Impact of corruption activity on state economic policy

The article examines the direct impact of corruption on the state economic policy. It is established that corruption constrains the formation of close political and economic ties, which are important for the progressive development of market relations. For this aim, the authors analyze the historical preconditions of corruption establishment and development in Ukraine and around the world. The paper studies the definition of both corruption and corruption activity concepts as well as the reasons for the existence of this factor. The principal negative effects of the corruption influence on the state economic policy are provided. The authors determine the common and different features of all the definitions of corruption. The paper analyzes the definition for the concept of a state and public authority, and concludes that the public authority administrates the society on behalf of the nation on the entire state territory by means of the state apparatus, issues and implements general obligatory laws, and represents the state in foreign relations. The current condition of state anticorruption policy and the reasons of its inefficiency were analyzed. As the prospect for further research, the authors develop and propose a number of measures concerning the reduction of the impact of corruption on the state economic policy, which will contribute to the considerable part of economy to leave the shadow sector, and simultaneously consolidate a political component of state authority bodies.

Keywords: state; public administration; state policy; state economic policy; corruption; corruption activity; abuse; competitiveness; economy.

Issue. The rapid development of the shadow economy results in the state economic policy changes, and increasing the amounts of inefficient use of public funds. Socio-political conflicts caused by state officials using their official positions to satisfy their personal interests are becoming increasingly significant; as a result, we observe the fast decrease in credit to all the fields of country’s activities, political order, national product depreciation and economic system abandonment. The reason for all these is the corruption activity of many years, which is the derivative phenomenon of officials’ negative personal qualities and therefore it becomes a nationwide problem. The way for overcoming this issue goes through changes in the public area.

Analysis of the latest researches and publications. The concept of corruption was rather detailed researched and characterized by such scientists as Honcharuk.T., Zhurav’skyi V., Kamlyk M., Karamzina M., Kashuba Ya., Markieviev O., Mel’nyk M., Mykhal’chenko M., Mykhal’chenko O., Nevmerzhytskij Ye., Pudyk O., Safonenko A., Trepak V.M., Tyl’chyk O., Tsyhankov V.

The corruption activity impact on the shadowing the country’s economic sector was studied in detail by the scientist Pidopryhora L.A.

The article is aimed at revealing the main reasons and preconditions of corruption existence in the state and searching for the principal ways to counteract the corruption activity during the state economic policy implementation.

Statement of the research. According to the studied sources, firstly corruption as the form of public service performance was negatively mentioned in the oldest state historical monument known to humanity and called the archive of ancient Babylon of the second half of the XXIV century B.C. In the era of Sumers and Semites. tsar Lahasha (the territory of present Iraq) Urukahina had to reform his public administration to stop his officials‘ and judges‘ abuse.

During the Middle Ages the concept of corruption got the definition inherent only to church canonical relations as a devil’s temptation [1].

The study of the phenomenon of corruption became unfashionable in the XX-th century. Capitalism tried to prove its advantage, and for this reason, the facts of corruption had to be concealed. The same situation took place in the Soviet Union where the possibility for corruption existence on the one-sixth part of the land generally was not recognized. Only during the last decades of the XX-th century the population of the West realized what harm did corruption to all the areas of society activities, but no scientific schools with their achievements about examination of this phenomenon was kept at that time.

Akhmetova H.R. considers that the theoretical emergence and existence of corruption is possible as soon as functions of administration in public or economic activities are separated. After that, a public official has a huge possibility to manage various resources; as a result, he often takes decision not for public interests, but taking into account his personal self-interested needs.

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Corruption is the situation when an individual uses his official authorities or opportunities to get an illegal benefit or to accept this benefit, promise / offer of the benefit for himself or other persons. or a promise / offer or providing an illegal benefit to an individual or at the individual’s demand to other persons or legal entities in order to persuade the individual to use illegally his official authorities or corresponding authority opportunities respectively.

Professor Kuznietsova N. V. proposes to consider corruption to be not only a legal, but also a social, economic and moral phenomenon, which harms good functioning of moral and legal relations within a society and state. Tykhomyrov M. Yu. proposes to study corruption as a criminal activity in politics or public administration, officials’ use of their own rights and authorities for personal enrichment.

In Tereshchuk’s O. V. opinion, corruption is the activity of individuals authorized to fulfill state duties or individuals equal in status to the latter ones, directed to the illegal use of the authorities provided to them, or their official position and the opportunities connected with them to get illegally material welfare, services, privileges, preferences, or other material or non-material benefits (venality) from individual persons and legal entities, as well as bribery of the former ones by the latter ones.

M. I. Mei'nyk says “Corruption is not only a social, but also a psychological and moral phenomenon as it does not exist beyond human beings, that is, outside their behavior and activities. Corruption is the way of thinking determining the way of living” [9].

The above-mentioned definitions contain the common feature, namely, the activity of individuals to use their official position, while the definitions differ characterizing personal qualities of a corruptive person.

From S. Konenko’s point of view, the reasons for corruption emergence in Ukraine are connected with the revaluation of values in the society and insufficiently effective activity of administration that may become a negative example for subordinates and cause financial problems, insufficient department control, and light-mindedness.

Mei'nyk M. I. considers the condition for slight corruption to be a «queue» that appears as a result of constant increase in demand for public services, and such demand exceeds the growth of supply for them. One can administrate the queue legally or illegally (through bribes).

In S. Konenko’s opinion, one of the reasons for existing corruption in Ukraine is the revaluation of values in the society and insufficiently effective activity of administration that may become a negative example for subordinates and cause financial problems, insufficient department control, and the poor degree of perception to act, corruptive behavior, light-mindedness, naivety, lability (instability) [5].

Another factor favourable for corruption is public treatment of it. At present, many people simply do not imagine any activity without bribery of someone, and therefore, the former ones do not oppose to usurious actions. Taking into account that the individuals working for state authority (so called state authority entities) are corruptive persons, one should understand its role and significance.

A state is the principal institution of society political system, which has the duty to administrate the society, to protect its political and social structures on the basis of law, and by means of a specially functioning mechanism.

Public authority is mutually functioning public and political relations of domination and obedience based on state compulsion.

Public authority administrates the society on behalf of a nation on the entire state territory by means of the state apparatus, issues and implements general obligatory laws, and represents the state in foreign relations.

However, the corruption issue has become both rather acute and politically significant within our country under conditions of permanent systematic (economic, political, law, organizational, and ideological) transition period. Today, it is mentioned in mass media as well as on the highest national level. Under these conditions the Ukrainian state has started reforming the anticorruption legislation and facilitates its adjustment to the existing international standards. This may evidence about the state activities toward the creation of effective system for preventing corruption; the disclosure and overcoming of its social preconditions and consequences is one of the priorities on the present stage of the state establishment. The effective anticorruption policy formation and implementation has to contribute to forming the image of Ukraine as the state, which actively counteracts corruptive manifestations. That is why, the effectiveness of the measures concerning the minimization of corruptive manifestations depends upon the right understanding the essence and importance of the state anticorruption policy [7].

The country’s economic growth is the guaranty of its prosperity and development. Economy is the environment for the sake of which, officials using their official positions, enter corruptive ties taking into account the most beneficial conditions. The existence of such interdependence is connected with the permanent feedback that causes a number of negative economic consequences. It reflects the economic policy of Ukraine, causes the transition of business to the shadow environment, and the breach of legislative acts, intensifies the pressure of a tax constituent upon legal business, and contributes to the development of contractual ties among participants of the process.

So, it is necessary to single out the most negative consequences of corruption impact on the modern economic policy of the state:
- the increase in the shadow sector of the country’s economic activity will result in the decrease of amount of tax budgetary incomings. This activity causes decreasing the economic structure administration and the amount of social issues rise because of the impossibility to solve them;
- almost the complete absence of competition between the market participants because the benefits are given not to a really competitive participant, but to that one who used illegal actions to get benefits. The key threat is the ineffective market, and the competitiveness, which is not necessary in this process;
- the inefficient use of budgetary funds because of illegal distribution and this increases the amount of economic problems;
- the price policy because of a great number of corruptive expenditures and therefore ordinary consumers can suffer;
- the countries, which are potential partners, lose credibility to Ukraine because of dishonest conditions of functioning the market system;
- the investment climate is in the state of rest, and, as a result, an amount of industries and their material and technical support decrease;
- the influence of corruption also on non-governmental organizations and, as a result, the efficiency of their work changes.

That is why, it is important to understand that the issue of fighting with corruption depends on how much valuable is the awareness of this definition. The reference to the Law of Ukraine “About Fighting with Corruption” has become popular for the last years; according to the Law the concept of corruption gets its definition due to the activities of the authorized individuals, who represent the interests of the state and use their official positions illegally to obtain material welfare and particular services. The evidence of recent years, unfortunately, shows us that corruption is the progress of the country’s shadow economy.

After examining the definition of the shadow economy, we understand it as the type of economy, which is connected with the observance and execution of fundamental economic obligations where the entities implementing their activities systematically avoid official registration of their activities as well as the payment of tax obligations. In its turn, the black economy has a characteristic division according to the type of activities and the principal source of income; therefore, the hidden economy is divided into:
- the permitted economic activity where the participants avoid their legal documentation. Such an economic type is connected with the greatest amount of small manufacturing that motivates its actions by the desire to survive and hold out against the heavy competitive environment.
- the hidden economic activity is the activity of legal entrepreneurs, the participants of which divide a big business artificially to get preferences on the part of the state.
- the activity is connected with a criminal constituent where the economic entities take part in financial frauds, thefts, smuggling, and bribery. Such an economy has characteristic features of illegal both income and expenditures.

Taking into account all the above-mentioned types of economy it is important for us to understand the chief preconditions of economy transition to the shadow sector:
- the imperfection of existing legislative base that causes considerable tax obligation. The excessive pressure on the part of the taxation system makes entrepreneurs avoid the payment of taxes.
- the imperfect administration system, which is completely run through with corruptive schemes.
- the instability of investment and innovative climate that makes economic entities independently look for the ways of attraction of investments without outside publicity.
- the unstable political and economic situation.

After examining the data of the Ministry of Economic Development and Trade of Ukraine we can observe that the level of the shadow economy of 2018 did not change and remained within 32 % to the amount of official GDP. It should be mentioned that the Ministry of Economic Development and Trade of Ukraine applies the following methods for the evaluation of the black economy indices:
- the method of enterprise unprofitableness, according to which the evaluation is executed on the basis of the analysis of the conditions of increasing the volume of losses or decreasing the volume of profits of an enterprise. The index made 21 % in comparison with 2018, it is 3 % less than in 2017.
- the method of «population expenses» testifies that in 2018 the index made 48 %, it is 3 % less than in 2017. The tendency of changes for this index was caused by increasing both wages and employees’ official salaries.
- the electrical method, the base of which is the amount of electrical energy consumed. It is calculated on the basis of deduction of all official economic sectors and shows the amount of electrical energy consumed by shadow enterprises. According to this method, the index made up 27 % from the amount of the official GDP in 2018.

The data mentioned above prove that all entrepreneurial businesses must be run under the exact administration on the part of the state. Therefore, to reduce corruptive schemes in state purchases, it is very important to follow strictly the Law of Ukraine “About Carrying out State Purchases”, which precisely regulates the issues of organization and conducting competitive bidding among all the participants who supply goods and services, financing of which is done at the expense of the state.

However, everybody knows that this particular area is the most corrupt in Ukraine. The corruptive schemes of such purchases are commonly executed by two ways:
1. The Scheme of «black-offs» where the official for some reward prefers that participant of the purchases who suggested the most profitable payment of the state official’s services. As a result of this scheme, not only the state suffers losses because it loses all the chances to get qualitative goods or services, but also the official does as he risks not to obtain the promised reward.

2. The Scheme of participant’s price reduction who is the candidate for victory and after the announcement of results he becomes the winner because of the most profitable conditions. However, the price proposed will not provide obtaining the desired qualitative indices of goods, works, or services. The practice evidences that, finally, the most state customers of such bargaining bear unexpected expenditures and get unprofitable consequences.

The results of the mentioned abuses is the transition of the considerable part of the country’s economy to a shadow. Due to the analysis of the amounts and level of the black economy, we can demonstrate and evaluate the present standard of business credit to the state, the acceptability of the existing level of taxation, the availability of credits, and the efficiency of economic incentives for official job placement.

It is necessary to emphasize that nowadays the principal factors, which influence the scale of the shadow sector, are the following:
- the bureaucracy of all economic components;
- the amount of GNP per capita according to the parity of purchasing power;
- the current political situation in the state;
- mental entrepreneurs’ peculiarities that reveal in reluctance to pay taxes, and the desire for further paying out wages in an envelope in spite of taxation rate reduction.

There are economists who consider the black economy to be an ordinary state and strategy for surviving of the national economy. The same opinion is shared by an economist O. Paskhaver who declared about that during the forum «Scopes and Schemes of Shadow Economy» [8].

It is necessary to take into account the factor that the hidden economy is present in any state throughout the world and it does not depend upon the level of its economic development. The foundation of the issue is not the presence of the black economy, but its scopes, and more precisely, the amounts of the shadow sector as to GDP.

If the level of the shadow economy makes up to 10% from GDP of the country, then it is admissible and does not exert destructive influence on the country’s economy. In accordance with the official data, the level of the shadow economy of Ukraine makes up 37% (it already exceeds the admissible threshold almost at 4 times) however, it is considerably high as official statistics does not reflect real scopes.

The positive results were brought by the implemented measures of the Government concerning the contribution and improvement of business climate, in particular the simplification of entrepreneurial activities for economic entities, and deregulation of entrepreneurs’ activities:
- the adoption of The Law of Ukraine of 22-nd 2017 «About the Treaty Ratification between the Government of Ukraine and European Union» concerning the participation of Ukraine in the EU programme «Competitiveness of Enterprises of Small and Big Business» [21];
- the simplification in the mechanism of state regulation, the use of stamps in the process of conducting the economic activity;
- the arrangement of necessary conditions that will contribute to the observance of the transparency principles while the reimbursement of the budgetary compensation amount of VAT together with the approval about the Arrangement of conducting the register of written requests concerning the reimbursement of the budgetary compensation amount of VAT;
- the considerable improvement of external economic activity realization through the reduction and acceleration of carrying out all the customs formalities, and the improvement in the procedure of customs payment reimbursement to economic entities who overpaid.

Despite of all the actions on the part of the state, the considerable part of its activities is run through by the corruptive factors, which correct the activities of public authority bodies.

**Conclusions.** During the last years, the representatives of the state authority began taking active steps toward the counteraction of corruption in Ukraine. However, they do not sufficiently take into account the fundamental reasons of corruption existence within state authority bodies; among such reasons are the following: merging the state apparatus with entrepreneurial and commercial organizations; the formation of their business relations beyond the legal territory; the attitude of the public to the existence of corruption and the actions toward the growth of the latter one; the complication in the governmental structure of bureaucratic procedures; lobbying the adoption and change of legal and regulatory acts; the absence of due mechanism for personnel rotation performance; the small level of labour payment and rendering social services.

Historical data also evidence that the corruptive actions are connected with personal traits, which are inherent to our society.

In addition, the active neglect of the law supremacy principles, its lawfulness, justice, humanism as well as disrespect to main social laws at the time of correlation of interests and needs, push officials to the corruptive probability.
Another reason for the corruption existence in Ukraine is the fact that our society has pretended not to see this phenomenon for a long time; at present, the economic situation is characterized by the lowest indices in global ratings. To counteract effectively the society should implement new governmental actions, namely:
- forming and realization of efficient anticorruption policy;
- strengthening of responsibility and obligatory punishment for committed corruptive actions;
- the careful reformation of law courts and criminal justice bodies;
- the establishment of simplified mechanism for running a business;
- the introduction of effective system for administrative services;
- the transparency and control for distribution and use of budgetary funds;
- doing state purchases electronically with detailed checking a seller;
- providing an easy access to information.

Taking into account that Ukraine is on the way to euro integration, it is necessary to carry out large-scale reforms absolutely in all the spheres of economic life. The changes in methods, mechanisms, and instruments of economic management will draw us nearer to the possibility of painless entrance the European community and allow to function at the European markets with the prospects of obtaining macro financial aid from the EU countries.

It is necessary to emphasize that the black economy contains:

1. An easy access to information.
2. The possibility of painless entrance into the European community and allow to function at the European markets with the prospects of obtaining macro financial aid from the EU countries.
3. The introduction of effective system for administrative services;
4. Careful reformation of law courts and criminal justice bodies;
5. Another reason for doing further researches and will contribute to the development and introduction of a number of measures that will ensure the minimization of the negative impact of all currently actual system factors of economy shadowing and decreasing corruptive actions in it.

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