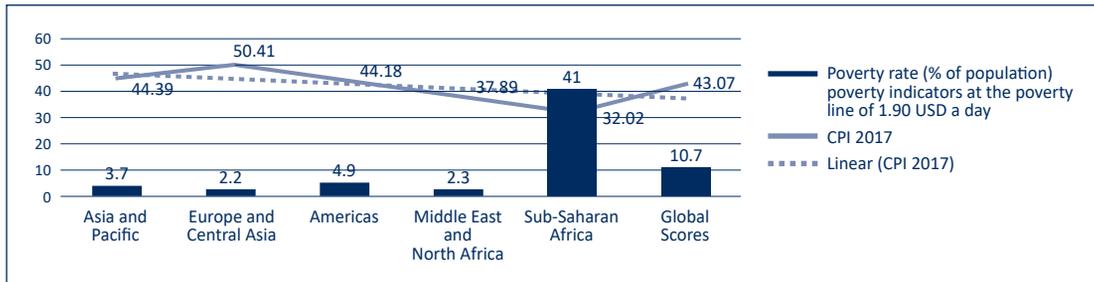


Chart 3. CPI in relation with the extreme poverty indicator  
 (Percentage of population living with less than 1.90 USD per day)

**Source:** Made by the authors according to the World Bank, Transparency International.

The rankings describing the global corruption situation, the analysis made in the present paper (Charts 2 and 3 above), reporting the CPI to gross domestic product per capita, the population poverty level and the indicator of inequality shows a higher degree of corruption in poor countries and a lower degree in rich ones.

### ➔ Conclusions

Studies and polls conducted to quantify the corruption perception increase corruption awareness and create the necessary premises to combat this scourge. Also, tools for assessing the effectiveness of the fight against corruption, as well as the methods used in this respect are created.

Transparency International reports show that, despite attempts to combat global corruption, most countries are developing very slowly in this respect. Reducing corruption is a lengthy process, but in recent years many countries have progressed very little or not at all, with CPI scores improving significantly in just a few states, including Côte d’Ivoire, Senegal and the United Kingdom, while worsening in other countries, such as Syria, Yemen and Australia.

Overall, there are no significant changes in the Corruption Perceptions Index in 2017. Stagnation does not indicate that the fight against corruption has improved, but rather the opposite, not even New Zealand having scored the perfect score of 100 points in recent years. Only a few countries are showing small incremental changes indicating signs of improvement among the world’s states, with scores of over 80 points: New Zealand – 89, Denmark – 88, Finland, Norway, Switzerland – 85 points each, Singapore, Sweden – 84 points each, Canada, the Netherlands, Luxembourg and the United Kingdom – 82 points each, and Germany – 81 points. Countries in northern Europe are considered to be the least corrupt, but specialists foresee the possibility that they may experience an increase in acts conflicting with moral norms, thus confirming the theories that corruption affects all states of the world and reinforcing arguments in favour of identifying effective means to control and maintain this phenomenon as low as possible.

### ➔ Results

As shown in the table above, New Zealand and Denmark are in the top rankings in 2017 also, with a score of 89 and 88, respectively. Syria, South Sudan and Somalia are ranked 14, 12 and 9 points, respectively. The region with the best results is Western Europe, with an average score of 66 points. The regions with the weakest results are Sub-Saharan Africa (average score 32), Eastern Europe and Central Asia (average score 34). (Transparency International, 2017)

As can be easily seen in Chart 4, the only countries in the world that consistently achieve a score close to the maximum of 100 points in each of the 7 years under review are New Zealand and Denmark. On the opposite side, the most corrupt countries in the world are North Korea, Somalia and Afghanistan.

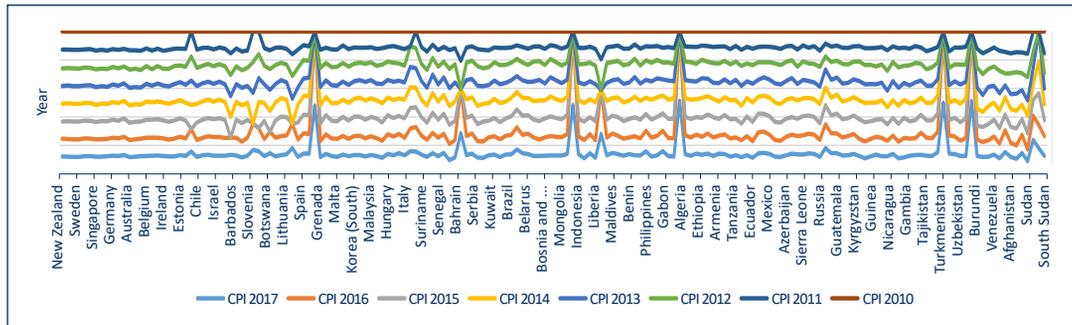


Chart 4. Global CPI

**Source:** Made by the authors according to Transparency International, 2017.

Countries with good scores on the Corruption Perceptions Index (i.e. countries considered less corrupt) tend to have good indicators related to the gross domestic product, as a measure of development level, as well as good indicators when it comes to measuring population poverty and inequality.

In the analysis of corruption, inequality is important and needs to be addressed, as it slows down the reduction of poverty. Combating and limiting inequality leads to poverty reduction, generating economic growth. Addressing inequality is an important means of combating absolute poverty, with the World Bank providing data on income inequality for most countries in the world.

A common measure of inequality is the GINI index, whereby the World Bank measures annually the extent to which the distribution of income (or, in some cases, consumption expenditure) between individuals or households in an economy deviates from a fairly equal distribution.

In the World Bank data, the index varies from 0 to 100: a country with a total revenue distribution, where each person received the same income, would have a GINI of 0; a country with a completely uneven distribution, where a person has earned all the money, and everyone else has earned nothing, would have an index of 100. Thus, a 0 GINI index represents perfect equality, while an index of 100 points represents major inequality.

As can be seen from Chart 5, the link between corruption and inequality is evident globally; there is a vicious circle between corruption, the unequal distribution of power in society and the unequal distribution of wealth.

By comparing CPI 2017 with the GINI, in order to establish the interdependence relationships between them, one can see a correspondence of the changes recorded by the Corruption Perceptions Index in relation to the GINI indicator, the two indicators being in an obvious interdependence.

We used the graphical method to compare the two sets of values representing the GINI and the CPI 2017 Corruption Perceptions Index, respectively, to establish the link between them, as shown in the Chart 5 down below.

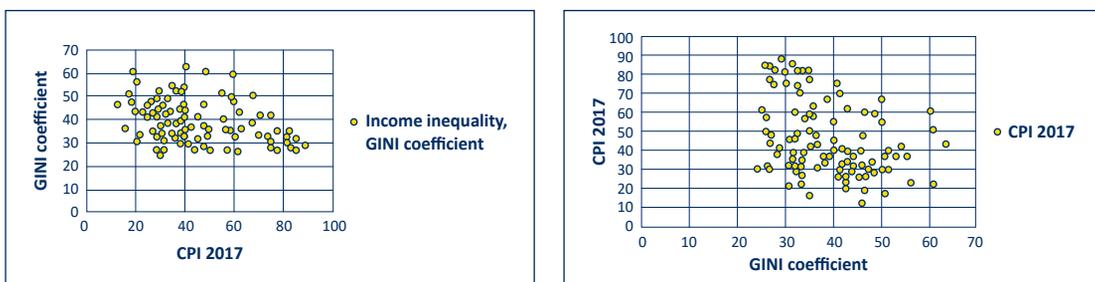


Chart 5. Global perceptions of corruption percentage reported to the inequality coefficient GINI

**Source:** Made by the authors according to the World Bank, Transparency International.

As it results from this paper (Charts 1 and 2 above), it is worth noting that the Corruption Perceptions Index has a favourable trend, depending on the evolution of the gross domestic product.

Also, from Chart 6 below we can see that there is a close link between the corruption perceptions index and the population's poverty level, expressed as the percentage of the population in a country with an income of less than 1.9 USD.

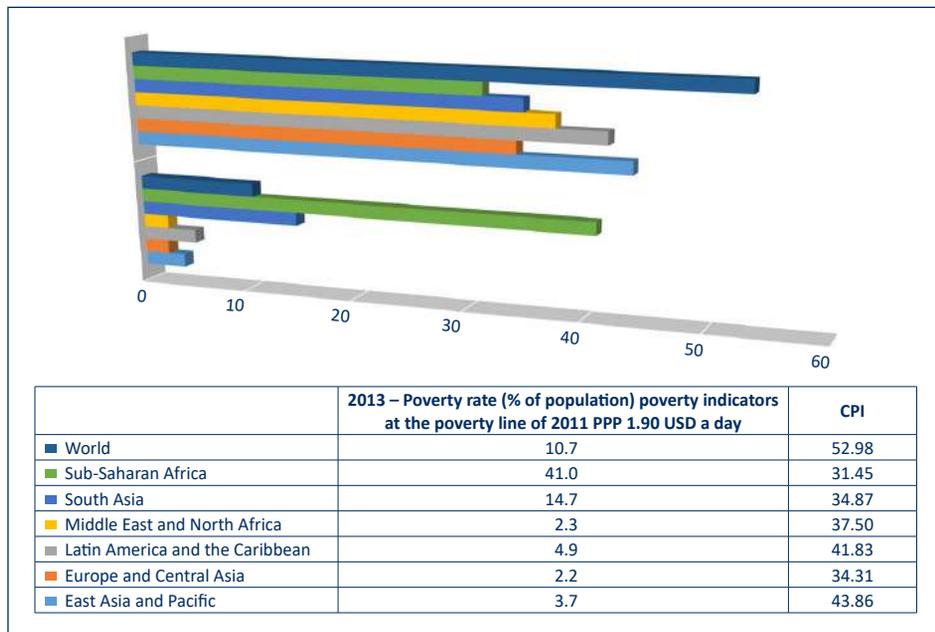


Chart 6. CPI against the poverty level of the population

Source: Made by the authors according to the World Bank, Transparency International.

The results of this analysis reveal a close link between the Corruption Perceptions Index, the global poverty level and GINI, confirming the hypothesis that they are stronger corruption predictors than the gross domestic product per capita.

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