

The Impact of Public Governance on Corruption

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Abstract

The study highlights the issue of public governance in relation to the level of corruption for the member states of the European Union during 2006-2016. The approaches taken during the work concern both the theoretical and practical side of the good practices of public governance and their impact on the occurrence of corruption. The variability in public governance is measured by the efficiency of governance, the quality of regulation and the rule of law, and for the corruption variable, we have used the perception of corruption index. The statistical technique used is the Pearson correlation, which measures the degree of linear association between the two variables. The results demonstrate the direct relationship between the regressor and the target variable for the analyzed period, a high level of good governance leads to a low level of corruption.

Key words: public governance, corruption, European Union

J.E.L. classification: C32, D73, K42

1. Introduction

Public governance, its effectiveness and its impact on corruption are undergoing a careful examination of many researchers in the literature. Investigating the literature on the factors that determine the phenomenon of corruption led us to the conclusion that they are: fiscal pressure, public governance, the standard of living, fiscal morality and socio-cultural factors.

This study aims to analyze the quality of public governance in relation to corruption for the 28 member countries of the European Union between the period 2006-2016.

The hypothesis of this study is to demonstrate the direct relationship between institutional good governance and corruption in the European Union countries for a period of 10 years. The database used was obtained from open sources. In order to express the quality of public governance, we considered three descriptors (governance efficiency, quality of regulation and rule of law) data being collected from the World Bank website. As these elements of public governance present big values, the citizens' trust in the state is greater. To assess the level of corruption, we used Transparency International's perception of corruption, a small score of this index being associated with widespread corruption. Intuitively, we can assert that the poor quality of state institutions and excessive bureaucracy create a lot of incentives for citizens to engage in corruption activities.

In order to accomplish the empirical part of the paper we used the descriptive models, correlation coefficients, regression analysis and statistical tests for the verification of the results, the data processing is carried out using the SPSS statistical program.

2. Theoretical background

Public governance represents the ability of governments to effectively formulate sustainable and sustainable policies to ensure citizens and the state that its institutions promote economic and social interaction in their turn.

The accession process of the European countries to the European Union highlighted the issue of the importance of good practice from the point of view of public governance. Thus, the key element for a state to be accepted in the community is to represent its high degree of compliance with the required accession provisions. In most cases, Candidate Countries have developed national projects and campaigns that have focused on developing public governance and adopting good practice in various areas of public interest. In the past several former communist states have joined the European Union, and therefore the need for massive restructuring in their administration has been identified, and good community practices have become essential. According to the recommendations of the European Commission and in line with the best practices in the Member States with tradition, it has been observed that when the number of institutions involved in different levels of governance is lower, their quality and efficiency are higher. The interest in aligning national public governance structures with the Community *acquis* remains a priority for most Member States.

Further, to describe the various dimensions of governance quality, the authors employed the framework proposed by Kaufman et al. (2010) as reported by the World Bank's Worldwide Governance Indicators (WGI). The WGI data represented proxies for the various dimensions of governance quality and were computed in accordance with the updated methodology of Kaufman et al. (2010).

Thus, the next six variables referred to the following concepts: (a) government effectiveness; (b) regulatory quality; (c) the rule of law; (d) voice and accountability; (e) political stability and the absence of violence/terrorism; and (f) the control of corruption. The first two variables listed above could be regarded as directly reflective of the quality of a nation's policies.

The six indicators were used in the literature, which identified public governance as an important cause of corruption. A high level of trust in public institutions represents the guarantor that the state has a good functioning. Institutional quality of a state determines that citizens have greater confidence in the state and therefore will be less interested in cheating. Corruption and trust in the state are two important determinants to quantify the quality of public governance (Kirchler, 2007).

Lobonț et al. (2010) highlighted the fact that measures to combat corruption are not limited to legislative, they have implications at both the institutional and policy levels, and we can talk about a correlation of the various legislative and institutional measures at sectoral level.

Governments have a discretionary power in terms of resource allocation at the level of society as a whole, and therefore in states where citizens have a high trust in public institutions while registering a lower level of corruption (Torgler and Schneider, 2007). On the opposite side, it has been observed that an institutional degree of quality determines a trust in government, which favors the identification of ways to circumvent the law. In 2009, a study by Dreher for a sample of 18 OECD countries highlighted that improving efficiency and institutional quality significantly reduced the level of corruption in those states.

Djankov et al. (2002) highlighted in a survey of a sample of 85 countries that when the level costs for entrepreneurial development is very high, entrepreneurs tend to bypass the regulations of the law, thus increasing the level of corruption. All of these studies show that the weakness of institutions and bureaucracy creates a lot of incentives to pay mits in order to avoid taxes and thus corruption activities record an expansion.

3. Methodology

In this study, we ask to analyze the relationship between public governance and corruption based on data available for the 28 member countries of the European Union for the period 2006-2016. From the study, we have not excluded the UK, although this country is no longer part of the European Union in the context of the Maastricht Treaty at the time of this study.

In view of the modeling of the econometric relationship between public governance and corruption, we used the following indicators.

i) for the independent variable, we used the data provided by the World Bank, and in order to improve the quality of public governance, we will use only three dimensions: governance efficiency (GE), quality of regulation (QR) and the rule of law (RL). As a country has a higher

position in the WGI ranking, the higher the level of quality of public governance.

ii) for the dependent variable, we used Transparency International data on the corruption perception index (CPI). As a country has a higher position in the CPI ranking, the lower the level of corruption.

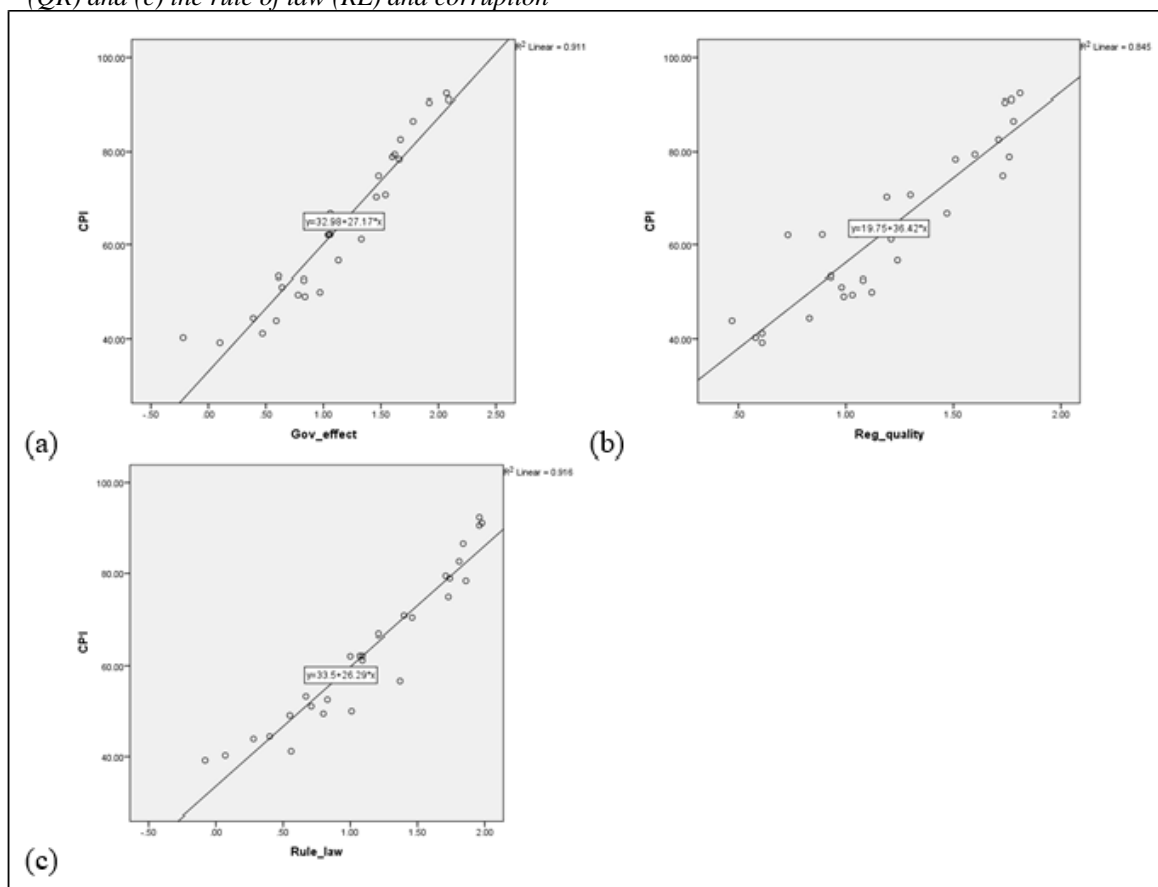
Statistical data will be processed using the SPSS statistical program.

4. Findings

Most empirical studies (Kirchler, 2007; Torgler and Schneider, 2007) identify a negative or inverse correlation when the level of public governance is high, the level of corruption decreases. The strong positive correlation obtained in this study is explained by the values of the data used. The components of the independent variable are calculated and reported on a scale from -2.5 the weakest to +2.5 the strongest performance of governance. For the dependency variable, the corrupt perception index is standardized to a 0 and maximum 100 scoring scale, where 0 is the highest score of corruption perception, while 100 is the lowest level of corruption perception. Therefore, if the level of the public governance indicator increases and the level of the corruption perception index increases, it means that, given the improvement of trust in state institutions, there is a decline in the phenomenon of corruption.

From the chart below we can see a rather positive correlation between the components of public governance and corruption: (a) between efficiency of governance (EG) and corruption we observe an $R^2=0.911$, (b) between the quality of regulations (QR) and corruption we observe $R^2=0.845$, and between the rule of law (RL) and corruption we observe an $R^2=0.916$. This means that more than 90% of the variation in corruption can be explained by the variation in the level of public governance among the sampled countries for the period under review.

Chart no. 1. The relationship between the (a) efficiency of governance (EG), (b) the quality of regulation (QR) and (c) the rule of law (RL) and corruption



Source: own processing

Table no. 1. Regression of corruption on the basis of the effectiveness of governance (EG)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	32.984	2.112		15.616	.000
Gov_effect	27.174	1.668	.954	16.294	.000

a) dependency variable: Corruption (CPI)
Source: own processing

Table no. 2. Regression of corruption on the basis of the quality of regulation (QR)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	19.749	3.892		5.074	.000
Reg_qualty	36.424	3.055	.919	11.921	.000

a) dependency variable: Corruption (CPI)
Source: own processing

Table no. 3. Regression of corruption on the basis of the rule of law (RL)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	33.495	2.019		16.588	.000
Rule_law	26.287	1.562	.957	16.829	.000

a) dependency variable: Corruption (CPI)
Source: own processing

As a result of the tests carried out, we observed that the three components of the public governance surveyed directly influence corruption, and the regression coefficients are significant at a significance threshold of 1%. The greatest influence on corruption has the variable on the quality of regulation, so if this component of the public governance increases with a unit, the value of corruption perception index increases about 36 units.

The interpretation of regression coefficients, as well as the coefficient of determination can give us indications about the power with which the independent variables influence the dependent variable.

5. Conclusions

The quality of institutions, regulations and the rule of law are the determining factors for corruption. The results of the study highlight a strong relationship between the elements of good governance and the existence of corruption activities.

Following the above study, the working hypothesis has been demonstrated. As governance is more efficient, regulations are clearer and the rule of law is not altered by disruptive factors, there have been little preoccupation with law enforcement, and corruption at a low level.

A poor publicity governance also reflects on the low living standards of the population. Therefore it is important that policymakers know the causes of corruption in order to act more effectively in the fight for reducing economic and financial criminality.

The present study is indicative and presents some limits because it has been used to establish the relationship between the components of public governance and corruption, the averages of the two

variables. We consider that an analysis of panel-type data using time and space-type series or the use of multiple control variables would better outline the direct or indirect link of public governance to corruption.

6. References

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