

## Corruption, Inequality, Poverty and Social Exclusion in Europe

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**ABSTRACT :** *Corruption is a major problem in the world and in the entire Europe. It represents a widespread phenomenon and a problem faced by all countries of the world, and the low number of cases in which corruption was eradicated leads to the conclusion that this flagel is a persistent one, once installed being hard to eliminate. Defining and establishing the magnitude of this phenomenon is in the attention of Transparency International, which conducts researches and periodical surveys elaborating reports with comparative results in order to identify the dynamics of the Corruption Perceptions Index in the countries included in the research.*

*In the European Union "corruption continues to be one of the biggest challenges, a phenomenon which costs the EU economy approximately 120 billion euros annually", is shown in a European Commission release (European Commission, 2014).*

*The paper sought to determine how the Corruption Perception Index (CPI) has evolved in Europe and to carry out an analysis of the corruption level in relation to the development level of a country, and in relation to the level of poverty, inequality and social exclusion recorded in 2010-2016.*

**Keywords:** *corruption, Europe, Gross Domestic Product, poverty, inequality.*

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

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### I. INTRODUCTION

Corruption is the abuse of power entrusted for private interest. As Michael Johnston points out, there are many types of corruption, depending on the political, economical and local cultural contexts of different states, and this phenomenon not only that it affects the states efforts to recover the financial status and their poverty countermeasures, but it erodes democracy and leads to society degradation and to contrasting wealth or power distributions. (Johnston, 2007)

Over time there have been developed several theories about the causes that lead to unethical behavior. Plato believed that human greed is the source of corruption, and this erodes the moral values of the community and its common goals (Warren, 2004). From this perspective, corruption is facilitated when "people with a negative character get into positions of power. The solution, therefore, is the development of an appropriate regulatory system and an efficient implementation mechanism" (Caiden and Caiden, 1999, pp. 61-62).

Corruption is the use of public positions to gain personal benefits; the more these "official positions" (the case of state-owned enterprises), the more corruption opportunities there are. In addition, in states exercising their power in an intensive and extensive way, the degree of public integrity is substantially lower.

Democratic countries are characterized by reduced degrees of intensity and extensivity in the exercise of power. In education, for example, the civil society and the private sector have important roles, just as there are areas such as culture or religion where state control is minimal (Wrong, 2002, pp. 14-16).

At the moment, the literature on integrity in the public sector takes into consideration the aspects that create a favorable context for appearances of unethical behaviours, identifying different causes that favor the corruption phenomenon and explaining the differences that exist between different states from this point of view.

Countries in transition are facing lack of resources and inappropriate wages for officials involved in fighting corruption, which can bring difficulties in attracting and retaining competent people or motivating the ones that exist to be immune to temptation.

Cultural and traditional issues have a very important impact on the corruption phenomenon. Society develops its own rules and practices that govern relations between people when legislation is not well developed and the state does not regulate or exercise its authority firmly.

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Unethical practices can find their roots in the traditions and culture of a particular people. In the Phanariot regime, the sale and purchase of public positions, beginning with the ruler, which was traded in Istanbul, was a common practice. Also, at that time, trading of official positions was widespread in France, England, and Sweden. In this regard, we note the answer that Alexandru Ghica (Voivode/Prince of Wallachia) gave to an English diplomat who asked him why it is desired to bring a foreign prince on the throne of the future unified state: "if I would have installed myself as ruler, I would be compelled by our habits to name my relatives, friends, protégés in all the official positions". (Armeanu, 2014)

Also, the political regime strongly influences the corruption phenomenon, with presidential regimes being more affected by corruption than parliamentary ones. Presidential regimes are less compatible with what we call consolidated democracy, meaning the stable, long-term functioning of democratic institutions. In this regard, Fred Riggs found that all presidential regimes, except for the United States, suffered major crises (coup d'état, civil wars) between 1900-1985. On the other hand, only 13 of the parliamentary regimes experienced similar events during this period, most of which took place in the interwar period (Germany, Italy, Spain, etc.) (Riggs, 1997).

According to Friedrich's definition: "the pattern of corruption may be said to exist whenever a power holder who is charged with doing certain things, that is, a responsible functionary or office holder, is by monetary or other rewards, such as the expectation of a job in the future, induced to take actions which favour whoever provides the reward, and thereby damages the group or organization to which the functionary belongs (more specifically, the government and, other socio-economic Institutions)" (Friedrich, 1999, p. 15).

Nye considered corruption to be a „behaviour that deviates from the formal duties of a public role (elective or appointive) because of private-regarding (personal, close family, private clique) wealth or status gains" (Nye, 1961).

"From an economical perspective „corruption is a transfer process from a predetermined price system to mechanisms characteristic of the free market" (Caiden and Caiden, 1999, p. 63). Transfer to market economy mechanisms represents the abandonment of provided criteria in the legislation or their supplementation, such that it creates a balance between supply and demand or between costs and benefits.

The definition of corruption from an economic perspective gives us an explanation for the much higher incidence and the much higher level of rules regarding public integrity violation in poor or transition countries towards democracy and market economy, where the resources are fewer, public official salaries are lower and law enforcement systems are less effective, the likelihood of the offender being punished being less likely." (Radu, L. and Gyula, G., 2010)

Transparency International is investigating the concept of corruption as a social phenomenon. Polls used to elaborate the index include questions about abusive use of public power and focuses on: bribery of public officials, bribery in public procurement, public funds embezzlement, as well as on questions that assess the strength and effectiveness of anti-corruption efforts in the public sector.

The Corruption Perceptions Index (CPI), an instrument launched in 1995 by Transparency International, is analyzed annually in 178 monitored countries, indicating their position regarding the perception of corruption.

The latest Transparency International report, 2016, underlines the perception that Denmark and New Zealand have recorded the best performances with 90 points scores, followed closely by Finland (89 points), Sweden (88 points) and Norway (87 points). These top ranking countries are sharing features such as: an open government, press freedom, civil liberties and an independent judicial system.

Among the EU countries, the best scores, more than 80 points, were scored by the Netherlands (83 points), Germany, Luxembourg and the UK, with 81 points each.

Countries in northern Europe are considered to be the least corrupt, but specialists in the field foresee the possibility that they may experience an increase in acts in conflict with moral norms, confirming theories that corruption affects all states of the world and reinforcing arguments in favor of identifying effective means to control and maintain this phenomenon within as little as possible.

The research starts from the premise that analyzing the evolution of corruption perceptions in Europe is important in the present context for understanding and combating the phenomenon.

As you can see in attached tabel no. 1, no country approaches a perfect score regarding the Corruption Perception Index 2016. Over two-thirds of the 178 countries and territories are below the average of the interval from 0 (very corrupt) to 100 (no corruption). The average global score is a modest 43, and in Europe 64 points.

## **II. RESEARCH METHODOLOGY**

The study addresses a combination of qualitative and quantitative data collection research (descriptive and experimental studies, surveys), and data analysis (statistics, content analysis).

The research aims at detecting how the Corruption Perceptions Index (CPI) evolved during 2010-2016 in the countries of Europe as well as the analysis of the Corruption Perceptions Index in relation to GDP per capita and social exclusion as a predictor of corruption.

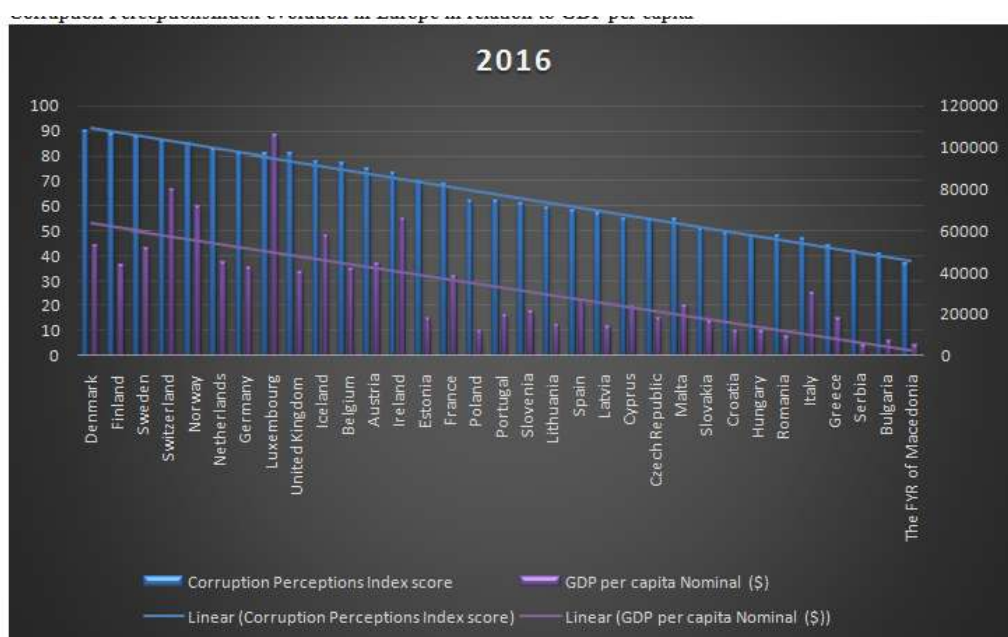
In order to achieve the proposed objectives, I have used specific methods of content analysis regarding reports and studies, statistic records, analysis and publications of various organizations and institutions such as Transparency International, World Bank, Europe Counsel, Fight against Fraud Department (DLAF- the Institute for Public Policies, the Fight Against Fraud Department, as national contact institution with OLAF). In this regard, I have collected data from Transparency International Global Corruption Barometer, Global Integrity and the European Commission, European Anti-Fraud Office and World Bank, with the aim of conducting a quantitative analysis of corruption-related variables in Europe. Variables were used regarding the dynamics of the corruption phenomenon, such as the Corruption Perceptions Index, GDP per capita and social exclusion as a predictor of corruption and also statistics on bribery rates across Europe.

**Research analysis**

As shown in the latest Transparency International report, the results of 2016 highlight the link between corruption and inequality, creating a vicious circle between corruption, uneven distribution of power in society, and unequal distribution of wealth.

Rich countries have the capacity and can devote more resources to preventive measures and, in general, to anti-corruption systems. Thus, the analysis reveals a strong link between corruption and the development level of a country, as can be seen in Chart no. 1, which highlights the connection between the Corruption Perceptions Index and the GDP per capita for the countries in Europe.

Corruption Perceptions Index evolution in Europe in relation to GDP per capita



**Cart no. 1-**Made by the authors, data sources: World Bank, Transparency International – CPI 2016

It is relevant to relate the Corruption Perceptions Index to the poverty level of the population or social exclusion. From the carried out analysis at the level of 2015, according to Chart no. 2, it can easily be noticed that the Corruption Perceptions Index (CPI) decreases linearly as the percentages of poverty or social exclusion increases.

Social inclusion is a "Multidimensional set of measures and actions in the areas of social protection, employment, housing, education, health, information and communication, mobility, security, justice and culture, designed to combat social exclusion". (INSERT, 2014)

Corruption Perceptions Index vs. the poverty level of the population or social exclusion

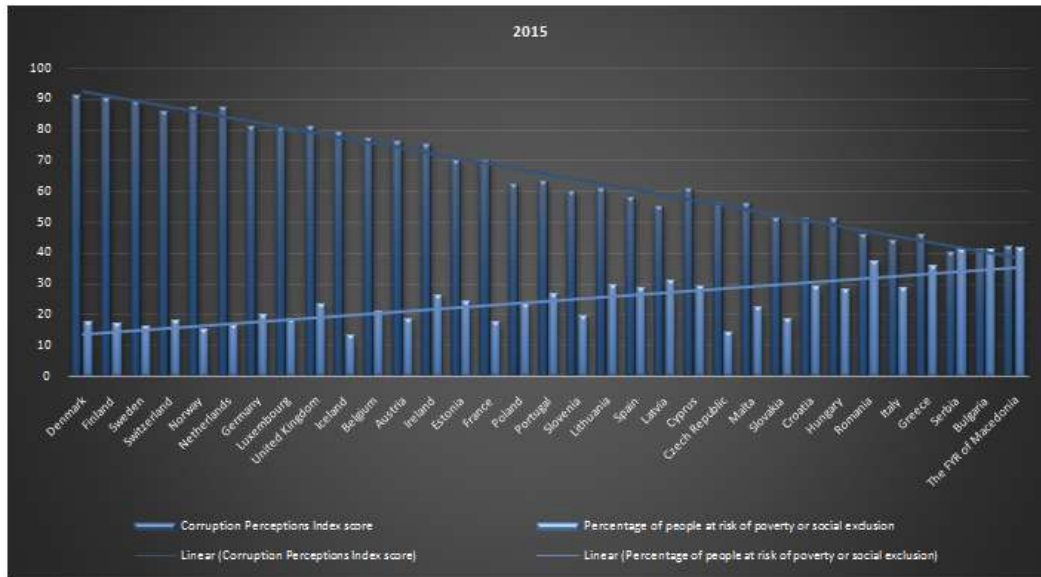


Chart no. 2 Madeby the authors, data source World Bank, Transparency International

As can be seen from graphs 1 and 2 above, and also from Finn Heinrich's analysis, "a multivariate regression with both GDP per capita (the measurement of a country's level of development) and social exclusion as a predictor for corruption, shows that social inclusion is a much stronger predictor than GDP per capita. " In the case of poorer countries, "for each 10-point increase of the social inclusion index, Corruption Perceptions Index (CPI) score improves by up to 5.5 points on a scale from 1 to 100." (Heinrich, 2017)

Bertelsmann's Transformation Index (BTI) analyzes and evaluates the quality of democracy, market economy and political management. BTI measures, analyzes and evaluates, in 129 developing and transition countries, the successes and obstacles to a rule of law based democracy and a socially responsible market economy.

BTI identifies where each of the 129 countries are on their way to democracy, within the rule of law and the market economy. (Transformation Index BTI, 2016)

The rankings describing the corruption status and the analysis carried out in this paper, relating the Corruption Perceptions Index to GDP per capita, as well as to the poverty level of the population or social exclusion, highlight a higher degree of corruption in poor countries and lower in rich ones.

### III. CONCLUSIONS

There are no significant changes in Europe in terms of the Corruption Perceptions Index in 2016. Stagnation does not indicate that the region is immune to corruption or that the fight against corruption has improved, but rather the opposite. However, although at the publication of the 2014 report the European Commission issued a statement stating that, in order to be able to follow-up the results of the efforts, in a letter sent to the Committee on Civil Liberties in the European Parliament, the first Vice-President of the European Commission stated that in 2016 "no further reports are needed", because "the first report was good enough and laid the foundation for future work".

As shown in the table of Annex no. 1, the only countries in Europe that achieve a score close to the maximum of 100 points in each of the 6 years surveyed (according to the table annexure no 1) are those in the northern region: Denmark, Finland and Sweden. All of these countries have managed to position themselves in the top three places in the 2010-2016 ranking, which means that Denmark, Finland and Sweden are estimated to have the lowest level of corruption across Europe.

In Europe, the most corrupt countries are Macedonia, Bulgaria, Serbia, Greece, Italy, Portugal, Spain, and the most integrating countries are Denmark, Finland and Sweden.

Since the publication of the first anti-corruption report of the European Commission in January 2014, three demarcation lines have emerged north-south, protestantism-catholicism/orthodoxy and liberal democracy-postcommunism. (Deutsche Welle, 2014).

The north-south demarcation line remains obvious, with the Nordic countries positioning the top 3 places between 2010 and 2016, which means that Denmark, Finland and Sweden are estimated to have the lowest level of corruption across Europe. Macedonia, Bulgaria, Serbia, Greece, Italy, Portugal, Spain are at the opposite, registering the lowest scores of the corruption perception index.

It can be said that the same trend is associated with the traditional line that once separated the Catholic church from the reformed churches of the North.

The third line of demarcation, liberal democracy - post-communism, is evident, considering, for example, the former Soviet Republic - Estonia, which, although having a similar cultural tradition to Sweden and Finland, does not achieve a similar score in terms of the perceptions of corruption, respectively, recorded 70 points in 2016, compared to 87 points Sweden and 89 points Finland.

Also, given the fact that among the Baltic countries the lowest level of corruption is registered, however, in Estonia, this is an additional argument in support of the second demarcation line, considering that this country, unlike Latvia and Lithuania has a lutheran majority.

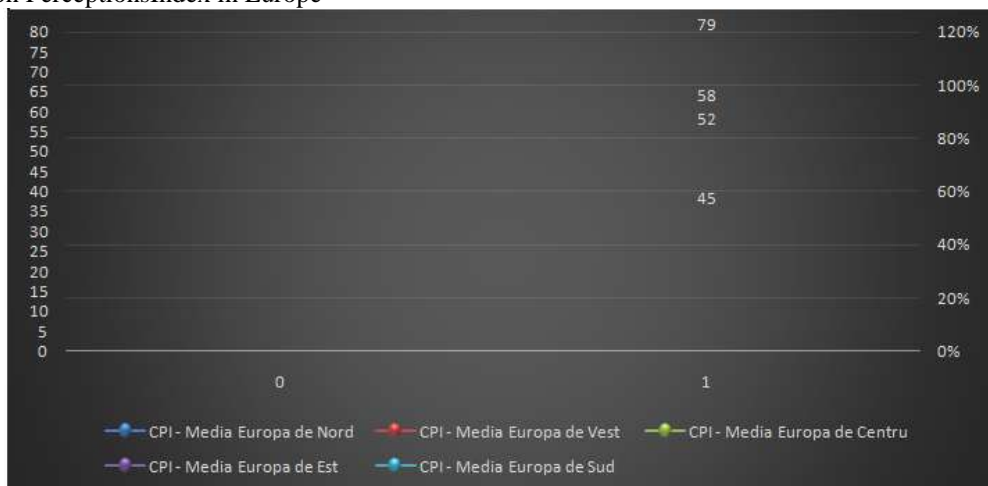
High values of more than 80 points were recorded for Switzerland, Norway, the Netherlands and Luxembourg, and in this second division in the last two years (2015-2016) we can also find Germany.

The bottom 7 ranking countries were Macedonia, Bulgaria, Turkey, Serbia, Greece, Italy and Romania for each of the 6 years. The maximum magnitude recorded for northern European countries was 94 points in 2011 (reached by Denmark and Finland), while the minimum was 33 points for the sample of countries in Eastern European post-communist countries, also in 2011 (Serbia and Bulgaria).

In 2016, Macedonia is on the last position with a 37-point score, a significant drop from 44 points reached in 2013.

Thus, considering a geographic regionalization of Europe, according to chart no. 3 below, it is noted that the Nordic countries systematically record a high degree of integrity, setting a multiannual average of the Corruption Perceptions Index of 88 points (for the 2010-2016 period under analysis), while for the Southern Europe countries the average is 53 points, Eastern Europe being the lowest ranking with just 49 points.

**Corruption Perceptions Index in Europe**



**Chart no. 3** –Made by the authors, data source Transparency International – GDP evolution in Europe, Transparency International – CPI 2016

As it is also shown in chart no. 4, the analysis revealed that Northern Countries have the highest GDP per capita, averaging USD 66,256.00 for 2010-2016, while Eastern Europe countries average USD 17,048.00, and Southern Europe registering the smallest average of only USD 16,235.00 per capita.

**Corruption Perceptions and si gross domestic product per capita**

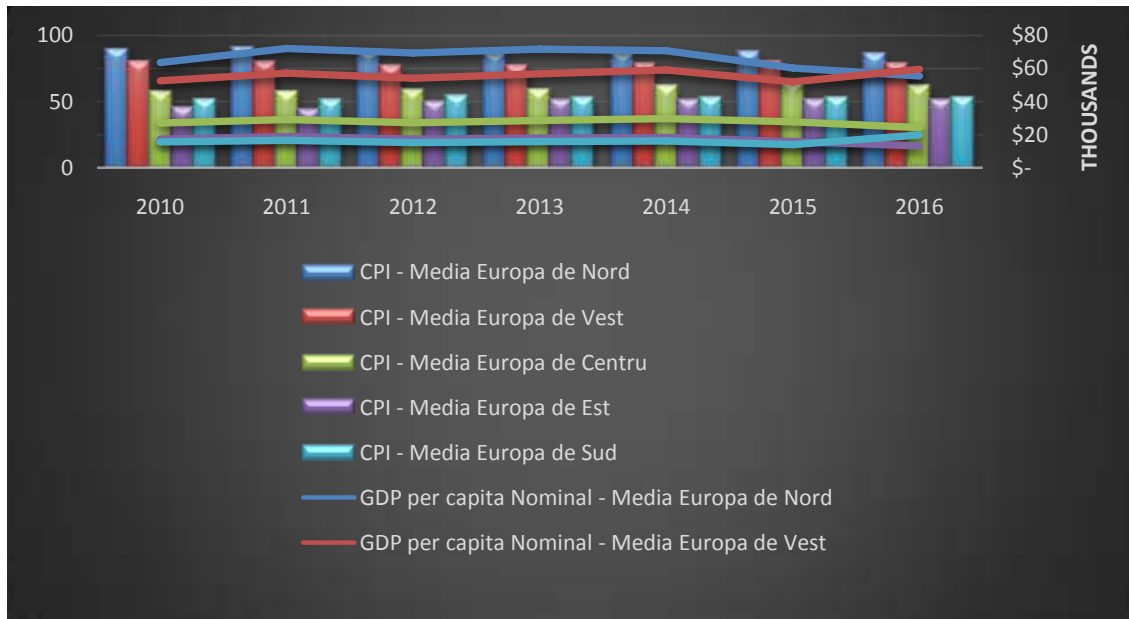


Chart no. 4 –by the authors, data source World Bank, Transparency International

Analyzing how the level of poverty or social exclusion influences the level of corruption, as shown in chart no. 5, we found that the Nordic countries are constantly recording a minimum level of 16%, while Southern European countries average is 29% and Eastern Europe is at the highest level of 37%. In graphs no. 3 and 4 it is worth noting that for the countries of Eastern Europe the corruption perception index has a favorable trend depending on the rising evolution of the Gross Domestic Product.

Poverty and social exclusion level vs the corruption level in Europe

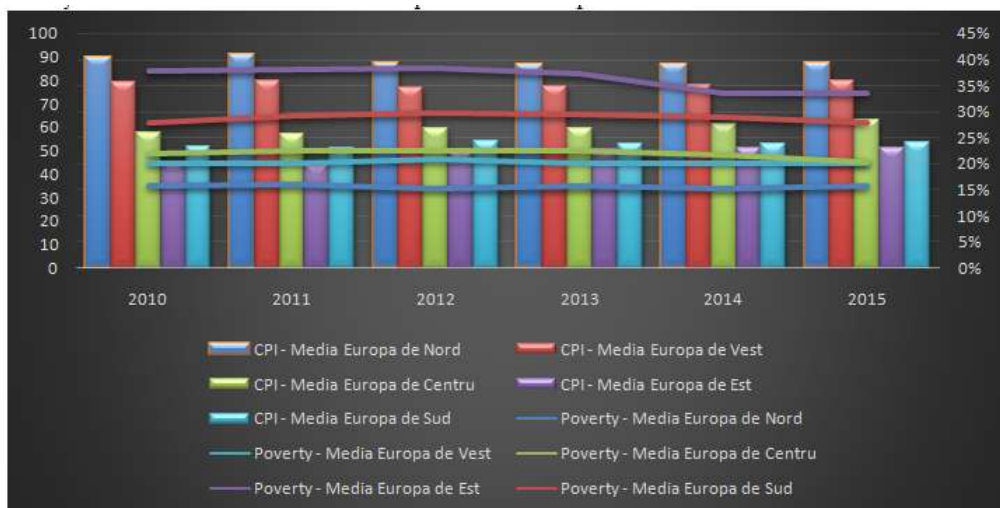
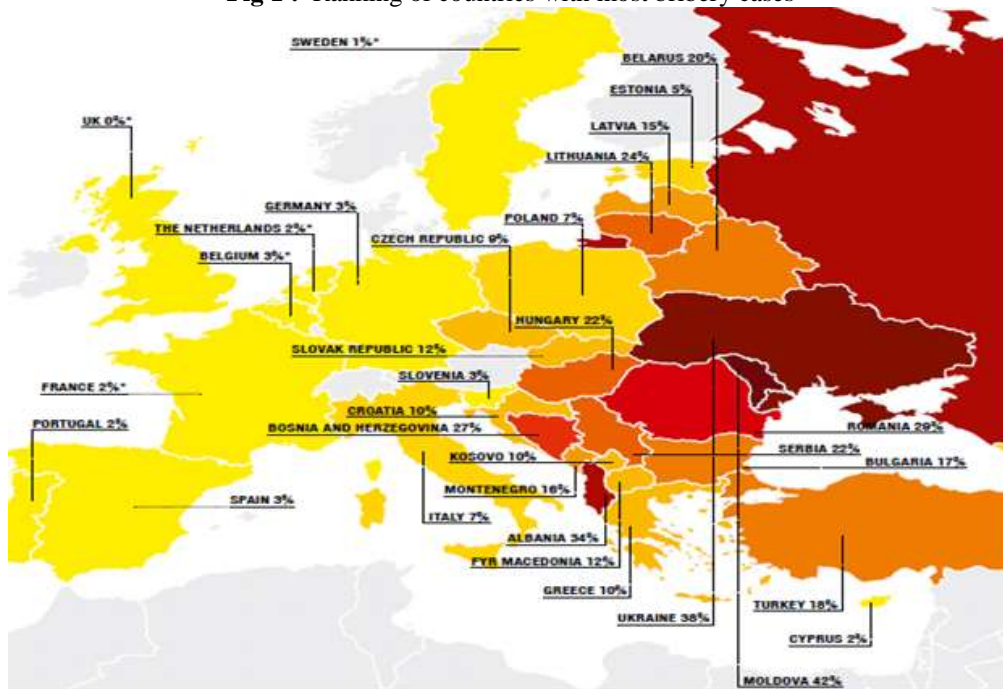


Chart no. 5 – Made by the authors, datasources: World Bank, Transparency International

The results of this analysis reveal a close link between the Corruption Perceptions Index and the level of poverty or social exclusion, confirming the hypothesis that it is a much stronger predictor of corruption level than GDP per capita. Also, according to Transparency International, the corruption map from a bribery perspective is reflected in Fig 1 below.

Fig 1 : Ranking of countries with most bribery cases



Source: bbc.co.uk

As can be seen, countries with a top-marked yellow score in the above map are far outnumbered by the countries marked with orange and red, which denotes a direct link between the countries with the most cases of giving bribery and corrupt perception index.

Therefore, corroborating the data presented in figure no. 1, above, with Corruption Perceptions Index in 2016 and the poverty or social exclusion, respectively the bribery cases-rate statistics in the countries of Europe included in the table annex no. 2, it results that the Northern European countries and the average of the Western European countries are ranked top in terms of these three indicators. Also, the average CPI score in Central and Eastern Europe reflects both, population poverty or social exclusion and bribery rates in countries in these regions. An exception is the South of Europe where the average CPI does not follow the bribery cases trend, (respectively 53 and 6%, the result being strongly affected by the good percentages recorded by Portugal (2%), Slovenia (3%) and Spain (2%) in relation to bribery cases, as well as the fact that Malta did not respond to the Transparency International survey on bribery cases.

However, it can be concluded that the probability of bribery cases is much higher for the inhabitants of a poor country than of those who live in developed countries. In this case, the citizens of the poor countries face and feel the concrete impact of corruption in their everyday life.

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Germany	81	3%	20%
Austria	75	n/a%	18%
Poland	62	7%	23%
Czech Republic	55	9%	14%
Slovakia	51	12%	18%
Hungary	<b>48</b>	<b>22%</b>	<b>28%</b>
<b>Media Europa Centrala</b>	<b>62</b>	<b>11%</b>	<b>20%</b>
Cyprus	55	2%	29%
Romania	48	29%	37%
Greece	44	10%	36%
Serbia	42	22%	41%
Turkey	41	18%	na
Bulgaria	41	17%	41%
Estonia	70	5%	24%
Lithuania	59	24%	29%
Latvia	57	15%	31%
<b>Media Europa de Est</b>	<b>51</b>	<b>16%</b>	<b>34%</b>
Portugal	62	2%	27%
Slovenia	61	3%	19%
Spain	58	2%	29%
Malta	55	n/a%	22%
Croatia	49	10%	29%
Italy	47	7%	29%
The FYR of Macedonia	37	12%	42%
<b>Media Europa de Sud</b>	<b>53</b>	<b>6%</b>	<b>28%</b>

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