Economics of Corruption

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Abstract

Corruption is a buzz word in the present times. It is interpreted by many names across the globe. Overwhelmingly, it is viewed a most dangerous menace haunting in different manifestations equally to nations and common citizens around the world. The undesirable fall out of corruption is quiet complex to comprehend in view of its nature of operation and the amount of secrecy maintained in its execution. However, the present study is a modest effort to gauge the factors that contribute significantly in its growth and forceful operation. The study on the basis of diagnostic and experimental analysis finds that corruption is inflicted in all departments of government both in the public and private life, despite of some soft and hard laws operational against it. Moreover, the study observes that corruption predominantly diminishes quality of work life of many and accentuates the inequality, affects the infrastructural development, spurts added unemployment and leads to a spiral growth of poverty. Accordingly, the study suggests that corruption is a most unlike phenomenon that jolts the expectations of people can be controlled in government functioning only through building a simplified procedures based on greater transparency, simplicity, flexibility in which parties need not to come into face to face contact and execution of subject matter is transacted overwhelmingly on electronically and without the use of paper.

Introduction

Corruption is a widespread phenomenon. It is visible in most of the nations in one or the other form. The term corruption is viewed as bribe given by one party to other party for doing any favor or disfavor on a particular subject matter. Corruption can take either tangible or intangible form. The latter concept of corruption is much difficult to judge and understand. The concept of corruption is much vague in view of its diversity of operation. Accordingly, economists form different fields have made a scattered contribution to understand and analyze the term corruption.

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The initial work on corruption was made by Rose-Ackerman(1978) who tried to comprehend the conceptual and theoretical background of corruption. Thereafter economists and social scientists have attempted to gauge the factors and forces which accentuate corruption and till date the economic literature lacks a viable applied discourse that could halt its growing magnitude and diminish its operation from the public life especially the official corruption. Factually writing a paper on Economics of Corruption by an economist was considered as a taboo by the Nobel Laureate economists (Gunar Myrdal ,1968). To him, it was only political or social issue. However, following the early writing on Economics of Corruption by the economist Rose-Ackerman in 1970, economists attempted heavily to understand causes and consequences of corruption. Moreover, the Growing availability of data "measuring" corruption further stimulated the empirical research on its economic effects. During the 1980s, new statistical surveys of households, Governance, Corruption, and Economic Performance of enterprises, public officials, and others became available to researchers. This led to the construction of summary governance indicators, such as the indices of "perception of corruption" that were then widely used in the empirical analysis.Accordingly, the study is a humble effort to understand the economics of corruption and attempts to offer a plausible approach to minimize its operation and restore its elimination.

Literature Review

What is undesired by all and practiced by majority is corruption. Though tragedy of the fact is that unwillingly people pay it and willingly people receive it. The phenomenon is somewhat confusing and needs deeper understanding before shaping a viable discourse to raze its growth. Viewing the mechanism where corruption rules, often it is found that the whims of corruption fountains when the opportunity of power to exploit prevails. Thereby, it burns all boilers irrespective of their flesh on bones by those who command power and strike opportunity. (The static and dynamic rent seeking models of corruption are somewhat based on similar lines , 1980). The panorama marks the beginning of social, financial and economic engineering disorder. This phenomenon picked up sharply following the integration of world economy and deregulation of trade(Abed and Gupta 2002).

Above all, with the end of the Cold War, the break-up of the former Soviet Union, and the consequent unwinding of regional conflicts, many developing countries lost their privileged position in the global geopolitical game and were suddenly exposed to the more exacting requirements of market discipline. In the increasingly globalized and private-sector-driven world of the 1990s, developing countries (including the newly industrialized countries of Asia and the transition economies of Central and Eastern Europe) found themselves in a highly competitive environment where financial flows were now driven, above all, by expected rates of return on investment. Sound macroeconomic policies, a healthy regulatory environment, more transparent and accountable public institutions, and protection of property and investor's rights became essential prerequisites for attracting foreign direct investment and for accessing financial markets at reasonable terms. Moreover, the break-up of the former Soviet Union also brought on one of the most profound and far reaching transformations of the twentieth century. The disintegration of the command structures in the old regimes triggered some of the most chaotic economic, political, and social changes in modern history. Absence of the rule of law and accountable systems of governance led to rent seeking, corruption, and outright thievery. While some governments, notably in Eastern Europe, quickly found their bearings and developed the institutional and policy frameworks needed for the operation of markets, others took much longer. In the meantime, professional economists could not help but struck by the importance of sound policies and institutions for better performance in the newly created market economies. This"discovery" triggered a wave of research on rent seeking, role of the state, governance, and corruption. While the awakened interest of researchers in corruption in the transition economies was somewhat distinct from that which focused on developing countries, the two developments were not entirely unrelated. Indeed, both had their provenance in the end of the Cold War and the shift in the risk/reward calculus from one based on geopolitics to one based on hard, economic criteria.

Discussion and Analysis

From classical to modern economists, no the economic theory ever substantiate any methodology for attaining wealth without labor -production, distribution and service. Corruption breeds wealth without undergoing to either of the operations and activities. It snatches power, quality and above all moral of the people. Understandably, the prominent card of whole game is brushed up in economic extremities despite of the fact, that there are other phenomenal forces which exert profound role in sensitizing the magnitude of corruption. They include The uneven distribution of economic gains within the existing economic functioning and absentia of mechanized procedures to level off checks and balances have concentrated the move towards the broader corruption. Does really corruption eat vitals of economcy? Ramachandra (2012) opine that corruption and economic development is negatively correlated but correlation does not grant causation. The issue is much debatable, but the fact is that official corruption does generate unproductive activity elsewhere in the economy. The empirical research has highlighted the impact of corruption on economic growth, public finances, poverty, income inequality, provision of social services, and the causes of corruption and anticorruption strategies. Many studies have been carried out by IMF staff since the mid-1990s which by and large have shown that corruption distorts growth and retards development. The economic fall out of corruption by all means is catastrophic. An underground intensive study about the Economics of Corruption unfolded that corruption distorts economic well being of people and accentuates greater inequalities of income and wealth. It makes a few extremely rich at the cost of majority. The recent scams are testimony to the fact that corruption considerably hits nations progress and restrains quality development of infrastructure, accentuates unemployment and leads the exploitation of innocent labor (Ajit 2005).

More prominently, in under developed countries corruption is vehemently exercised by large scale developed industries to restrain the growth and market of small and medium scale industries. By their wide operational advantage and corrupt practices they hold the means of production and distribution under their control and limit the nourishment of small and medium scale industries. Consistent to this, One IMF study states that corruption is highly resorted by the capital intensive industries which keeps small scale industries abbey and thereby restrains in the growth and development. This phenomenon affects the balanced development of small and large industrial development in such regions, which ultimately affects their economic progress (Tanzi and Davoodi 2012). This phenomenon reduces the economic growth in sample countries by 0.4%. Moreover, corrupting reduces the budget revenues of the countries very significantly and affects national development. This at times raises financial constraints and affects social and economic development. The empirical research on corruption has shown that both expenditure and revenue sides of the budget are affected by corruption and rent-seeking behavior. By using cross-section data, Mauro (2002) shows that corruption is negatively associated with government expenditure on education. An increase in corruption by one unit (on a scale of 0 to 10) lowers the ratio of public spending on education by 0.2 percentage point of GDP. Corruption, therefore, could lead to a suboptimal composition of government expenditure. The reason for this result is that education programs are less prone to rent seeking. Moreover, the adverse impact of corruption is not confined to inappropriate expenditure allocations. Gupta, Davoodi, and Tiongson (2002) show that a high level of corruption has adverse consequences for a country's child and infant mortality rates, percent of low birth weight babies in total births, and dropout rates in primary schools. For example, an increase in corruption by one unit (on a scale of 0 to 10) raises the child mortality rate on average by 1.1 to 2.7 deaths per 1,000 live births. These results are consistent with predictions stemming from theoretical models and service delivery surveys. An important implication of the results is that improvements in health and education outcomes do not necessarily require higher public spending. Tanzi and Davoodi provide further evidence on how corruption distorts the composition of public expenditure. It leads to allocations in favour of less-productive investment projects and against non wage operations and maintenance expenditures, such as books and medicines, which reduce the quality and productivity of existing infrastructure. Corruption also reduces government revenue needed to finance productive spending. There are other types of public spending that are affected by corruption as well. Gupta, deMello, and Sharan (2002) show that corruption is associated with higher military spending as a share of both GDP and total government spending, as well as with arms procurement in relation to GDP and total government spending. Military spending is a monopoly of the state, and contracts are often drawn in secrecy and under considerable discretionary power of the authorities. The results from the study suggest that defense spending can be considered for constructing governance indicators.

A considerable amount of public spending takes places at sub national levels in a number of countries, and the share of this spending is increasing. De Mello and Barenstein (2002) find that governance can be enhanced through the decentralization of expenditure functions to sub national governments. The higher the share of subnational spending in total government expenditures, the stronger the positive association between decentralization and governance. The relationship between decentralization and poor governance also depends on how sub national expenditures are financed—the higher the share of non tax revenues in total revenues as well as grants and transfers from higher levels of government in total expenditure, the stronger the association between decentralization and corruption. Studies have also focused on the revenue side of the budget. Gupta, Davoodi, and Alonso-Terme (2002) provide evidence of significant adverse distributional effects of corruption. They find that high and rising corruption is associated with higher income inequality and poverty. A worsening of the corruption index of a country by one standard deviation increases the Gini coefficient by 11 points, and one standard deviation increase in the growth of corruption reduces income growth of the poor by 4.7 percentage points a year. The post economic reforms play a vital role in reducing the corruption Abed and Davoodi conclude that corruption is mostly, but notentirely, a symptom of underlying policy distortions and weak economic institutions in transition economies. They argue that reform of the state—as noted by Tanzi is critical for reducing corruption and enhancing economic performance in transition economies. Increasing the reliance on market-based pricing and creating a sound regulatory environment should help in lowering corruption. Abed and Davoodi also provide evidence to show that structural reforms in these economies can help lower the scope for corruption, a point reiterated by Wolf and Gürgen (2002), who examine the indirect role played by the IMF in combating corruption in the Baltic and Commonwealth of Independent States countries through its policies for promoting structural reforms. The IMF's emphasis on deregulation, liberalization, privatization, and its technical assistance aimed at strengthening the budgetary process and institution building, help improve economic governance are reduce opportunities for rent-seeking behavior.

A secret study on corruption shows that 84 percent of corrupt officials with annual official salary of 2.5 lakh have amassed wealth between 2 -3 crores with a span of six years. While officials with an annual official salary of 4-6 lakh have accumulated wealth between 12 to 14 crores almost in the same period. The study further reveals that corruption drains government resources into unproductive use. The study hints that 85 percent of public resources pass into the hands of corrupt officials ranging from politicians, bureaucrat to an ordinary civil servant(Chowdry 2006). Recently a survey was conducted by ORG-Marg for Transparency International .The Survey covered Public Service Sector in India [health, education, power, public distribution services, ration , telecom, land railways, police, judiciary and taxation]. The survey revealed that the Indians paid bribe worth Rs 26728 crores last year. Of the ten sectors health topped the list followed by education. Health accounted for Rs 7578 crores and education for Rs 3552 crores of total bribe paid. As many as 32 percent and 23 percent of the people who interacted with the health and education services paid bribe . Railways and telephone were found the least bribe sectors. Seemingly, in India, the corruption market is widening at a phenomenonal pace in all direction adding in its cobweb more and more department and individuals to take a quantum jump in amassing wealth. According to a the Global Corruption Barometer,2010 petty corruption is common in India with 74% feeling that corruption has increased in the last three years. Recently, a politician for Utterpradesh has doubled the wealth of Rs 111 crores just in five years. Such a growth is unimaginable in any business in a real world. The figures itself speak volumes about corruption both in public and political life. Accordingly,the somewhat consistent is said by Charap and Harm (2002) that corruption is endogenous to political structures and helps maintain an "equilibrium" among different population groups. Elimination of corruption in such instances could then destabilize existing political systems and lead to anarchy, rather than enhancing economic efficiency. Under these conditions, a comprehensive reform of the civil service could be implemented only if a "ruler" gains stability from benevolence, rather than patronage. If the survival of the regime is threatened, this reform program is likely to be rejected**.**

There are many laws directly or indirectly related with the corruption which need to be replaced or dispended with. the state must draw the stringent laws which can tight the noose of culprit to halt its growth.Understandably, the state uses predominantly soft laws to deal with the menace of corruption. Knowing the fact, the government of India, right since the inception of Independence, created various bodies for implementing anti corruption policies. At the centre key institutions include the Central Vigilance Commission, the Central Bureau of Investigation, the Comptroller and Auditor General, the Chief Information Commission etc .At the Stat level exist the Anti-Corruption Bearu and State Vigilance Commission. The legal frame work to curb corruption is also well developed and the country receives high scores in terms of antic corruption laws. They range from general laws like the Indian panel code and Crimnal Procedure Code to special laws like the Prevention of Money Laundering Act, the right to information Act etc . Despite of these laws in force, the country by and large has failed to control corruption. Accordingly, the World Bank Governance indicators rate India poor in terms of regulatory quality and control of corruption.

How Corruption Arises

Corruption is a vicious circle that sparks through the operation of low official salaries and ends with low revenue collection by the government and ultimately poor public services to the people. There are other factors and forces in between which leave their undesirable impact on the overall corruption. The following model presents a vicious circle of corruption

Model of Corruption

The model hints that corruption gives birth to the hidden economy, tax evasion panorama by the employees , poor revenue collection, inadequate public services, anxiety and stress among the people for quality public service, shift in preference to avail quality service privately for public good, raised demand for more money, motivates people to resort corruption. This panorama needs to be broken by giving people adequate consideration for their work which will force them to pay tax as well and deter from corruption practices. This will also raise the quality public service and people would be relieved from anxiety and stress

Suggestions

1. The state needs to devise a multipronged strategy including reducing excessive and complex regulations and reforming civil service.
2. Raise the emoluments of employees to enable them live comfortably especially during inflation. This will not deter them to hanker after corruption.
3. Ask every government employee, servant to submit his the statement of income and assets and show the sources that contribute in the accumulation of assets.
4. Snatch the illegal wealth from the corrupt officials and file corruption cases against them in the court of law.
5. Reduce or eliminate the direct contact between government official and private people. Make effort to do every thing on line. Ensure transparency in every task . Display, every information, detail on web so that every thing is public.
6. Constitute anti corruption groups/cells of employees in each department to monitor and control corruption practices

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