

## THE EVOLUTION AND THE IMPACT OF CORRUPTION AT THE EU LEVEL

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### Abstract

Corruption is a form of abuse of power in order to gain personal and private earnings, which can often take different forms, posing a real danger to national and European communities/population. Corruption can sometimes be a facilitator for terrorism, crime, tax evasion, money laundering, etc., which affects the economic growth by establishing a business uncertainty. This phenomenon is widespread at European and national level, and the mode of manifestation and its nature may differ from state to state. This generates a domino effect at European Union level, through inefficient functioning of the market and lower investments.

The aim of this article is to present the evolution of corruption in the European Union, as well as to analyze the connection of the political stability and corruption using both parametric (Pearson correlation coefficient) and nonparametric (Kendall correlation coefficient) methods. Also, in this article I highlighted the fight against corruption from the European Authorities and Institutions, as well as some example of corruption in countries where the Transparency Corruption index reveals a low corruption.

The education in the sense of building an entire society based on integrity, correlated with the anti-corruption legislation and the establishment of new institutions that can investigate and punish illegal deviations, will provide the premises for combating this phenomenon.

### Keywords

Corruption, European Union, political stability, Corruption Perceptions Index, Innovation

### JEL Classification

D7, D73

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### Introduction

Corruption favors the creation of a framework conducive to organized criminal activities, as a result of the assistance offered to criminals in carrying out illegal activities through the complicity of some public officials or corrupt politicians. According to the convention

adopted at the 1999 European Council, corruption "directly or indirectly solicits, offers, grants or accepts a financial incentive or any other type of undue benefit, which leads to changes in actions or behavior normal of the one who receives the incentive in favor of the one who offers it" (Iamandi and Dorobanțu, 2007). According to the World Bank, corruption is "defined as the abuse of public or corporate office for private gain" (World Bank Global, 2005) in the same direction, Transparency International (TI) approaches this concept, in a broad sense, as "the abuse of power entrusted to obtain of private interests or benefits" (Corruption Perception Index, 2019).

At the same time, the phenomenon of corruption, with its roots since ancient times, is considered the most serious and widespread mode of action that perverts the administration of public affairs (Conseil de l'Europe, 1996). Thus, this crime undermines the rule of law and democratic governance, with negative effects on economic and entrepreneurial development, being a hindrance to investment and economic growth (Mauro, 1995). According to Friedrich's definition, from the perspective of the public interest, corruption designates the situation in which a civil servant, power holder or occupant of a public office takes actions that are not provided by law in favor of the one who offers rewards, resulting in public injury (Friedrich, 1999). Addressing corruption from the perspective of public or official duties designates the corrupt behavior that can be manifested in the daily activities, which may deviate from the public function indices, formally in favor of private or status gains, obtained by certain groups or individuals (Nye, 1961). From an economic point of view, corruption is "a process of transfer from a predetermined system of prices to mechanisms characteristic of the free market" (Caiden and Caiden, 1999). Thus, will the authorities in the fight against corruption balance what is more efficient: eliminating the elements that benefit the corruption or will they apply punishments? (Klitgaard, 1988) Removing monopoly positions, or creating alternatives and benefits for the citizens, can create positive and visible results in both preventing and fighting corruption (Radu and Gyula, 2010).

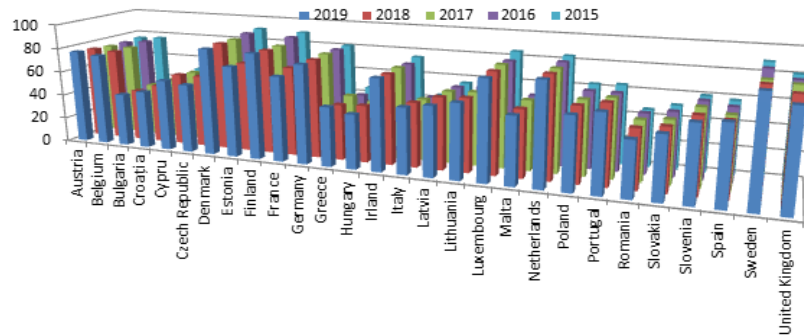
The competitive business environment can expose companies to bribe-taking, corruption or fraudulent financial operations. The discovery and the route of the illegal transactions can go through several jurisdictions, which has led to the establishment of independent bodies to investigate and punish these activities. According to Interpol, the effects of corruption are numerous and can occur in all areas, from economic, social, political undermining to threatening the security of states. In order to prevent this phenomenon, political will and intervention are needed, as well as the training of young people (students, researchers) to face the negative effects of corruption. In the field of corruption, it is intended to implement projects with attributions in research, innovation, education, through the Europe 2020 strategy (European Commission, 2014) and the initiative "A union of innovation using the implementation tool - Horizon 2020".

The aim of this article is to present the evolution of corruption in the European Union, as well as to analyze the connection of the political stability and corruption using both parametric (Person correlation coefficient) and nonparametric methods (Kendall correlation coefficient). Also, in this article I highlighted the fight against corruption form the European Authorities and Institutions and some example of corruption in countries where the Transparency Index reveals a low corruption. For this article I used both research methods: quantitative and qualitative.

### **Corruption at EU level**

The European Union is facing this phenomenon, which has led to the emergence of a tool designed to measure corruption, the global barometer on corruption of International Transparency. This measures every year the degree of corruption perceived in the public

sector of each country the total of 180 countries, starting with the year 1995. Thus, at European Union level, in 2019 we find a share of 66 out of 100 average score, according to the barometer "0 is highly corrupt and 100 very clean" (Corruption Perceptions Index Report, 2019). Western Europe and European Union has the best score in terms of corruption, but this does not confirm that this region is not covered by it. At the top of the countries, regarding the lowest degree of corruption, we find Denmark (87/100), which ranks 1st in the world countries, followed by Finland (86/100) and Sweden (85/100). At the opposite pole we find Hungary with a coefficient of (44/100), followed by Romania (44/100); the last in the European ranking is Bulgaria with (44/100). In order to observe the evolution of the countries within the European Union, we made a chart with their coefficients starting with 2015 and until 2019 (Fig. no. 1).



**Fig. no. 1 Evolution of the corruption perception index 2019 in the European Union from 2015-2019**

Source: *Corruption Perceptions Index 2019*

Although Western Europe and European Union recorded the best coefficient in the world, this does not prevent them from the phenomenon of corruption. The countries with the highest score in terms of corruption - Denmark, Switzerland and Iceland (Corruption Perceptions Index Report, 2019) - have still registered cases of corruption or money laundering. These cases occur as a result of the impact that big companies have on the national economy, offering them political support and relieving them of certain social responsibilities. Anti-money laundering actions can often be tricked or bypassed by powerful companies and banks that have resources, but are not willing to pay. Following the scandal in Denmark as a result of money laundering by the largest bank, Danske Bank, other banks with the same suspicions (suspicious management of payments made by non-resident client - Estonia and Russia) were investigated in countries such as Sweden- Swedbank and Germany-Deutsche Bank. Ericsson, the Swedish giant, will pay a fine to US authorities worth \$ 1 billion as a result of the bribe it has taken over 16 years in contracts with countries such as Vietnam, Indonesia, Kuwait, etc. (BBC News, 2019).

### **The connection between political stability and corruption and the Research methodology**

This type of financial economic crime, degrades the public system, but at the same time hinders the development and activity of the national and European business environment. From the perspective of the business environment, corruption generates a state of uncertainty, reduction of processes and even additional costs, making a place less pleasant for attracting private investments. This implicitly leads to a noticeable decrease of competitiveness and it means that the economy will no longer be able to capitalize at its full potential.

Taking into consideration the **Political Stability Index- PS** - (Political Stability Index and Absence of Violence/ Terrorism- from the Worldwide Governance Indicators – WGI provided by the World Bank, Whereby financial and economic organizations provide estimates of domestic political stability in countries around the world and based on the mix of indicators that measure the perception of governments likelihood of being overturned of acts of violence up to terrorism) and the **Corruption Perception Index –CPI** - from the EU countries for the period of 2015-2018 we analyzed the connection between this two variable using a dendrogram to identify states by shared similarities and both parametric methods (Person correlation coefficient) and nonparametric methods (Kendall correlation coefficient).

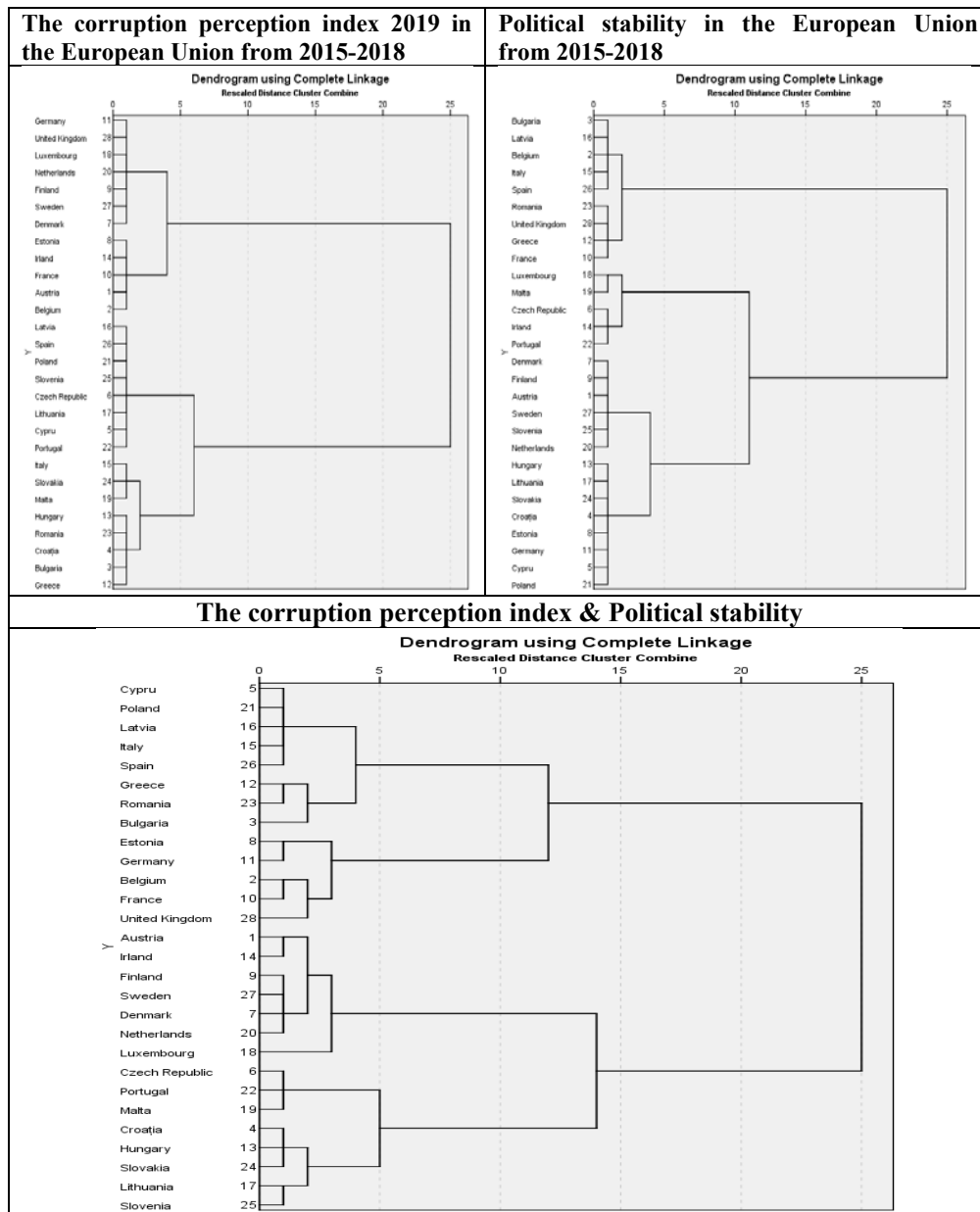


Fig. no. 2 Dendrogram UE states 2015-2018

For each of the indicators used in the analysis, for the period 2015-2018, a dendrogram was constructed on the basis of which a grouping of EU states can be identified according to the existing similarities.

Thus, the CPI groups the EU states into two main clusters which include the following states (Fig. no.2):

**Cluster 1:** Germany, United Kingdom, Luxembourg, Netherlands, Finland, Sweden, Denmark, Estonia, Ireland, France, Austria, Belgium

**Cluster 2:** Latvia, Spain, Poland, Slovenia, Czech Republic, Lithuania, Cyprus, Portugal, Italy, Slovakia, Malta, Hungary, Romania, Croatia, Bulgaria, Greece

It can be seen from the dendrogram that each of the two other groups, Romania being included in the group with countries such as: Italy, Slovakia, Malta, Hungary, Croatia, Bulgaria, Greece, countries that are prone to corruption.

The analysis based on **PS** allows the identification of three clusters for the EU member states (Fig. no. 2):

**Cluster 1:** Bulgaria, Latvia, Belgium, Italy, Spain, Romania, United Kingdom, Greece, France.

**Cluster 2:** Luxembourg, Malta, Czech Republic, Ireland, Portugal.

**Cluster 3:** Denmark, Finland, Austria, Sweden, Slovenia, Netherlands, Hungary, Lithuania, Slovakia, Croatia, Estonia, Germany, Cyprus, Poland.

If the EU states are grouped by the simultaneous use of the two indicators (*The corruption perception index & Political stability*), four clusters are obtained as follows (Fig. no. 2):

**Cluster 1:** Cyprus, Poland, Latvia, Italy, Spain, Greece, Romania, Bulgaria

**Cluster 2:** Estonia, Germany, Belgium, France, United Kingdom

**Cluster 3:** Austria, Ireland, Finland, Sweden, Denmark, Netherlands, Luxembourg

**Cluster 4:** Czech Republic, Portugal, Malta, Croatia, Hungary, Slovakia, Lithuania, Slovenia

To highlight the connection between The Corruption Perception Index and Political stability, there were used both parametric (Person correlation coefficient) and nonparametric methods (Kendall correlation coefficient). (Fig. no. 3)

Correlations												
		PS2015	PS2016	PS2017	PS2018		CPI2015	CPI2016	CPI2017	CPI2018		
Kendall's tau_b	CPI2015	Correlation Coefficient	.390**	.369**	.305*	.289*	PS2015	Pearson Correlation	.559**	.524**	.501**	.505**
		Sig. (2-tailed)	.004	.006	.024	.033		Sig. (2-tailed)	.002	.004	.007	.006
		N	28	28	28	28		N	28	28	28	28
	CPI2016	Correlation Coefficient	.369**	.353	.283*	.257*	PS2016	Pearson Correlation	.493**	.455*	.435*	.436*
		Sig. (2-tailed)	.006	.009	.036	.057		Sig. (2-tailed)	.008	.015	.021	.021
		N	28	28	28	28		N	28	28	28	28
	CPI2017	Correlation Coefficient	.367**	.351*	.281	.260*	PS2017	Pearson Correlation	.463*	.413*	.396*	.402*
		Sig. (2-tailed)	.007	.010	.038	.055		Sig. (2-tailed)	.013	.029	.037	.034
		N	28	28	28	28		N	28	28	28	28
	CPI2018	Correlation Coefficient	.385**	.374**	.299*	.273	PS2018	Pearson Correlation	.379*	.324	.312	.313
		Sig. (2-tailed)	.004	.006	.027	.044		Sig. (2-tailed)	.047	.093	.106	.104
		N	28	28	28	28		N	28	28	28	28

\*\* . Correlation is significant at the 0.01 level (2-tailed).  
 \* . Correlation is significant at the 0.05 level (2-tailed).

**Fig. no. 3 Correlation Coefficient Pearson, Correlation Coefficient Kendall**

The correlation matrices obtained show the existence of direct links, of moderate intensity, statistically significant, between CPI and PS, being highlighted the highest values of correlation coefficients, significant for a level of 1%.

The dependence between PS and CPI, modeled by means of the regression equation  $PS = 36,309 + 0.518 * CPI$  is a statistically significant one for a significance level of 1%. Both coefficients of the model are statistically significant for a level of 1%.

The values of the two coefficients show that a CPI level close to zero determines PS values between 15,482 and 57,136, for a 95% probability, while an increase in the CPI value with 10 determines a PS increase with a value between 2.08 and 8.27, for a probability of 95%.

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R	0.5588					
R Square	0.3122					
Adjusted R Square	0.2858					
Standard Error	11.8662					
Observations	28					
<i>ANOVA</i>						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	1661.959	1661.959	11.803	0.002	
Residual	26	3660.950	140.806			
Total	27	5322.908				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	36.309	10.132	3.584	0.001	15.482	57.136
CPI	0.518	0.151	3.436	0.002	0.208	0.827

**Fig. no. 4 Regression Analysis**

In this case, political stability is an important factor that can influence corruption in terms of its evolution and operating methods. Only by political stability and a state free of abuses from high-ranked governors, the development of corruption can slow down and mitigate its impact over a country, becoming less likely to harm states companies and its citizens. Thereby, to counteract the phenomenon of corruption, political stability and actions against terrorism are needed, in order to discourage criminals and potential criminals from carrying out an illegal activity, which will generate a state of safety for the European citizens regarding the public authorities that handle this situation. Also, political stability represents the guarantee that the state and its institutions function properly, in legal and ethical parameters. The effects will also be felt in the business environment, by increasing the confidence of the entrepreneurs and investors in the regarded countries, making the European Union an attractive and competitive market.

The awareness of corruption-related issues across the political environment sets clear and tangible objectives, prioritizing the application of anti-corruption policies, to create a sense of political responsibility. Also, this phenomenon that takes place in the public institutions lowers the confidence of the citizens in the public administration's decisions. This provides a favorable framework for the development of the business environment. The lack of trust and continued uncertainty make it difficult for countries to develop a long-term strategy, impacting on the commitment of private companies to implement a sustainable development strategy (OCDE, 2013).

Thus, corruption has a strong impact on national policies as well as on the EU level; a fact that derives from the provisions of the Treaty on the Functioning of the European Union, which identifies corruption as part of the crime in which the Member States must act according to a common action, because this type of crime can have cross-border dimensions (TFEU, art. 83.1). The Commission, with the adoption of the Stockholm Program (European Council, 2010), has received a political mandate with attributions in measuring the efforts made in the fight against corruption, as well as the development of a policy to combat it at EU level, together with GRECO - the Council of Europe Group of States against Corruption. Currently, the competent national authorities can investigate and prosecute fraudulent actions against the EU budget, only in the national territory, and the bodies of the European Union - OLAF, Eurojust, Europol - do not have powers in criminal investigation and prosecution, which is why the European Public Prosecutor's Office (which will set up to

be functional at the end of 2020), an independent and decentralized office of the European Union will have powers in the investigation, prosecution, trial of offenses related to the European budget, such as fraud, corruption, etc. (European Public Prosecutor's Office, 2019).

### **Conclusions**

Corruption is a difficult phenomenon to eradicate due to the complexity of the process and the ability to adapt to different economies and regimes.

The article highlights the fact that although some states have lower degrees of corruption, they can still face major cases of corruption. Through parametric (Person correlation coefficient) and nonparametric methods (Kendall correlation coefficient) we demonstrated the direct connection of moderate intensity, statistically significant between the CPI and PS, as well as the dependence between PS and CPI. Therefore, stability at political level (national and European), together with the implementation of a strategy designed to educate and raise awareness among researchers and citizens, will be considered as actions to fight and reduce corruption.

The education in the sense of building an entire society based on integrity, correlated with the anti-corruption legislation and the establishment of new institutions that can investigate and punish illegal deviations, will provide the premises for combating this phenomenon.

Through the Europe 2020 strategy, the Innovation Union initiative and with the help of the implementation instrument - Horizon 2020 (European Commission, 2014), new institutions that can investigate and punish illegal deviations and cases of corruption can be established. The measures adopted, as well as favoritism or conflicts of interest must be harmonized and correlated with changes in mentality and education in confronting this phenomenon. Equally important is the need of structural changes from within the core of the communities and public institutions, starting with the individuals. This should be complementary to a legislative framework that aims to ensure formal compliance, but also structural changes, starting from the individual to the communities and public institutions, and not just by creating a legislative framework that will ensures formal compliance.

In order to increase the number of jobs and investments, performance monitoring actions should be a key action in the fight against corruption, in order to achieve the performances of increasing investments and jobs; this should also be supported by the harmonization of European anti-corruption legislation by ensuring a common legislative framework of legislation. On one hand, this will allow the fight against corruption on several sectoral levels worldwide. On the other hand, the supporting measures for the State Members should consist of funded support for research and workshops that aims to share practices and experiences for the fight against corruption.

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