

REFLECTION OF CORRUPTION IN THE DEVELOPMENT OF ECONOMIC THEORIES

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Introduction

Our deeper interest in problems of corruption supports that the problems of corruption in the field of economics is scientifically studied only on a small scale. It does not stand on the first place, often it is derogated and transferred to the area of politics, psychology or sociology. Generally maybe because it supposes that in comparison e. g. with problems of unemployment or convertible currency, it concerns about trivial problem or there is not give (in economic literature) practically any attention to bribery of civil officers by reason of illegal character of this problems (as Murray Rothbard presents it in book „Economics of government’s intervention“). However, according to Rothbard the theoretic economics „... *should analyse all aspects of exchange whether it is legal exchange or illegal exchange*“ [23]. We share the same opinion. That is why we attempt to map the reflection of corruption in historical development of economic theories in the following text.

1. Corruption in Early Economic Thinking

Corruption, traditionally connected with the existence of state, state system, government, policy and authority, always belonged to the area of justice, policy and ethic, at a later time even to area of psychology and sociology, than to economics. Provided that the problem of corruption was theoretically assumed, it stayed in this context despite the fact that economics had been considered as a part of policy or ethic philosophy for a long time. **Natural, primary interest of economists in interpretation of economic phenomena did not set the question of corruption among areas of this interest because the problem of corruption behaviour was not perceived as economic problem.** Till the thirtieth years of the twentieth century economic theory did not deal with problem of market failure,

bureaucracy, growing economic state participation in regulation of economy and increasing requirements of state regulations or problems of internationalization and globalization in terms of economic activities. Nowadays we know that all these areas are connected with corruption risks.

It is impossible to notice that deprecation and denouncement of corruption, that was always connected with high moral requirements posed to statesmen and politicians, had also its **economic aspects**. A lot of historic sources supported that almost any official or unofficial delegation brought certain gifts. Primary mission of these gifts was to create helpful atmosphere for negotiation and demonstrate as one side appreciates the other side and as well as in the case that there was contracted nothing concrete. In official level of relations the matter of presentation posed more often rather reasonable calculation than personal and emotive matter. Thus, from gifts becomes bribe whose purpose is to acquire anything that would demand increased costs (time, effort, investments) in the case of common conditions. Latin locution „*do, et des*“ - „I give so that you give“ perfectly describes the principle of this phenomenon.

Corruption occurred both in Egypt - Egyptian pharaohs, ancient Greece and Roman Empire. Inhabitants of Athens as the first required for politicians to give reasons for their public expenditures. It occurred in front of 501 citizens judiciary whose resolutions could be affirmed or annulled by demotic judges. This democratic judiciary was deformed by syfocants, professional informers and extortionists who threatened with denouncement to wealthies if they went against their tall requirements. „*They exhibited defamatory charges against the rich so that they could seize their possession*“ [18]. Roman criminal law dispensed maximum punishment - the death penalty - not only for murder but also for *bribery of electors (crimen ambitu)*. The death penalty was common even for the treachery of client and

false witness. All these crimes were punished by decapitation and in the case of election corruption there were punished also citizens by means of permanently deprivation of their electorship. Warning against the connection of corruption and power we can discover at **Platon's** idea of *ideal state*. According to him neither rulers or warriors should not dispose of private property because wealth corrupts, destroy morality and leads to preferring own egoistic interests before interests of the state. Platon maintained that corrupt may not be only individual but also the whole institution. He considered the tyranny as corrupt form of monarchy because it does not comply with laws, it only serves to interests of tyrannizer. In the track of Platon there continued Machiavelli, Montesquieu and Rousseau. They considered corruption as „ulcer on the body of policy“ and believed that demoralized political rule did not enable to own members to behave unlike incorrectly. **Aristoteles**, Platon's learner, denounced the sins of politicians in his papers „...a great number of politicians really does not merit this title because politician do noble-minded achievements because of achievements as such, but high number of people tends to this way of life only for own enrichment and because of their ambition, (...) most people hungers rather for wealth than for honours, (...), when anyone is absolute master in the world he can not afraid that he will be hard up“ [2]. However, he reproached also doubt economic practices. He talked about artificial (unnatural) and immoral gather of wealth (by commerce, usury, gamble).

For medieval economic thought the question of justice and usury was the key problem. Usury was the sin against justified price and the sin against nature. The greatest medieval clerical thinker **Tomáš Akvinský** questions: „Is the sin to get money for their lending, consequently take usurious interest?“ And presently he adds: „To gain usurious interest for lent money is by itself unfair because there is sold something that does not exist and thus there originates discrepancy which opposes to justice“ [1]. Usury was very closely connected with corruption. Fears of Church of usury leaded into concrete repressions which classified usury operation to three inadmissible profession (together with prostitution and jugglery) for which were refused Christian privileges - the right to inhumation to christian land and the right to give charity

(to clericals there menaced excommunication from Church). Usurers for the fear of damnation and God's penalty „...bribed clergy to the highest degrees of clerical hierarchy“ [17]. Amorality of these corruption activities resulted to a certain degree from the fact that Akvinský apperceived money as a measure of value only in the case of realizable goods. According to his opinion money cannot serve as measure of things that are outside of economy (e. g. friendship, wisdom, human life, joy, love etc.), there cannot exist interpersonal exchange and thus even trade.

Fast progress and extension of monetary economy during Middle Ages endangered old Christian values, however, on the other hand, the moral consecration of money as a mediator of exchange allowed to exchange money almost for anything. For money it was possible to buy clerical indulgence, funerals, weddings or christening, for money it was also possible to sell clerical dignities. Who had money also had a power and powerful man did not have to afraid of scarcity. Who had money did not have to afraid of the „Last judgement“ because he could redeem from evil and cry quits the God by different sacrifices and gifts. And by reason that the God was represented overland by the saints and Church, people made over these gifts to them. Expensive administration of clerical estates led to the implementing still new church charges. Introduce as matter of interest that bribery by reason of „compliance“ already in medieval Bohemia was denoted by the following term - „oil one's hand“. The oldest mention is limited on phrase „soil the clerical finger“ and this within the context of request for something that was the duty of priest from principle in itself. As well Husite songs criticised prelates for the fact that they received bribes and they gave an example of woman who in order to gain benediction from priest for her new-born child „... she gave beautiful candle to priest, the thumb she greased“. Thus, the master Rokycana decried monks for the fact that they satisfied the request of believers only in the case of obtaining bribe: „When (...) thumb them believer grease, right they *everything* relieve“. These oldest documents made explained Czech linguist E. Michálek in the following way: Originally it denoted the incidence by gift to priest to with a will does the ceremony of chrism (this ceremony priests did by thumb wetted in oil). When such bribe extended also to unclerical dignitaries, that

original connection with sanctification oil passed and the term - „oil one's hand“ began to accept as instrumental term with the sense „ensure easy run“ [26].

At transition from clerical tenets to secular teaching there significantly contributed the economic opinions of **protestantism** (especially Calvinists). Papers of Jan Kalvin (1509-1564), the representative of reformation in France, were not economic but theological, however, with progressive reformation his ideas leaked more and more to economic areas. The gist of his teaching was the absolute divine predetermination some people to „redemption“ and the others to „condemnation“. Believer does not know his destiny and that is why he can come by means of his earthly achievements among „desirable by God“. In this context he also dealt with connection of usury with antisocial behaviour: *„Only very rarely it is possible to find in the world the usurer which is not at the same time extortionist addicted to unlawful and unfair profit“* [9]. Calvinism provided to aborning bourgeoisie religious and moral recourse. It urged each believer to raise in education, in employment, also raise economically, to rely on self powers and believe in divine cooperation because only the achievers find approach to redemption. Economy, thrift, temperance, renunciation of sensual pleasures and experiences, earthly asceticism became new virtues. Ideas, that protestantism proclaimed, were the protest against sovereign power of the Catholic Church and helped to create entrepreneurial atmosphere and ethic of aborning capitalism. It is interesting that according to contemporaneous resources the catholic regions are much predisposed to corruption than protestant territories, it stands to reasons e. g. in comparison among catholic and protestant cantons in Switzerland and federal countries of Germany. Also in Ireland the Catholic Church was, at the time when Irishmen lived within the scope of mainly protestant United Kingdom, the main bearer of Irish resistance and self-help subculture which entailed the existence of grey economy and different „friendly helps“ in terms of „tit for tat“. To this mechanism the highest Irish clerical (catholic) agents were also involved.

Modern economic opinions (especially literature of mercantilists) have already stood on fixed pragmatic principles. They reflected financial and commercial interests of rulers, distinguished

office-holders, businessmen and bankers. In the **„regime of mercantilism“** most of positions held by office-holders was gained by purchase. Purchase of the government offices was at that time regarded as equally efficient investment (in term of needs of state) as purchase of production or business trade. About the year 1860 also officers of armycorps of previous British forces were appointed by similar principle. The duty was stayed in every position at least one day, so that it was possible to buy the position of colonel, stay one day as colonel and after it sell this position and buy the position of captain etc. According to mercantilists the wealth is money and so state power should have supported production of money. Ruler gained money by means of taxation and loans of commercial bourgeoisie, but also in the way of administration of monopoly, the best well-know was export monopoly. Both businessmen and ruler the monopoly ensured unimaginable profits in the form of taxation, thus, at the same time it also brought numerous corruption opportunities.

Mercantilism represented the system of extensive economic regulation that was connected with corruption and we hardly find better example than France in period between the thirteenth and the eighteenth century. Just in France originated absolutist „mercantile system of corruption“ [4], in the sense that since the time of Charles VII. and Ceremony in the year 1439 whereat the king obtained sovereign power for taxation without the consent of people, and so there formed French „rent-seeking“ society for a term of three hundred years. Financial theorist of this period concisely describes this situation: *„(...) the most important local farms were „hired“ to entrepreneurs who acquired the right to raise taxes in exchange for capitations. Amounts above these payments created profits of these farmers and if they levied less than removal pays it was their loss no ruler's loss. Corruption infiltrated enormous state bureaucracy and became the part of common life. Property rights changed during centuries whereas taxed economy and other forms of „leases“ became hereditary. The sale of juridical and legal authorities by the ruler became interesting examples of corruption“* [4]. Complete system of taxation and continuously more powerful royal exaction on local levels allowed and supported the system of open bribery which was administrated by institutional aristocratic bureaucracy. The most capable

people were attracted to areas with the highest profit which in France meant that they tried to find profitable, bureaucratic office which could have been handed by means of heritable rights. Certainty of absolute power and formation the system of assess taxes in France closely contrasted with uncertainty of revenues at private enterprise. American economist R.D.Tollison mentions that the character of this historical development in France is right explained on the basis of absence of „meaningful representative bodies“ or conditions which could facilitate their progress. The model of business rent seeking in mercantile France was different than in England. English monarchs were not absolute in their authority of taxation, they were limited by the parliament that was established here already at the beginning of the fourteenth century. That is why the progress of English mercantile system was joined to number of conflicts between the king and the parliament and between the royal council and the council of general law. These conflicts basically concerned who will drive and collect profits from English businessmen. That is why the efforts about regulation of monopolistic privileges in England were more expensive. For participants „...became too expensive by reasons of higher expenses connected with collective decision making in representative body, as the parliament was“ [9]. With falling the power of monarchy in England the movement towards representative democracy moved the position of rent-seeking activities to new environment. E. g. the price of lobby for monopolistic contracts was higher at elective representative than the price of lobby at the only monarchy. Finally, for rent seekers these transaction costs rised so much that they exceeded possible advantages. In consequence of that also government 's interventions in economy gradually declined and together with competitive judiciary evoked extensive uncertainty in liveness of any monopolistic society. With regard to these differences the government constitution in England was the tradition of corruptible system in mercantile France much stronger.

About forms and methods of intergrowing of state and economic sphere in mercantile France e.g. Lombard mentions: „(...) ambitious people of low-born became entrepreneurs without they stoped being king's officers and this duality promoted them to creators of national unity,

founders of long line specific for France. Jacques Coeur (...), helped to Charles VII. fill treasury, levy taxes and establish and check monopolies but he never neglected even his interests. He was not the only who cumulated different honours not even the one who lost them, but he first came in the legend about bureaucracy and corruption“ [18]. Mercantile interests markedly promoted corruption practices so that the financial power of certain entrepreneurs expressively increased, however, on the other hand, the system of protectionism, privileges and liberties did not make possible to insert acquired wealth anywhere and did not create the same opportunities for all. „(...) offices became dignities connected with public office which implies delegation of sovereign power. Their selling, cancelled only at the night of August 4th, 1789, enabled trafficking that had rising trend. State power, whose treasury was permanent empty, created new and new offices to make money by their purchase. Cardinal Richelieu „...became the middleman in this profitable and inaccessible practice thereby he connected to frauds of public finance also abuse of power. (...) to could everything control, (...), he interused own money with state finance and he established new form of criminality - nationalistic corruption, (...), his corruptibility did not undermine authority of the state but strengthened it“ [18].

The significant revenue of royal treasury and the resource of „other infamies“ [4] were also excise taxes and „taille“ - income taxes and real estate taxes of peasants, businessmen and craftsmen who had not tax reliefs due to participation in royal productions. Implementation of these taxes had rough effects to allocation of inhabitants revenue and economic growth. Real revenues from excise tax grew between the year 1523 and the year 1641 eight times to ten times. Unlimited authority to impose taxes was divided between aristocracy and clergy who exploited this wealth for „performer consumption“. At the end of rule of Ludvik XIII. (between the year 1636 and the year 1642) corruption had in France such proportions that French monarch collected three times even four times higher taxes from his liege people than Charles I. (Charles I. Stuart, English monarch 1625 - 1649) who at that time fought with the parliament. Business author Georgy King estimated main resource of France in the year 1688 at L 80,500,000 lbs while in England at L 41,700,00

lbs [4]. Robbing of state treasury, abuse of clerical positions and purchase of favours had during the prime of mercantilism copious amount of forms. Up to the present day they stay as evidence of **historic conditionality of corruption practices, at the same time they are evidence of their similarity across the history.**

Similar situation dominated also in Czech professional society in the period of its breakdown in the sixteenth-seventeenth century. Corruption between authorities and officials (aristocracy and intellectual bourgeoisie) represented approach to ensuring personal power and property advantages and gained control of power system at all levels. Between authorities and its officials (members of royal council, dignitaries, burgraves, regional marshals, fiscals, judges, scribes, typists and butlers) existed firm *client links* confirmed by the payment of salary, credit enterprise, administration of gifts, mutual commerce and also irregular frauds of official money and corruption. It is interesting that the most of these frauds did not lead up to direct economic enrichment of officials but „in connection with corruption, constraint and different levels of patronage officials increased political influence between other classes by means of defalcation ...“ [7]. Next to political career and progress to more prestigious positions naturally also development of own households was the sense of close personal and friendly contacts, daily patronage and intervention in case of need. „In Czech state the numerous rank of lower aristocracy was totally dependent on nobility. On the contrary a number of aristocrats was retroactively dependent on financially powerful knights who extended credit to them“ [7]. Next to aristocracy also townsmen of rich royal towns, Jews, foreign businessmen and commercial, bank and entrepreneurial companies from abroad owned free monetary capital. Especially clerk service, that ensured to his bearer certain standard of living, led officials (very often before leaving from authority service) to operation of credit transactions. „Interest money ensured regular income that many times exceeded previous prepaid payments and ensured former official or his relatives approximately equal standard of living as in the period of active service. In this context it is necessary to take into consideration also enrichment of officials by means of irregular revenues. The base of these irregular revenues were not only briberies

but especially alienated official money and their fraud“ [8]. Usurious profession was realized by loans where the rule stood on the edge of crash and where the flood of new money only removed self financial breakdown. Usurers invested periodic flood of interest money back to interest operations, however, they had also naturally interest in acquirement of properties of those debtors who pledged their asset to them. It stands to reasons that financial crises often ended by breakdown, partial or total sale of assets into the hands of usurers.

2. Economic Ethic of Adam Smith

Classical school of economics reflected in economic thinking the circumstances of ingoing capitalism and with it connected transition to machine large-scale production. The year 1776, when was for the first time issued the work of **Adam Smith** „An inquiry into nature and causes of the wealth of nations“, represents definitive origin of *economics as independent discipline* and Adam Smith becomes important personality of spiritual human history. Smith proved first of all economic risks of state interventions and limitation of free enterprise. Then, *significance of values* as necessary parts of moral infrastructure of the market is key for him. Supporting ideas - idea of natural freedom and idea of fairness - Adam Smith transformed to economic thinking and connected with them also other principles which influence fluent functioning of market mechanism - competition, efficient achievement of property rights, economy, enterprise and creative thinking, creative and regular work.

We know that Smith constructed the system of natural freedom mainly in opposition on mercantile doctrines. Just in polemic with mercantilism Adam Smith most emphasized that national economy can not be effectively governed such as one large farm and it not even by the most intelligent statesman (he wrote about big French finance ministr - Colbert). According to Smith privileges of some people mean the limitation of the others, and if they are not recovered by special merit (e.g. patent) they mean the contravention of rule of fairness. It concerns about privileges of guilds, special subventions, duties or private monopolies. His defence of „laissez faire“ was in token of defence of economic freedom and protestation against large government expenditures that he

treated as charge and brake of private initiative and economic growth: „...big nations never become poor by individual lavish and mismanage but by the state lavish and mismanage“ [24].

Smith's economic liberalism brought humanity to a knowledge that the natural functioning of market system reposes on generally valid and respected moral ideas (devotion to contracts, payment morality, respect to market partner) and on certain institutional premises that are next to „laissez faire“ also institutions ensuring the justice. In case the state should properly accomplish its function and positively support economic efficiency in market economy, it should according to Smith dispose of trustworthy, rightful and impartial government. „Commerce, craft industry and manufactures can seldom prosper for a long time in the state where is not regular judiciary, where people are not sure of their property, where the rule does not strengthen faith in contracts and where is not possible to depend on possibility that the state always intervenes its power to anyone debtor who can pay his debt also pays. Trade, craft industry and manufactures can seldom prosper in the state where is not sure the faith in justice of government“ [24]. The term „justice“ markedly included also protection of free competition before interest groups of makers: „...derogate someway interests this or that class only thereby to acquire other class evidently opposes that justice and neutrality which is the ruler obliged to save in face of all his liege people“ [24].

In the „Wealth of nations“ Adam Smith puts mind to question of efficient tax administration. At the same time he adverts to signification of quality tax laws and trustworthy institutions for revenue collection „...chance that one avoids that taxes (intended as excise taxes) in the way of condra-band or other cheating of state treasury, it incures to offender often distraintment of his property and other penalties , (...) and it is generally man, (...) who would never be able to offend against the laws of real justice and if the laws of his country had not made as crime something that had never been the crime for nature, he would have been an excellent citizen. In countries with corrupted administration, that is at least generally suspected of that spends unnecessarily a lot of money and in the way that disposes with government revenues, it allows to gross incorrectnesses, the-

re are the laws protecting state treasury hold in minimal respect. Hardly anybody does remorse of that he cheated out state treasury if it is possible to realize that easily and without risk ...“ [24]. Within the context of questions of efficient duty and revenue collection we find at Smith's work also warning relating to **danger of briberies**. An expensive tax administration demands the number of customs officers and tax collectors, their salaries and briberies present for inhabitants new tax that does not make for state treasury any additional revenue. Briberies of customs officers much exceed their salaries „...in some ports they amount more than double or triple of these salaries“. Thus, Smith considers customs authorities as much more involved with bribery than other tax institutions. „Tax collectors of excise taxes obtain few briberies or no briberies, and because this element of tax collection was established much later it is not generally so corruptible as customs authorities to whom during long period of their duration brought and firm indurated a lot of vices in it“ [24].

Classical school of economics had been dominated in economic thinking to last third of the nineteenth century when it was replaced by **neo-classic economics** - the spine of development of standard line of economic thinking (in terms of line of mainstream of economic thinking and its text-book presentation). Outgoing from neo-classic paradigm the neo-classic theory became to form as the science of microeconomic entities - households, firms and government, it became „mathematics of blisses and distresses“. This new conception of object of economics corresponded also with new methodology based on methodology individualism, marginal analysis and the conception of reasonable economic man „homo economicus“. Although Adam Smith accepted the signification of morality as „endogenous“ factor important for function of economy, neo-classic economists apperceived ethic, morality, traditions and customs rather in „exogenous area“ of economic analyses. Purposeful, reasonable decision making as selection mediate by the sense of man, in which blends together the present, the history and the future, was within „subjective revolution“ in last third of the nineteenth century replaced by formal analytic model which automatic behaviour a priori discharges. Thus, by presumption of exogenous given pre-

ferences the neo-classic economics excluded one of the basic question relating to research of economic behaviour of entities in dynamic market environment - question how these preferences are created? „...consumer preferences separated from psychic behaviour, which them daily creates and modifies, turn in independent variable of the system in which is not place for planning and revision of plans“ [15]. R.Coase [10] e. g. perceives the success of standard economics in its theoretical power but the weakness of this system he derives from disregard for events in real world. This statement naturally relates to basic question pointing to conception of object and the purpose of economic theory.

3. Analysis of Corruption in Economic Theories of the Twentieth Century

Economic theory of the twentieth century was characteristic by disputes about function of the state and coverage of its activities in society. After Great economic depression in the thirtieth and two world wars dominated in advanced economies the tend to construction of centralized countries of wealth when the share of public sector on produced GDP in these countries markedly increased. In the environment of economic theories the growth of state administration evoked reactions in form of activation of liberal ideas about function of modern market economies. There developed the negation of Keynes' s economic policy within the scope of trends and schools of anti-Keynes revolution. These trends in economic thinking also became the theoretical platform of economic-political experience of neo-conservative economic policy that put through especially in the United States of America and Great Britain. Economic programmes of notable politicians of both countries called as „Reaganomics“ and „Thatcherism“ identically performed in the interest of limitation of government economic interventions.

Thus, a number of significant economists of the twentieth century **linked the problem of corruption firstly with growing range of state activities**, as a result also in terms of general economics began to appear warning against opportunities of corruption and its dangerous results. The original piece of **L. Mises** and **Ha-**

yek's crushing criticism of socialism - not only economic but also political, legal and social, nowadays pertain to classic liberal pieces declarative that the results of socialism or any other form of totalitarianism are same at any time: lack of freedom, economic, political, law and moral decline.

Murray Rothbard, continuing in Austria tradition of liberal thinking, pronounced an opinion that „...bribery is the result of position of certain produce branches out of law and that is why it helps to partly reduce loss of utility which government prohibition caused to consumers and producers“. According to Rothbard the bribery is „at given rate of government prohibitions (...) main instrument whereby happened to re-enforcement in the market. Bribery moves economy more closely to situation which would be achieved in free market“ [23]. In his consideration about corruptibility of civil officers Rothbard finally reaches the differentiation between so-called aggressive bribes and so-called defensive bribes. *Aggressive bribe* leads to **achievement** of exclusive licence that impedes to the others at activity in this field. This kind of bribery represents the payment for award of monopolistic privilege and represents marked movement from free market because the ones that cannot pay bribes are priced-out by their system. On the other hand, *defensive bribe* represents purchase of licence to operation of certain activity after it was declared as unlawful. Defensive bribe means movement towards free market. It is the price for providing service that means no exaction government orders from concrete person which pays the bribe. Rothbard compares these bribes to purchase of state licence and presumes that from economic aspect there is not any difference between them.

In the second half of the twentieth century there engendered also liberal heritage of *Chicago school*. Its founder and leading figure **Milton Friedman** tirelessly defended the principles of economic liberalism and in his work he patiently explained the reasons of inefficiency and wastage in economy with public funds that he not once connected with problems of corruption. In his preface to Czech publication of book „Capitalism and freedom“ from the year 1993 Milton Friedman himself admits that on conditions of triumph of Keynes' s theory was his liberal opinions considered as absolutely extreme and that he and likewise considering

people were regarded as eccentric by mostly of his colleagues-intellectuals. In the book „Freedom of choice“ [1980] together with his wife he brought out e. g. failure of social programmes in states of general prosperity: *„If you spend your own money for yourself, you are very careful at decision making what you purchase for them (...) But when you spend external money for yourself, e.g. in form of refund of travelling expenses, you endeavour to acquire maximum satisfaction but you don't care how much money you spend. The worst of all is when you spend external money for someone other. In this case you don't care which way and how much money you spend and what you realize from. And exactly to this it happens in all governments“* [13]. According to Friedman has the attempt of people to redirect government spendings for yourself two key results. Many programmes tend to support rather middle and higher classes than lower and poor classes for which these programmes are created. The poor has not skills that are necessary to successful political struggle for money and that is why this class will be nearly always overpowered by classes that have better skills to have advantage from accessible opportunities. Second result is that net profit of receivers of transfer will be smaller than total redistributed money mass. According to Friedman in case that anyone has possibility take away to someone e. g. one hundred dollars, it pays off to spend to one hundred own dollars to obtain them. Money expended after constraint on lawmakers and ministerial posts, contributions to political campaigns and to other things are waste because they derogate tax-payer who pays while other gains. These resources must be deduct from gross transfers so that we get net profit. In case that officials spend money of tax-payers for foreign purposes, these expenses will be *„... corrupt people which partake of redistributing. Next to waste of money, next to inability to attain proclaimed aims, the final result is decay of moral principles that hang together advanced society“* [13].

To problems of corruption expressed also G.S. Becker. Disclosure of corruption he apperceives as blessing in case that it leads to restriction of state impacts on economy. In the event that it has help only to politicians who promise in case of their election that they will be more hardworking than their predecessors, then experience shows

that corruption appears soon again because it tends come back every time *„...whenever any government acquires decisive impact on economic conditions“*. According to Becker there exists only one way of reduction permanent influence of political process: weakening of connection between companies and politicians. *„Danger of corruption is possible to reduce by election of honest politicians and punishment of enterprisers who unlawfully affect the policy. The simplest is clarify, standardize and mainly void needless rules regulating economic activity ...“* [3]. With above-mentioned totally corresponds also „Theory of economic regulation“[1971] - next representative of Chicago school - **George Stigler**. On the basis of numerous empirical analyses of entrepreneurial conduct he came to the conclusion that the regulation is not exogenous power serving economy as a whole but endogenous effect of economic processes (e. g. fight of interest groups). It is also impossible to ignore that in the field of microeconomic analysis appeared just in the scene of Chicago school during the twentieth century tends to make clear unlawful (so also corruption) forms of behaviour by means of the theory of reasonable economic choice. With reference to application areas of Gary S. Becker in this context it talks about *„economic imperialism“* and about G.S.Becker as about *„economic imperator“*. In the context of object of our interest there is key Becker's application of standard microeconomic analysis to problems of crime.

With open incorporation of problems of corruption we meet in economic theory till with arrival of the theory of public choice in half of the twentieth century. This theory interpreted corruption as a result of growing meaning of the state in market economies, connected with experience of „welfare state“. Increased interest of economists about corruption and its economic aspects stimulated also, especially in last quarter of the twentieth century, numerous empirical researches focused on results of corruption in world economies. In this period there began to occur also first scientific empirical studies and economic analyses focused on problems of economic dimensions of corruption, possibilities of its exact assumption, contexture of corruption and economic efficiency of states, economic growth, foreign trade, investments and others. After the fall of socialistic regimes in states of late East European block

this process further intensified. It appeared that countries ingoing the way of economic transformation of their economy from centrally planned economies to market economies have no small problems with corruption that in itself makes serious barrier originating market relations and new democratic regimes. It is possible to tell that wider intellectual rear in theoretic level these tendencies find in equally fast evolving theory of new *institutional economics*. Thus, it stands to reason that analysis of corruption in environment of economic theories of the twentieth century is exactly connected with origin and development of these two economic trends.

4. Corruption in the Theory of Public Choice

Public Choice became in passed decades one of the most productive branches of general economic theory. To its dynamic development contributed both circumstances linked with economic-political practice and circumstances connected with development of economic theory in itself. In the level of economic practice it was especially Great economic depression of the thirties of the twentieth century. As it was noted above, as a result of this crisis there arised serious fears and anxiety over possible limits of functioning of the market and began to form a number of notions which way the state could replace price system and allocate goods and services likewise efficiently (or even better) as the market. In the half of the twentieth century these notions became to realize in practice in all advanced economies and it primarily by means of the growth of extent of public sector. **James Buchanan**, the founder of the theory of public choice in this connection holds an opinion that, „...all states spend much more resources then it is possible to vindicate with any lawful arguments, (...) tell that 15% of total product is suitable to collect for collective agencies, (...), but even west democratic states commonly spend between 35 to 60% of product, then three to five times as many. The biggest countries of west Europe spend about 50% of gross domestic product, The United States of America spend 40% [5]. In the theoretical sphere one of the most important motive of birth of the theory of public choice became the necessity to respond to thesis about market failure which pronounced the neo-

-classic welfare economy in the first half of the twentieth century. However, also at the beginning of the third millenium the market failure still remains powerful integral thesis which contemporary economists and politicians scientific argue on behalf of government market regulations.

Approach of the theory of public choice represents within economic theories „economic analysis of policy“. This analysis takes advantage of methodology of general economic science and it considers decision making of politicians and their electors as a part of wider model of economic reasonable behavior. Then, on this basis it explains behavior of political entities (politicians, civil officers, electors) on so-called *political market*. Politicians deal with needs of society, protect public interest, naturally only by reasons of „disguise“ their real aim that is satisfying of individual interests, following of own interests and exploitation of their position to own benefit. Thus, received political proceedings generally produce short-term benefit based on long-term costs.

In its theories the school of public choice focused on interpretation of key elements of modern mixed economies. E. g. **interest groups** (corporations, professional bodies, associations and unions) which can affect an efficient run of economy if they obtain large advantages because of their organization. American economists Mancur Olson in this context deduced that in case that the number of interest groups, their power and political authority increase, it leads to extension of redistributed process in society. Thereby it happens to limitation of economic efficiency which has negative impact on value of produced national income. Thus, social costs form in the process of income redistributing from unorganized groups to organized interest groups. In economic term activities of interest groups represent net costs because by enforcement of partial interests is engaged a number of people whose activity could be productively used elsewhere. However, in the field of **theory of regulation** this school demonstrated that many companies consider the regulation as positive phenomenon because it protects them against risks of competition and that different lobby even urge for ensuring of regulation.

In the area of **public administration** the school of public choice holds an opinion that also official urges for maximization of his profit. „The

bureaucrat tries to maximize his utility in terms of restrictions which he faces. In this respect he does not differentiate from anyone. It may with difficulty expect him to will support some vaguely defined „public interest“ if it is not in accordance with his own interest“ [6]. It can signify by receiving bribes, tendency to maximize of natural advantages in terms of income, increase of prestige or power. Common instrument for achievement of these aims is raising the number of state offices and tendency to maximization of their budget at the expense of taxpayers. It concerns about the question of *bureaucratic competition*. Every office searches for approach how to increase demand for its outputs at same small number of customers and same legislature and it conduces in consequence to increase of budget subsidies. However, it is not possible to every office increases its budget at the same time and evenly. The growth in share of office A on total budget leads to decrease in share of office B, ceteris paribus. William Niskanen adds to this that higher posted officials responsible for office budget dispose of certain spirit of enterprise. That is why the utility function of bureaucrat includes also *permanent income, possibility of subsidiary income, authority and power, social position and facility of operating the office*. Because of all these „variables“ are dependent on office budget, it is possible on this conditions to consider the size of office budget as relevant instrument of maximization of bureaucrat's usefulness. Gordon Tullock moreover mentions that salaries of bureaucrats depend on number of subordinate officers. In case that bureaucrats are not the lowest elements in all hierarchy of public administration, the growth of employment rate will be grow together with their salaries because (1) total demand for work is higher and (2) late subordinate officers will become new managers.

In accordance with the school of public choice the government posts have in political (eventually bureaucratic) market monopoly position in the field of their activities, and in the world with high regulation economic market and market allocation is replaced by political market and by allocation based on nonmarket decision making of political or bureaucratic monopolists. As a result of growth of extent, power and competences of the state it is achieved the enterprise gains ever more often as effect of different government subsidies,

taxes and regulations than as effect of spirit of enterprise and enterprise skills. „Enterprise discovery“ (the term used by Austria economists Israel Kirzner) fulfils in the way of influence of political resolutions, lobbyism and corruption for acquirement of goodwill of offices or gain public orders. Economic fruitfulness of the company also often depends on it whether company gains subsidies, whether manages to increase import duties, if the competition is limited or if safety or ecological rules are deduced. State as economic entity ever more pursues its own interests and economic entities are ever more learning to exploit the state for enforcement of their interests. These tendencies, when the economic behaviour moves from economic market to political market, the school of public choice calls **rent seeking**. Generally this activity means to exploit political process to enrichment at the expense of others. According as Buchanan [4] mentions it concerns about specific term, nevertheless, it expresses the way of behaviour which „...as it seems was always with us and it is improbable that sometimes disappears. (...) Rent seeking became more important because institutional changes disclosed opportunities that did not exist in the nineteenth century and at the beginning of the twentieth century. (...) What is rent seeking? (...) we propose to use this term to description of behaviour in that institutional form when individual effort towards maximization of values creates social loss rather than social surplus“. **Bribes pose the part of rent seeking activities**. Relevant height of bribe is entered in bargaining strategy. The entity who corrupts is enterpriser (so-called political enterpriser), the entity who is corrupted is politician or civil officer. Political enterpriser seeking the rent is ready to bear high costs to gain advantage whereof the rent flows. It concerns about profit that he did not acquire in competitive environment or acquire only with expenditure of much bigger effort and resources. By reason that the competition is transferred from economic market to political market, competition between rent conquerors (seekers) increases costs on its obtaining. These costs include costs of rent conquerors (seekers) (to contacting politicians and officials, to lobbyism, to bribery and often also costs linked with crime, e.g. organized gangs for elimination of potential competition), costs caused by ineffective work of officials who

Fig. 1: Market impact of licence and net economic rent

Fig. 1a: Market impact of licence

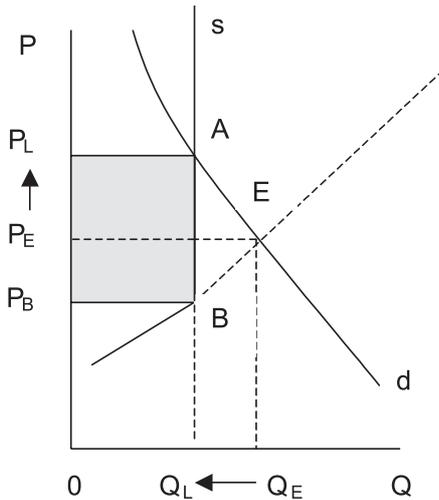
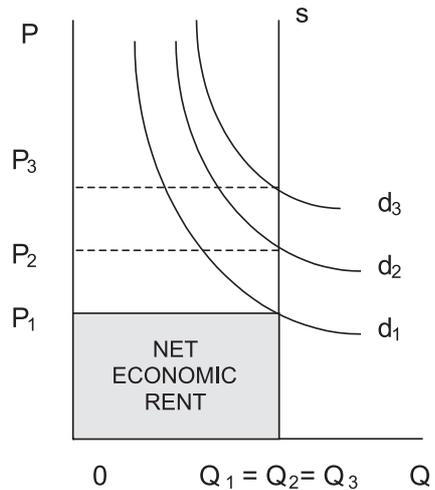


Fig. 1b: Net economic rent



Source: own adaptation

let to corrupt this way and costs pressing on third side, especially on taxpayers. The share of one citizen on so waste resources is relatively low, hardly numerable and citizen generally the fall of his standard of living practically does not register. However, in a long period the redistribution of wealth in society is very evident. Rent seeking is also connected with basic economic principle - principle of scarceness. The scarcer and more profitable rent (net profit), the more expensive. This fact affects also *mutual expectations of parties concerned*, so those who gain and those who decide about award of privilege. The scarceness increases expectation, higher expectations increase the „price“ of rent.

Following graph (Figure 1a: Market impact of licence) represents the adverse effect of existence of licence (eventually quotas) on certain market. In case that this market would not be regulated there would form equilibrium price P_E corresponding with equilibrium quantity of provided service Q_E . However, on the assumption that for providing of this service is necessitated the licence whose amount is delimited e.g. at the level Q_L , primarily growing supply changes into vertical line. It results in existence of higher prices on market (at the level P_L). Every licensee will be presently realize net economic profit im-

plicit in limited number of these licences. Grey area on the graph demonstrates total economic profit of providers of this service. It is possible that licensees realize their net profits by gaining (seeking) on political market. Then, it is more suitable to use for these net revenues the term - rent (the difference between price achieved on market because of seeking rent P_L and potential market price which would be achieved in case that appropriate enterpriser does not seek the rent, e.g. at the level P_B). The triangle ABE , evident from the graph, measures market inefficiency caused by award of licences. It poses „dead loss“ of unused market opportunities of demanded consumers and offering providers of services.

On second graph (Figure 1b: Net economic rent) is illustrated the situation leading to achievement so-called net economic rent. It concerns about revenue, eventually payment to owner of certain scarce resource whose supply is totally non-elastic. The price of this resource and net revenue of owner is caused only by the height of demand. In the context of the theory of rent seeking it is possible to illustrate with utilize this graph e.g. net income of corruptible civil officer, in spite of the fact that he is not owner he disposes exclusive power to take decision about allocation this scarce resource. In case that Q is e.g. exclu-

sive right to import of certain commodity from given foreign destination then P means possible price of this right (i.e. how much the possible rent seekers will be willing to pay for this right). If this right is the object of rent seeking activity, rent seekers will compete by the height of „price“. The right falls to one who offers the most (on the graph - demand d_g). Gray area illustrating net economic rent falls to corruptible officer. Thus, in similar situation the height of bribe creates the interval whereof the price of this nonmarket good or service moves.

Rent seeking on political market makes in every economy undesirable phenomenon. If human and material resources expended on lobbyism, creating contacts with politicians and officials and etc., were used elsewhere, they could create useful goods and services. In reality activities of rent seeking are not only matter of relationship between enterprisers and politicians. As officials try to enlarge their influence and extend their offices, it comes to rent seeking also within public sector. Primary resource of inefficiency, on condition of given organization of institutions, consists according to the school of public choice in accordance with organization of government rights of realization of revenues. Then, to rent seeking of single offices we can regard as internal effort to assign distribution of these rights. Because there is not exist any objective government to distribute these rights, spendings on rent seeking will be unavoidable.

Gordon Tullock describes also other form of rent seeking: among enterprisers and businessmen exist a lot of those who avoid to rent seeking activities. These are people with natural business abilities and their „arts“ they achieve to exploit in business transactions at the most. To avoid the growth of costs in rent seeking activities they utilize their private knowledges and patronage as „protective shield“ against bribes. The function of second interested side (high civil officer, government representative) is „only“ assert his influence. About gained revenue, which may have financial or other form, the parties concerned divide. „*That is what I denote as activity of rent avoidance and it is main resource of inefficiency in rent seeking economies*“ [4]. Thus, rent avoidance proceeds as converse rent seeking activity because it comes to realization of incompetent advantages on the side of politician or

official. Also in this form of corruption costs are transferred on the rest of society and so they slow the growth of this economy. According to Tullock it is possible that under present circumstances in the United States of America, but also in most of west European countries, rent seeking activities have much lower significance than rent avoidance activities. However, Tullock doubts „..., *that it will be true in the future*“.

Public choice offered serious arguments against ready growth of size of public sector and enforcement of still bigger budget revenues „necessary“ to financing of projects whose efficiency gradually declines. It referred also to serious internal problems of democratic political process which are according to Buchanan especially unsuccessful check on government, politicians, bureaucracy and state. Buchanan tries to find solution in rules that means self-limitation of individual but in his own long-term interest. „*It is possible to reform social systems only by means of system changes in rules of game. (...) I put the accent on key meaning of rules which would derogate the execution of state power and their embodiment in constitution*“ [6]. Inquiry of possibilities of institutional check on government, politicians and state on the basis of rules and their enforcement by law and by moral codex, belongs according to Buchanan to key problems of constitution economics. Because the majority vote does not create sufficient guarantee of efficiency of public sector, he advises the system of unanimous vote, especially in case when the result of voting affects the laws of citizens. According to our opinion the large credit of economists of public choice is that on the field of economic theory disclosed problems which affect by now traditional look on behaviour of politicians and state and thus disclosed opportunity for adequate economic analysis of phenomena which were for a long period domain of polimetricians but that still more often deform real economic environment.

5. Corruption in the Perspective of New Institutional Economics

„*Corruption has two stepmothers - human smallness and ineffective institutions. This reality already Montesquieu perceived: There exists two kinds of corruption. The one when people does not observe laws and the other when laws corrupt*

people. *It is confirmed illness because it consists in medicine in itself*" [18].

Though, institutionalism as the trend of economic theory has its roots in works of American institutionalists in the first half of the twentieth century, dynamic development of this branch of economic thinking we can notice since the sixties of the twentieth century. In this context economists talk about **new institutional economics (eventually about neo-institutionalism)**. This term is ascribed to Oliver Williamson which purposed to distinguish „new theories“ from primary American institutionalism of „old institutionalists“. However, there exists also opinion that new institutional economics became independent trend of thought since publication the paper of Ronald Coase „Merit of the firm“ in the year 1937 when transaction costs were instituted to economic analysis. Czech economist Karel Kouba earmarks new institutional economics as one of trends of general economics that developed „...in discussion about unsatisfactory characteristic of traditional mainstream analysis in the sixties...“ [14].

In theoretical level the neo-institutional economists responded to absence of institutional framework in neo-classic economics „...at analysis of economic efficiency in time there were accepted two mistaken premises: firstly that institutions are not significant and secondly that time is not significant“ [25]. Though, contrary of the „old“ American institutionalists the neo-institutionalists modified traditional neo-classic economics in the way of completion its analytic framework about function of institutions because according to new institutionalists „...institutions play fundamental role at formation of economic behaviour of people and at gaining of certain economic efficiency, (...), institutions change in time and many times respond to activity of economic factors“ [25]. In institutional world the contractual man maximizes his usefulness within given institutional settlement. He disposes of limited rationality, exists in the world of transaction costs, property rights and definite, time asymmetric information. To can decide in this environment, there must be created certain rules. These rules are accepted as a part of culture. Contractual man may maximize his wealth also at the expense of the others (e.g. tricks, cheating etc.) which constitutes meaningful problem in the world of definite information and limited rationality because it is

not possible to recognize dishonest individual in advance.

In economical-political sphere the interest about institutional characteristics appeared early the nineties of the last century and it was connected especially with questions of economic efficiency of states. Then, increased interest about the role of institutions raised the process of transformation of central planned economies. Empirical analyses and research in this field began to orientate on identification of differences in economic efficiency between countries or groups of countries just on the basis of institutional factors. „*Rise and fall of Soviet Union and world communism we are not able to clarify by means of neo-classic analysis instruments. To solution of present problems of development we ought to approach by means of institutional and cognitive approach . (...) new political economics was especially focused on the United States of America and developed societies. Acute challenge of research is patterned third world and communities in eastern Europe*“[21]. In this area new institutional economics inquiry for alternative sets of social rules (institutions, property rights) and economic organizations affecting behaviour of people, allocation of resources and economic equilibrium.

New institutional economics does not create homogenous intellectual trend. In accordance with the conception of organizations and institutions with which works and according as representatives of individual approaches complement and modify traditional neo-classic economics, there was differentiated some trends in new institutional economics (near to this e.g. Icelandic economist Thráinn Eggertsson In *Economic Behavior and Institutions*, Cambridge, Cambridge University Press, 1990). We assume that within the context of interpretation of corruption problem it seems as efficient an approach developed especially by D. C. North which works with economic and political rules and with institutions as endogenous factors and as unifying component he implements there transaction costs. Further, it is necessary to remark that at the present time there already exists in new institutional economics a large-scale literature which applied its theoretical conceptions to interpretation whole extent of problems of economic and extraeconomic phenomena. In this spectra there appears

in the period of passed ten-twenty years also applications of microeconomic analyses that are directly focused on problems of corruption and bribery (it is especially concerned on applications in terms of institutional conception of theory of the firm and so-called theory of principal-agent (theory of agency).

Within the context of above-mentioned facts we comprehend institutions in accordance with definition of D.C.North: Institutions are „the rules of game in society (...), limitations designed by people, limitations which affecting human relations“ [22]. These are limitations, „...which people impose on themselves“ [22]. Institutions like these may be:

⇒ **Formal** - they have legal form. It is concerned about whole legal framework of economy which regulates economic behaviour of people. The impact of formal institutions on efficiency of economic entities is mediated but considerable.

⇒ **Informal** - steady customs, traditions, habits, taboos, rules of conduct, construction of social systems (e.g. on family or relational base), everything what we called as „culture“ of this society. Informal limitations may be [22]:

- extension and modification of formal rules,
- socially punishable standard of behaviour,
- internally exact rules of behaviour.

Thus, institutions represent the set of formal and informal political, economic and social rules (including their exaction). In case that institutions choose between behaviour that is allowed and that is disallowed, they effect on mind and behaviour of economic entities, participate in formation of their preferences and expectations and thus make certain behaviour predictable and given environment steadier. ***In term of our interest it is fundamental that institutions should be so quality to enable relatively equal access to economic resources for economic entities and at the same time they should be capable to create mechanisms prevent from different frauds against competitive conduct and moral hazard.*** These requirements are necessary because the quality of institutions partakes of assessment the level of competition and together with standard economic limitations and used technologies affects production and transaction costs and thereby also profitability and workability of different economic activities.

„In case that institutions represent rules of game, organizations and enterprisers are players“ [21]. **Organizations** „...originate as a result of opportunities that are provided by institutional framework. In case that institutional framework makes piracy profitable then begin to form piracy organizations, in case that it makes efficient activity profitable then originate organizations-firms that are engaged in productive activities“ [21]. North [22] defines organizations as „...interconnected groups of participants acting under the pressure of some institutions“. These are groups of individuals, hierarchic structures which rising on the basis of certain institutions, function on their basis or make for their exaction. Organizations should be *economic, political, social and educational*.

In market environment, where organizations and institutions interact, changes take place. According to institutionalists it concerns about continual progressive process which is the result of decision making of individuals in organizations. The majority of these resolutions is stationary, proceeds as routine in terms of habit or convention so that it corresponds to expected model of behaviour of individuals. However, some resolutions exceed the frontier of expected behaviour, gradually lead to change of relations between individuals and organizations and consequently also to change of formal and informal rules. The necessity of change of institutions in many cases results from that they become a restriction at raising living standard of inhabitants (e. g. in conception of T. Veblen institutions often irrationally restrict and wrongly orientate creative activities of entities). Thus, it is concerned about very wide problems that is connected with the question of *institutional change*. According to North there exists two basic resources of institutional changes: change of relative prices and change of preference. Change of formal institutions, e.g. change of rules of allocation mechanism is relatively easy and fast. On the other hand, in case of informal institutions it is necessary to plan for longer period. Change of informal limitations is more progressive and subconscious because it relates to development of alternative models of behaviour consistent with newly perceived advantages and costs. Dependence of institutions in given country and time on historic development of its institutional form founds the

„path dependency“. Even despite of change of formal institutions informal institutions stay for a long period unchanged so that there rises certain stress between informal limitations and new formal rules. Change of institutions means also the change of existing organizations and/ or the formation of new organizations which in interaction with institutions promote institutional changes. Key role there represents *competition* which urges organizations to invest to perspective knowledges and acquirements whose character the institutional environment retroactively determines. North deduces that in the process ineffective institutions will pass and gradually it will come to rise of effective forms of economic, political and social organizations. Basic long-term resource of changes of institutions in time is the *process of learning* which leads to changes of mistaken models of behaviour, determines rate of changes of institutions and depends on rate of competition between organizations.

From above-mentioned results that for achievement of efficient function of market it is necessary to individual participants know right methods of achievement of their aims. It is concerned about right estimation of behaviour of other players and in the case of false presumption promptly exploit informative feedback. The ones that correct their primarily false models have a chance to survive in competition but the ones that do not adapt will be excluded from the market. Thus, market efficiency means that the structure of market institutions will not advantage anybody a priori. However, North refers to the fact that „(...) *institutions or formal rules at least are created so that they serve to interests of those that have sufficient bargaining power to create new rules*“ [21]. Thus, it leads to raising of transaction costs for other participants. Individuals behave on the basis of asymmetric informations and wrong models of behaviour derived from their limited rationality. Informative feedback is imperfect and does not lead to correction of erroneous decisions. Market functions inefficiently and there survive only the ones that have access to information and/ or the ones for which institutions were created so that just their models of behaviour were vital.

As above-mentioned in institutional economics it is concerned at the present time about interpretation **of impact of institutions or institutional factors on total economic efficiency of**

given country. Basal premise of institutionalism is following: provided that in society are created and maintained suitable political and economic institutions, they can positively affect economic efficiency of a country and in the long term increase their competitive advantage. Differences in economic institutions are consider as one of the front reason of different rates of economic growth in several countries. However, their efficiency strongly depends on political institutions. That is why in practically application level the quality of institutional environment of individual countries, eventually their groups, is viewed at the present time, and it both in totally level and in the level of partial components of formal and informal institutions. In this line it is possible to deduce that especially analysis of informal institutions begin to open not only wide spectrum of problems with which contemporary economies on different levels of their economic development wrestle but also a number of questions, tasks and challenges for next generations. Prof. Mlčoch in this context talks about act of „*law of diminishing marginal efficiency of law enforcement*“ [19]. Though, the problems of corruption, as way of behaviour of economic players, represents in this wide spectrum of moral dimension of economy, habits, traditions and conventions only certain subset, existing theoretical and empiric studies enough illustrate negative impacts of corruption on economic efficiency of states and at the same time they warn against hysteresis of this phenomenon in contemporary economies.

In the view of new institutional economics we can define corruption behaviour as departure from formal rules. In the sphere (country) where corruption is strongly rooted by habit or tradition, this method of behaviour belongs to wide system of unethical informal institutions. Corruption is not situated „outside of“ economic system but in case it exists then it exists as endogenous institution and it represents independent system with own culture and tradition. Corruption „...*functions as social system, has its own rules of game, internal mechanisms of its development that affecting its power, pungency and the rate of spread in society*“ [12]. It declines efficiency of fighting with corruption of course. E.g. experiments, that were led for purpose of elimination of corruption in the way of personal exchange of corrupt people, failed

and proved as highly ineffective. When we induct new, „fair“ people (players) to same unchanged conditions (institutions), they will behave very fast the same way as their predecessors or they will leave this position.

Corruption standards, rules and relations of mutual confidence are a part of corruption, without their observance corruption would not be possible (it is necessary to know right people on right place). These corruption rules and standards find their position especially where exist „white places“ as failures at the system of formal institutional form. According to sociologic literature, e.g. [11], it comes to failures of official normative system of society (so-called social dis-organization) in three basic forms:

⇒ In society (or in some of its area) there exists a number of contradictory rules when it is not enough evident to participants which rule they should prefer. Tends to corruption behaviour result from findings that just this behaviour admits the biggest profit to them.

⇒ Observance of official norms does not lead to relevant effects or premium.

⇒ Situation when official rules are totally missing. This situation is characteristic e.g for transformation period of post-communist countries where old standards are not valid and new standards are not created up to now.

Thus, the failure of formal institutions discloses the scope for spread of corruption standards as informal institutions. However, on the part of participant players it concerns about reasonable reaction on reality of the system because existent (eventually nonexistent) institutions don't represent motivation factor for players so that corruption behaviour appears in this situation as economically reasonable. Seeing that corruption has its own rules, corruption institutions and formal institutions compete. Finally, corruption can substitute the function of formal institutions (e.g. the situation of poor countries of third world or the period of real socialism when different preserved interpersonal links decline uncertainty of inefficient markets). At repeated corruption actions corruption standards are moreover reproduced and they take control of the system. They gradually leak in public where shed *corruption environment, as the set of collective notions, eventually culture models that exploitation of public authorities, giving and taking bribes do*

common and customary excusable act for inhabitants of given country“ [12]. Thus, corruption environment contributes to establish corruption transaction as lawful method of behaviour. To stabilization elements of corruption system it is necessary to add also detected and published corruption affairs of top public representatives (or also personalities in the media, top sportsmen etc.) and also existence of long term open and still unpunished corruption causes. To stability of corruption system also **formalization of corruption** facilitates. Formalization of informal corruption rules the participant players can achieve e.g. lobbyism (e.g. for enforcement of restriction of corruption on certain market or for enforcement of soft anti-corruption legislation etc.) To this conduces especially the client system. These facts on the one hand stabilize and strengthen existent corruption system, on the other hand they *change expectations of entities about behaviour of their opponents and thereby they change corruption system*. The result of this will be raising of the equilibrium level of corruption in the following period and the growth of transaction costs.

Corruption, whether as casual form of ignore of engagement with state and law, or as substitute system of formal institutions, takes effects unlawfully in secret form. However, in term of long period it embodies high constancy linked with the system of informal social links (patronage, push, nepotism) and then necessary institutional change is struggled very hard. „...*Marginal changes can bring to solution that - as soon as they predominate (...) they are lock-in, and then lead to certain specific way to future“* [20]. The power of late dependence, the power of the fact that corruption institutions which the society inherited, are able to survive, is considerable. In this context it is necessary to mention the situation in new market economies, as the Czech economy. Exactly in the area of corruption it is possible to pursue the path dependence. Though, formal rules and social standards exist more than fifteen years corruption finds new forms, enforcement of formal rules is inconsistent, rules are not adhered and/or they are neglected. Then, created institutions naturally cannot execute the purpose which ought to execute and economy cannot function after the model of advanced democratic economies. It stands to reason why the level of corruption and corruption perception in econo-

mies of late Soviet Union The report of World Bank from the year 2002 designated as one of five key circumstances that should explain why well operating institutions in developed market economies do not have to lead to same results in these countries and countries of third world. Also Czech institutionalist prof. Mlčoch in the long term makes noises about problems of „replication of institutions“. According to him the moral decline as necessary product of totalitarian regime did not stop but it continues. To this contributes systematically displacement of ethic standards out of economy. *„For our backwardness is - told with Arrow - responsible loss of mutual confidence. And for loss of mutual confidence everyone bears the responsibility in such rate in which he conceded and tolerated non-competitive function of political markets in years of transformation“* [19].

Conclusion

Submitted paper put a question whether in the development of economic thinking exists historically conditioned, theoretic reflexion of problems of corruption and whether, eventually in what way economists of different periods and different economic trends analysed corruption relations existing in economic reality and how they interpreted them. This historic excursus we undertook with awareness of impossibility of total complexity, nevertheless, our endeavour was to noted the reflection of problems of corruption in the context of historically changing social-economic conditions and their reflection in the history of economic thinking as well as also in the context of paradigm changes of economic theory in itself.

Analysis led across the historic development of economic thinking brought us to a conclusion that **the attention of economists did not put a questions of corruption as object of its interest. Problems of corruption behaviour was not until the half of the twentieth century perceived as economic problem.** At the same time we documented that in works of many front economists the problems of corruption was not totally ignored. In their works we find moral denouncement of all who would urge for self enrichment at the expense of the others and warning against the corruption of power. Within this context, also „Wealth of nations“ stays for more than two centuries still actual and wise spring for all who tries to find the way not only to economic

but also to ethic way of behaviour in economic environment. Further, we can claim that although the neo-classic economics assigned ethic, morality, traditions and habits to „exogenous environment“ of economic analyses, the modification of original neo-classic paradigm enabled to economists of Chicago school at the end of the twentieth century to apply standard economic analysis to *a number of forms of extraeconomic activities.* To this area belongs also Becker 's theoretic analysis of crime in whose framework it is possible to research also the problems of corruption as reasonable choice of individual. During the twentieth century a number of economists connected the problem of corruption especially with growing spread of state activities associated with building so called welfare states. *However, with open incorporation of problems of corruption we meet as far as with the origin of the theory of public choice in the half of the twentieth century.* In many theories of public choice corruption behaviour is analysed in connection with public administration and policy but also in connection with behaviour of enterprisers who in economic environment (with growing state participation) move their enterprise activities from economic market to political market. Methodology approach of new institutional economics enabled to take problem of corruption in much wider dimension of real economic structures and relations and opened in front of wide scientific community also perspective field for empiric and theoretical research of growth efficiency of countries. Analysis of economic effects of corruption represents in this field inconsiderable place.

We supposed that the existence of corruption in economic life of people, it does not matter what way it is perceived by economic entities, demands more serious and deeper interest of economic community. Up to this time everything indicates to the fact that exactly approach developed by new institutional economics will be that approach by which scientific economic community will markedly affect to this field. The latest tends in area of economic analysis of corruption denote to very productive connection of **new institutional economics with new social economics.** Both disciplines are joined together by interest in role of formal and informal institutions in which, as we tried to document in previous text, corruption represents very important functions. To research

of institutions it will be need to dedicate large effort and time without doubt and only the future validates words of R.Coase [10] that „...when all of it will end, main trend of economic thinking will become by what we nowadays call new institutional economics“.

The results of analysis listed in this paper according to our opinion don't miss predicative value even for contemporary economic-political experience. As was documented in the text, the interest in problems of corruption inside of theoretic economics disposes also quite concrete approaches to the solution of this phenomenon and thus it has also importance to problems of fight against corruption. We take a view that this dimension of theoretic economics ought to be used and promoted with corresponding forcibility, especially in pedagogic process where it can enact the role of natural base of profession anti-corruption education of rising generation.

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ABSTRACT

REFLECTION OF CORRUPTION IN THE DEVELOPMENT OF ECONOMIC THEORIES

Jolana Volejníková

Data relating to corruption could fill up the whole library. Nevertheless, the object of interest could be categorized to different spheres: causes of corruption, results of corruption, analyses of corruption level in accordance with states, concrete corruption causes, anti-corruption experience in single countries and so on. However, a great deal of scientists defends against research on corruption and affirms that „what should not have been, it even may not be“. After all, even anti-corruption legislation had originated practically always behind schedule (in England not till year 1889) because there dominated hypocritical tendency to affirm that the problem of corruption in this country does not exist. Although there had been written a number of books about corruption during overpast decades, really scientific (not only tabloid and journalistic) books and articles on the theme of corruption exist only on a small scale, both in terms of foreign and internal literature. Approaches to corruption are fragmented and only few approaches try to view to corruption as economic problem. That is why we attempt to map the reflection of corruption in historical development of economic theories in this text.

This article is concerned with problems of corruption and its theoretic reflection in historical development of economic theories. In this context we analyse the period of origin of early economic thinking, the period of separation of economics as independent branch of science and the period of development of economics during nineteenth and twentieth century that reflected paradigm changes within economic theories. We lay specific stress on analysis of the theory of public choice and the conception of new institutional economics. In the paper we appear from the fact that corruption was, is and as well as in the future it will stay with the most probability one of the possible forms of economic behaviour of economic entities with significant impact on quality of economy of individual as well as economy of government. Our purpose in submitted paper is to discuss whether and which way the problems of corruption was analysed and interpreted by economists during historical development of economic theories.

Key Words: corruption, history of economic theories, standard economics, public choice, institutional economics.

JEL Classification: B1, B2, B4, B5, K14.