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THE IMPACT OF CORRUPTION ON TAXATION IN THE EASTERN EUROPEAN COUNTRIES

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Abstract
Corruption is a phenomenon widespread almost all over the world, but its level varies from country to country. In addition, there are very large discrepancies from one geographic region to another. If in some countries the impact of corruption is not obvious, in other countries the effects on poverty can be devastating. The effects of corruption on the standard of living have been extensively studied in the literature. However, there are other factors that can be influenced by the level of corruption, such as taxation. A comparison of tax rates by countries is difficult and somewhat subjective, as tax laws in most countries are extremely complex and the tax burden falls differently on different groups in each country and sub-national unit. This paper investigates the impact of corruption on fiscal policy (tax rates). To achieve the purpose of the research, we analyse the link between the level of corruption and the degree of taxation in the Eastern European countries. The results show that there is a direct relationship between the factors analysed. Our main contribution consists in finding differentiated results of the influence of corruption on the level of tax rates among developing countries. Our findings suggest that governments and policy-makers need to acknowledge that the anti-corruption fight requires not only the right fiscal policies, but also the right way of implementing these policies, recognizing the role of quality institutions, which need to prevail in any country.

***Key-words*:** Corruption, fiscal policy, tax rates, comparative, panel analysis.

JEL CLASSIFICATION: H30, H83

1. Introduction

Corruption is considered the worst and most widespread form of behaviour, perverting public affairs (Conseil de l’ Europe 1996:78). According to Transparency International (2017), ‘Corruption is the abuse of entrusted power for private gain. As a citizen of Republic of Moldova, I am concerned about the prosperity of my home country. Our main concern is that corruption is the biggest problem in Moldova. In this paper, we define the biggest obstacles for Moldova’s development in a prospect of a cross-country analysis. Thus, the objective of the present research consists in analysing the influence of the level of corruption on the level of fiscal rates, especially on income tax rates. A panel analysis was conducted on a large sample of 35 countries over the period 2012-2017. Our main contribution consists in finding differentiated results of the influence of corruption on the level of tax rates among developing countries. Our findings suggest that governments and policy-makers need to acknowledge that the anti-corruption fight requires not only the right fiscal policies, but also the right way of implementing these policies, recognizing the role of quality institutions, which need to prevail in any country.

2. Conclusions

Our main contribution consists in finding differentiated results about the influence of corruption on the level of fiscal rates in correlation by income and institutional quality. Thus, in developed countries with high quality institutions, we found that lower level of corruption corresponds to a lower level of fiscal pressure, supporting expectations. On the other hand, we found that in developing countries with low-level institutional quality, high level of corruption decreases fiscal pressure, due to low governance efficiency under which people may easily

circumvent the law. Our findings suggest that certain fiscal policies may work in some countries, but not in others.

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