Financial Crisis: Focusing on the Causation of Corruption*

재정위기: 부패의 인과관계를 중심으로

Yun, Eun Gee (윤은기)**·Kim, Andrew Eungi (김은기)***

ABSTRACT

본 논문의 주요한 내용은 경제적 재정위기와 부패와의 인과관계를 분석하는 것이다. 시스템 부패현상 으로써의 정치적, 사회적, 경제적 부패는 제정위기를 야기하였고 경제성장의 저해요인으로 작용하고 있다. 비효율적인 경영재정시스템, 반투명적인 감시재정시스템, 부패적인 재정시스템 등은 재정적인 부패의 증가와 경제성장의 저해 요소들로 인식되고 있다. 재정위기와 부패와의 연관관계의 분석에서 공공부문의 투명성은 재정적자를 감소시킬 수 있고, 결과적으로 탈세와 부정부패는 위기적인 재정적자의 원인으로 간주될 수 있다. 지속가능한 경제성장을 위한 재정건전성 강화 방안을 모색해야 한다. 책임성과 투명성에 근거한 재정시스템의 설립은 재정적인 위기의 감소와 지속적인 경제성장을 위한 중요한 요소로 분석 될 수 있다.

주제어: 부패, 재정위기, 효율적 재정제도

I. Introduction

The main purpose of this article is to analyze the causal relationship of corruption and financial crisis. To a great extent, poor financial management standard and inadequate external supervision can engender and foster corruption. The article argues that the development of efficient and non-corrupt financial system is one of the most critical challenges facing developing countries. It must be noted that the financial soundness of banks to prevent financial fraud is critical for the stability of not only the economy but also society.

Also, the article discusses the relationship between economic impact and corruption. The low rate of economic growth generated by the low level of productivity and investment is ultimately caused by political and social corruption which can induce financial crisis. Also, improved monitoring of banking supervision

---

* This work was supported by the Dong-A University research fund.

** First author and Professor in the Department of Public Administration, Dong-A University

*** Corresponding author and Professor in the Division of International Studies, Korea University.

systems is a prerequisite of reducing the risk of financial crisis. That is why the Asian financial crisis of 1997-1998 intensified national efforts to design a new national "financial architecture" aimed at the sound operation of the financial system, including private banking industries, central banks, and local banks.

Consequently, the article explores how a sound financial system will reduce the risk of crisis contagion and facilitate combating financial fraud. That is because financial fraud and imprudent financial management can contribute significantly to the weakness and vulnerability of the financial sector. The Asian crisis readily shows that inadequate corporate governance, including poor accounting and disclosure standards of the financial system, can contribute to a financial crisis.

II. The Nature of Corruption

As Luo(2007) has explained, the nature of corruption is norm-deviated, power-related, and covert. Financial corruption can be norm-deviated, because of an illegal transfer of money. Also, financial corruption may be power-related due to a corrupt transaction manipulated by powerful and discretionary bureaucratic authority without observing regulations and rules. Financial corruption can be covert and informal, because formal legal process is not operated with "the motivation of personal gain" as an illegal misconduct.[1] As a result, authoritarian governments have produced a high level of corruption, including the kinds of white, black, and grey corruption.[2]

As regards the scope and content of financial corruption, it has been found in all political systems, which has multitudinous causes, assumes many different patterns and guises and cannot be accurately measured because of its often indeterminate and conspiratorial nature (Luo, 2007: 78). Political corruption is a cooperative form of unsanctioned and condemned policy influence for some type of

1) "Economists treat corruption as another means by which to maximize profits or seek optimal economic resources" (Luo, 2007:77).

2) "Corruption can be classified as white, black, or grey. Although all violate legal codes or institutional rules, each of these has different moral implications". White corruption can be tolerated by mass opinion, while black corruption is condemned. The legal definition of corruption remains important for black and grey corruptions, but is not important for white corruption. Under certain circumstances, the public may feel that a legal act defined as corruption is a necessary tool to survive (Luo, 2007:77).

significant personal gain, in which the currency could be economic, social, political, or ideological remuneration (DeLeon 1993:25). Consequently, financial corruption occurs due to a corrupt political system which has encouraged special interest to overwhelm public interest, leading to a systemic corruption.

Financial corruption is thus facilitated by unstable polities, uncertain economies, unrepresentative government, dishonest entrepreneurial ambitions, privatization of public resources, factionalism, personalism, and dependency, all of which favor underground economies and benefits a privileged few at the expense of the disadvantaged mass (Luo, 2007: 79). Accordingly, financial corruption can be prevented by ethics in public administration, legal-rational financial rule, integrity, and the virtues of good morale.

III. Corruption and Economic Growth

There are various views in terms of the economic costs of corruption. “The diversion of resources” for public interest can occur due to a high level of corruption caused by the lack of an effective and sound rule-of-law. Ultimately, economic growth can stall because of "the misallocation of resources”. The inefficiency of bureaucracy in the process of policy implementation, including price controls, exchange controls, import licenses, etc., can also lead to the misallocation of resources and investments. Furthermore, technical and distributional inefficiency would be induced by a high level of corruption in developing countries.

Corruption can cause increases in production costs, as bribes are used to avoid government regulation, obtain privileged advantage, and succeed in securing illegal contracts from the government or private companies. In particular, public policies for public interest in the fields of health, environment, and finance are distorted by the corrupt actions, which can increase social costs. Also, the corrupt behavior of tax evasion can reduce the tax revenues of the government.

Strong state based on accountability and transparency can thus prevent the diversion of resources through sound economic policies, including wage regulation, export and import controls, and reasonable allocation of resources. It is important to mention that the function of economic policy is to pursue an efficient policy of distribution for public good by encouraging fair competitive system under the condition of the scarcity of resources in the capital market system in order to maximize economic welfare.

Interventionist industrial policies based on the process of centralization have pursued to control corrupt public officials and politicians. Many studies have shown that there is a negative correlation between corruption and the measure of press freedom, democratic institutions, and the accountability of the judiciary. Corruption is a significant variable for measuring governmental efficiency and there is a high correlation between government efficiency and anti-corruption. Many researches have also shown a negative correlation between corruption and economic growth. Furthermore, an increase in the share of the informal or unofficial economy in a country's GDP can lead to an increase in corruption. In other words, when underground and black market economy, which is regarded as shadow economy, grows, the extent of corruption will also increase.

In their study on the relationship between corruption and salaries of civil servants, Rijckeghem and Weber (1997) show that a relatively high salary of civil servants has induced a low level of corruption, although other similar researches have failed to show the correlation. It may be difficult to measure the objective extent of corruption rather than the perception of corruption. It is not easy to analyze the causal relationship between corruption and public sector pay. It is curious whether corruption is a primary cause or a consequence. Although it can be argued that corruption is a cause of low pay or that low pay is a cause of corruption, the low salary low civil servants is closely related with corruption.

Gupta (1998) analyzes the causal relationship between the impact of corruption and the distribution of income. Corruption, which is a negative impact of economic growth, can generate income inequality. Also, the level of corruption has a significantly negative effect regarding income distribution, land distribution, and educational opportunity.

Mauro (1995) presents an analysis of the relationship between corruption and the growth rate of GDP. The relationship between corruption and bureaucratic efficiency is also examined. The result shows that there is a causal relationship between ineffective bureaucracy and corruption which, in turn, is related to per capita GDP growth. Consequently, there has been a strong relationship between corruption and productivity. The negative correlation between corruption and growth is significant in both a statistical and an economic sense (Mauro, 1995:705). There is evidence that bureaucratic efficiency may be an important determinant of investment and growth (Mauro, 1995:705). It is noteworthy that investment is an essential factor of growth and that a high level of corruption leads to a lower ration of total investment. Mauro (1995) argues that corruption is an obstacle of economic growth. Institutional and bureaucratic efficiency can be seriously hampered by corruption. In short, the efficiency of bureaucracy may be measured by the level of corruption, and bureaucratic inefficiency can lead to the weakening of effective investment strategy.

Ades and Di Tella (1997) show that the strategy of developmental administration regarding investment is deterred by corruption, leading to the reduction of investment between 16% and 72%. Also, a study of Keefer and Knack (1995a) show a similar result, albeit using different indexes of corruption. The primary impact of corruption is thus that it serves as a deterrent factor to investment and economic growth.

It is also recognized that the predictability of corruption can be a significant factor to decide the scope and level of investment. Campos (1999) analyzes “a measure of human capital investment” based on the World Bank survey data. The perceived unpredictability of corruption would be an important determinant to decide the level of investment. Campos argues that “stable institutionalized corrupt regimes” might present greater obstacles in terms of the process of financial reform such as some countries of East Asia.

Foreign investment and aid may be decided by the level of corruption, which can be an important determinant of the flow of foreign resources like foreign direct investment. Wei (1997) has analyzed a significant negative effect regarding the flow of capital in corruption-laden countries. According to a study by Alesina and Weder (1999), whereas there is no strong correlation between the level of corruption and the financial aid of OECD donors, there is a positive correlation between Scandinavian donors and the corruption level of recipient countries.

Also, corruption is positively correlated with the performance of inefficient public officials and the capacity of inefficient government. In a study of the relationship between economic impact and corruption, the consequence of the high level of corruption are low productivity, unequal distribution of income, and reduction of investment, all of which are ultimately associated with the low rate of economic growth.

International financial organizations have required reform of political and financial aspects as preconditions of investment and aid so as to eradicate corruption in developing countries. Political suggestions for making good governance within developing countries include an independent judiciary and press, political pluralism, anti-corruption legislation, effective monitoring and auditing systems, including legal independent inspectorates and administrative commissioners.

IV. Corruption and Financial System

The fundamental transformation of the financial system in developing countries, which is to provide good investment environment and discourage practices of economic corruption, would be necessary. Building institutional capability in the financial system would be essential to generate the successful transformation with a political commitment. Reliable financial reporting cannot be attained when there is no watchdog and when there are inappropriate legal system and undeveloped financial institution. Studies have found that there is a high correlation between corruption and financial crisis.

Financial fraud as a kind of corruption can undermine the soundness of the financial institution which, in turn, can lead to a financial crisis. The Asian financial crisis has underlined the fact that successful participation in global capital markets requires the enforcement of rigorous regulatory standards with zero tolerance for corruption and that it is inaccurate to argue that a moderate degree of corruption or bribery has a positive effect on development by giving firms and individuals a means of avoiding burdensome regulations (Pieter Bottelier, 1998). Ultimately, corruption threatens economic development, social fairness, and political stability, all of which have undermined sound administrative policy for public interest. Corruption has also contributed to the formation of monopolistic structures of bureaucracy which are responsible for the process of underdevelopment. Inadequate accounting and disclosure standards as well as weak supervision are other forms of corruption, usually referred to as “financial fraud”, and pervasive and large scale financial fraud can lead to a financial crisis and undermine stability and development (Pieter Bottelier, 1998:3).

In the context of globalization, an important growth strategy is the process of the liberalization of economies with the promotion of foreign investment. Transparency and accountability become important in economic sectors of the process of liberalization, which has required the expansion of a rational role of public officials (Fons, 1998). The Asian financial crisis in the late 1990s took place due to lax accounting practices, lack of independent auditors, undisclosed complex financial transactions, and lack of accountability in the absence of reliable and credible financial reports, all of which took place because of the lack of the transparency of bank regulators (Fons, 1998).

To a great extent, the financial crisis in Korea can be explained by the kinds of corruption described above. Companies' excessive debts were not supervised by the national watchdog agency. It must be noted that "checking and monitoring loans" are an important feature of sound economic performance. The financial crisis cannot occur in fair financial system. Unfair financial system, on the other hand, weakens export growth and international competitiveness.

As Yun (2003:98-99) has indicated. the financial crisis may be explained by "moral hazard theory". The financial crisis of temporary illiquidity occurs due to an inadequate management of the financial system and institution, often characterized by nepotism, cronyism, and rigidly hierarchical management systems which do not allow for disagreements and challenges. A typical example of "moral hazard" is a systematic corruption caused by nepotism, which is favoritism granted to family members and relatives irrespective of merit and which is based on the system of management of an authoritarian, hierarchical, and centralized style. The absence of fair competition in the market leads to an inefficiency of financial institutions and overall bad governance in the financial sector. In a broad sense, the financial crisis was engendered by a high level of corruption, the incapacity of financial institutions, and a weak monitoring system, all of which have led to the failure of the capacity of financial institutions to understand the system of the global financial market. It has been conjectured that the expansionism of enterprises, which may essentially be regarded as a system of inefficient business strategy, would be the cause of the financial crisis.

Also, as Yun (2003:97) has explained, the influence of foreign investors can be powerful. For example, the financial crisis of 1997-8 in Korea was caused by the fact that the country failed to control short-term foreign debt. This showed that important preconditions for successful liberalization of the financial market would be transparency and accountability in management. The Korean government had launched a reform of financial institutions, including the founding of an independent audit committee and prohibition of cross-debt guarantees among affiliates. The function and role of independent audit committee is to strengthen transparency and accountability in management for the top 30 conglomerates. Furthermore, the Fair Trade Commission (FTC) has investigated unfair transactions of business conglomerates. The reform of financial institutions is to encourage sound management by eliminating illegal financial fraud, appointing outside auditors and directors, and encouraging business activities based on merit system.

Civic groups also criticized the moral hazard of the chaebol, and the former launched campaigns in support of “the rights of minority shareholders”. Civic groups also called for a democratic corporate governance in the “corporate decision making process” and in the monitoring of the conduct of management. Furthermore, they emphasized the importance of upholding the principles of the constitution and observing the law. And strategies to observe the constitution and the law are as follows: 1) understand and apply legislation and regulation relevant to their professional role; 2) work to improve and change laws and policies that are counter-productive or obsolete, 3) eliminate unlawful discrimination, 4) prevent all forms of mismanagement of public funds by establishing and maintaining rational fiscal and management controls, 5) respect and protect privileged information, 6) encourage and facilitate legitimate dissent activities in government and protect the whistle-blowing rights of public employees, 7) promote constitutional principles of equality, fairness, responsiveness, and due process in protecting citizens’ rights (Comstock, 2007:176).

Civic groups had requested the protection of the rights of labor groups through the process of political reform. The transparency of policy, social fairness, and moral obligation in a society is required by civil society in Korea. The improved monitoring system in terms of financial sectors will play a crucial function for preventing financial fraud. It is also noteworthy that the financial crisis has led to the widening of the income gap between the rich and the poor in Korea. Even though the financial crisis in Korea was overcome in a few years, the structural weakness in the economic system has induced the possibility of a consecutive economic crisis.

In the view of Fukuyama (1995), Korean society might be regarded as a low trust society which is caused by the corporate governance of crony capitalism and unhealthy Korean economy. “A high trust society” can be formed by fair competitive system, merit system, and the transparency of governmental policy. La Porta (1997) argues that the society of high trust is negatively associated with corruption, and corruption is found to be positively correlated with hierarchical religions like Islam, Roman Catholicism or Eastern Orthodox.

It may be remarked that economic development cannot be achieved in a low trust society. The formation of crony capitalism is characterized by the lack of professional management and the absence of governmental capacity. The nature of “crony capitalism” is associated with school ties and regional ties, which do not take into consideration individual ability or merit in the process of employment, appointment and promotion. A low trust society in Korea had generated the moral hazard which would be related to the lack of accountability, responsibility, transparency, and integrity.

As Yun (2003:95-99) has argued, the financial crisis could essentially be explained by both financial panic theory and moral hazard theory. The incapacity of political agents had generated "the crisis of illiquidity" in Korea indicated by the “financial panic theory”. The “moral hazard theory” is that the excessive, irrational investment of the chaebol had produced low-profitability. “A low trust society” is thus caused by moral hazard, while “a high trust society” is usually regarded as being characterized by accountability, integrity, and transparency. Consequently, the attainment of “a high trust society” depends on the economic system of fairness and justice, which can solve the structural matter of the international or domestic financial market system. The essential principles of transparency, accountability, and integrity have contributed to the prevention of the recurrence of a financial crisis. Consequently, it seems reasonable to suppose that the “moral hazard theory” has, on the whole, explained the cause of the financial crisis.

V. The Policies of Anti-Corruption to Prevent Financial Fraud

An effective system of financial management will prevent financial crisis caused by irrational economic activity. Regular and systematic review by both internal and external auditors is probably the most effective strategy for preventing financial fraud. An effectual long-term strategy can include the following: 1) full enforcement of international accounting and auditing standards for all corporations, regardless of ownership; 2) adoption of international accounting and auditing standards for banks and financial institutions, regardless of ownership as the formal definition and adoption of accounting standards for the financial system; 3) setting ethical standards for the accounting and auditing professions, through training and the promotion of independent professional accounting and auditing associations; 4) definition of a clear legal framework for the enforcement of financial management, accounting, and auditing standards; 5) setting commercial risk management standards for all State owned banks and financial institutions; 6) requiring all state-owned financial institutions to have their accounts audited by independent external auditors on a regular basis; 7) strengthening of institutional capability for the monitoring and supervision of financial institutions; 8) development of effective tax administration and fiscal auditing capability to prevent tax evasion and financial fraud; 9) encourage civil society and the media to play an active role in maintaining an atmosphere in public life that discourages corruption, financial fraud, and irresponsible financial management; 10) separate government regulatory functions for the financial sector from participation in commercial financial operations, including banking and insurance; 11) provide adequate official protection for 'whistle blowers' through legislation; and 12) provide training to the management and staff of financial institutions in the detection of money laundering (Pieter Bottelier, 1998:6-7). The beginnings of a strategy against corruption in developing countries are as follows:

<Table 1> The Beginnings of a Strategy Against Corruption in Developing Countries

Problem areas	Possible solutions
Reporting of evidence of corruption	-Create a public complaints commission -Resuscitate the commission to evaluate the assets of public servants, based on existing law -Use systematic client surveys and other techniques
Auditing and accounting	-Design experiments with performance targets and incentives -Selectively involve private auditors and accountants -Run workshops with participatory diagnosis
Police investigation of corruption, fraud, and white-collar crime	-Strengthen investigatory capabilities -Consider creating an anti-corruption unit that would be centered here
Courts	-Implement the Commercial Court -Monitor speed and quality of performance and make information known to judges -Run workshops with participatory diagnosis
Revenue raising	-Create experiments with performance targets and incentives -Implement long-standing managerial recommendations in customs and tax collection -Run workshops with participatory diagnosis (separately for Customs and Internal Revenue)

Source: Klitgaard, 1997:506-507.

The Asian financial crisis took place because of a irrational financial system and the lack of international financial standard system. Financial corruption had not been controlled by public officials, politicians, and citizens. Economic justice and fairness of society must be provided by a successful implementation of anti-corruption policies suggested by the government, civil society, and mass media.

The level of corruption may be reduced by a fair competition in the market system, which can induce a lower level of bribes and prevent independent monopoly. Corruption generates economic distortions in the public sector by diverting public investment away from education and into capital projects where bribes and kickbacks are plentiful (Luo, 2007:81). Officials may increase the technical complexity of public sector projects to conceal such dealings, thus further distorting investment (Luo, 2007:81). Corruption lowers compliance with construction, environmental, or other regulations, reduces the quality of government services and infrastructure, and increases budgetary pressures on government (Luo, 2007:81).

Public administration has become public management, reflecting a complex mixture of public, private, and non-for-profit elements involved in conducting pubic affairs (Richter and Burke, 2007:8). The strategies of various management for integrity and responsibility are divided into four major areas: 1) strengthening trust through establishing guidelines, incorporating accountability and measured expectations; 2) providing for dissent and the application of transparency and whistle-blowing; 3) adding management tools to institutionalize modes of compliance, oversight, and sanctions; and 4) examining the responsibility of leaders and others in bringing about an ethical culture (Richter and Burke, 2007: 158).

Also, strategies to serve the public interest are as follows: 1) exercise discretionary authority to promote the public interest; 2) oppose all forms of discrimination and harassment, promote affirmative action; 3) recognize and support the public's right to know the public's business; 4) involve citizens in policy decision-making; 5) exercise compassion, benevolence, fairness, and optimism; 6) respond to the public in ways that are complete, clear, and easy to understand; 7) assist citizens in their dealings with government; 8) prepare to make decisions that may not be popular (Comstock, 2007:176)

The biggest difference between enterprise and government is that the former is driven by the bottom line--the need to be profitable—while the latter operates on fixed budgets with regulatory measures of effectiveness; "The propensity for corruption and unethical behavior increases as organization and structure moves from governmental model to the enterprise model", and "the propensity for corruption and unethical behavior increases as the preponderance of individuals in an organization moves from the civically to the privately inclined" (Frederickson, 1997:178-179).

<Table 2> The Effects of Personal Inclinations and Organization and Structure on Corruption and Ethics in Government

Personal Inclinations Organization and Structure	Civic	Private
Government	Likely to be least corrupt, most ethical	Likely to experience some corruption and unethical behavior, but within government
Enterprise	As distance from government increases, changes for corruption and unethical behavior increase	Most likely to experience corruption and unethical bahavior due to a lack of controls

Source: Frederickson, 1997:180

To a great extent, it should be noted that bureaucratic corruption has undermined economic development by generating considerable distortions and inefficiency, which undermines democracy and the rule of law, distorts national and international trade, jeopardizes sound governance and ethics in the private sector, and threatens domestic and international security (Luo, 2007: 81-83). Corruption has dire global consequences, trapping millions in poverty and misery and breeding social, economic, and political unrest (Luo, 2007:83). Also, corruption is both a cause of poverty and a barrier to overcoming it, which is one of the most serious obstacles to reducing poverty (Luo, 2007:83). To put it concretely, it is meaningful to note that the high level of corruption in the economic system has, as a matter of fact, generated a decline of meaningful economic growth and development.

VI. Conclusion

The article has argued that the principal causes and costs of financial corruption are norm-deviated, power-related, covert and informal. The impact of financial corruption, which can be regarded as a systemic corruption, is a serious erosion of the rule of law. Financial corruption is attributed to immoral economic policies. It may be remarked that the root of financial corruption is, in essence, a vicious circle of increasing political corruption and underground economic activity.

Unstable economic, social, and political conditions, privatization without accountability, the low level of trust, and the inefficiency of administrative function can lead to corruption flourishing within developing countries. A social, economic, and political structure in developing countries may be vulnerable to political clientalism, which has undermined the reform of financial institution. Ultimately, political and social disintegration has been strengthened by the political clientalism that provides privilege and advantage to the privileged elite and business groups.

Corruption has been defined as "the abuse of public office for private gain" (Transparency 1999). It can be argued that the role of the public sector is significant, since the ethics of public administration can prevent the increased opportunities of corruption in the private sector by providing administrative control. Also, Mauro (1995) found a high correlation between the measures of political instability and the bureaucratic inefficiency in controlling corruption.

The institutional incapability becomes an obstacle to sustained growth. The establishment of financial institution based on accountability and transparency is a precondition for operating neo-classical market economics as the universal model of development. The failure to establish an independent accounting system means the absence of an efficient administration in economic policies, which undermines the economic recovery of nation. Financial crisis can be seen as a manifestation of the failure of the financial institution system which, in turn, is caused by a high level of corruption. Countries which are facing financial crises can be seen as lacking checks and balances and having dependent accounting system, clientalism, and political patronage. The creation of effective financial structures will be essential for the successful operation of the market system. A key strategy to prevent financial corruption may be the development of rational and not-corrupt financial system that is effectively designed for promoting constant economic growth.

REFERENCES

Ades A. & Di Tella R. (1997). National Champions and Corruption, Some Unpleasant Interventionist Arithmetic. *The Economic Journal.* Vol. 107:1023-1042.

Alesina A. & Weber B. (1999). *Do Corrupt Governments Receive Less Foreign Aid?* National Bureau of Economic Research Working Paper.

Bottelier, Pieter (1998). *Corruption and Development, International Symposium on the Prevention and Control of Financial Fraud.* Beijing, 19-22 October, 1998.

Campos J, Lien D. & Pradhan S. (1999). *The Impact of Corruption on Investment; Predictability Matters.* World Development Vol. 27:1059-67.

Comstock, Amy. (2007). Maintaining Government Integrity, in *Combating Corruption and Encouraging Ethics.* eds. William L. Richter and Frances Burke. New York: Rowman & Littlefield Publishers, INC. pp.165-184.

DeLeon, Peter. (1993). *Thinking about Political Corruption.* New York: M.E.Sharpe Inc.

Gupta S., Davoodi H. & Alonso-Terme R. (1998). *Does Corruption Affect Income Inequality and Poverty?* International Monetary Fund Working Paper.

Fons, Jerome S. (1998). *Improving Transparency in Asian Banking Systems.* Chicago: A version of paper presented at a conference on Asia: An Analysis of Financial Crisis, sponsored by the Federal Reserve Bank of Chicago and the International Monetary Fund, 9 October.

Frederickson, H. George. (1997). *The Spirit of Public Administration.* San Francisco: Jossey-Bass Publishers.

Klitgaard, Robert. (1997). *Public Administration and Development.* Vol. 17:487-509.

Krueger A. (1974). The Political Economy of the Rent-Seeking Society. *American Economic Review,* Vol. 64:291-303.

La Porta et al (1997). Trust in Large Organizations. *The American Economic Review,* Vol. 137 (2):333-8.

La Porta et al (1999). The Quality of Government. *The Journal of Law, Economics and Organisation.* Vol. 15 (1):222-79.

Luo, Yadong. (2007). Understanding Fraud, Waste, and Corrupt Practices: An Organizational Perspective on Corruption, in *the Combating Corruption and Encouraging Ethics.* eds. William L. Richter and Frances Burke, New York: Rowman & Littlefield Publishers, INC. pp.75-87.

Mauro P. (1995). Corruption and Growth. *Quarterly Journal of Economics,* Vol. 110: 681-712.

Mauro P. (1997). The Effects of Corruption on Growth, Investment and Government Expenditure; A Cross Country Analysis: in *Corruption and the Global*

Economy. Institute for International Economics, Washington.

Richter, William L. and Burke, Frances. (2007). *the Combating Corruption, Encouraging Ethics: A Practical Guide to Management Ethics.* New York: Rowman & Littlefield Publishers, INC.

Rijckeghem C. & Weber B. (1997). *Corruption and the Rate of Temptation. Do Low Wages in the Civil Service Cause Corruption?* International Monetary Fund Working Paper.

Wei S. (1997). *How Taxing is Corruption on International Investors.* National Bureau of Economic Research Working Paper.

Wheeler D. & Mody A. (1992). International Investment Location Decisions, The Case of US Firms. *Journal of International Economics,* Vol. 33:56-76.

Yun, Eun Gee. (2003). Confucianism and South Korea's Global Development Strategy, *Journal of Asia-Pacific Affairs,* Pacific Research Center Hanyang University. Vol. 4:79-110.

투고일자 : 2012. 11. 16
수정일자 : 2012. 12. 11
게재일자 : 2012. 12. 27

ABSTRACT

Financial Crisis: Focusing on the Causation of Corruption

Yun, Eun Gee (Dong-A University)
Kim, Andrew Eungi (Korea University)

The main theme of this article is to analyze the causal relationship between financial crisis and corruption. To a great extent, It must be noted that political, social, and economic corruption can induce financial crisis. The formations of financial corruption are norm-deviated, power-related, covert and informal which can be regarded as a systemic corruption. Inadequate corporate governance including poor financial management standard and inadequate external supervision can contribute to a financial crisis. The establishment of financial institution based on accountability and transparency is significant to prevent financial corruption and promote constant economic growth. The development of efficient and non-corrupt financial system is a prerequisite of reducing the risk of financial crisis.

Key words: Corruption, Financial Crisis, Efficient Financial Institution