

IMPACT OF CORRUPTION AND POVERTY ON ECONOMIC GROWTH: AN INDIAN PERSPECTIVE

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INTRODUCTION

Roots of corrupt and disloyal practices can be found in the history of human civilization. Corruption, in some form or the other, existed since human lives became institutionalized and leader-follower relationship started in an organized manner. In the Indian writings of fourth century B.C. and also in the writings of Greek philosophers like Aristotle and Plato also pointed out some references of corruption.

In his famous book entitled *Asian Drama: An Enquiry into the Poverty of Nations*, Gunnar Myrdal wrote- “Corruption puts sand in economic machinery; it is a force slowing down development”. Corruption emerges as one of the major blockades to economic development of India. It is most shocking for a country where people get drenched in rain, shivered in winter, and parched in summer for not having proper shelter, and then millions of rupees are siphoned off (Biswas, 2011).

The problem of corruption is neither new nor limited to developing countries only. The context and relevance of this problem varied widely between countries and time period because of its extremely diverse nature. In recent decades, this problem has become more focused with increase in global cooperation for achieving economic and social growth in all countries since 1960s. Due to complex political and economic forces that have been shaping the global development agenda, the reasons for the phenomenal growth of corruption are also complex (Basu, 2006).

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Corruption exists in all countries but this problem seems to be more conspicuous in the context of developing countries. It is not difficult to visualize a strong relationship between scarcity and corruption. Limited resources and strong competition among the participants in production process create the ideal situations for growth of corrupt practices. Every person would be interested in maximizing his own benefits through ethical or unethical means. The situation can be kept under control only if good prudential regulations are in practice within the country, (Basu, 2006).

Generally, public corruption can be defined as the misuse of public office for private gain. Misuse, of course, typically involves applying a legal standard. Corruption defined this way would capture, for example, the sale of government property by government officials, kickbacks in public procurement, bribery and embezzlement of government funds (Svensson, 2005). It is act in which the power of public office is used for personal gain in a manner that contravenes the rules of the game (Jain, 2001). So it is the misuse of the public authority as a result of personal gain attentions; the personal private gains which need not be monetary.

According to the Section 5 of the Prevention of Corruption Act of Indian Penal Code, Corruption is identifiable as per the five characteristics i.e. (i) habitual acceptance of gratification, (ii) obtaining valuable items for kind consideration, (iii) abuse of position to obtain advantage, (iv) possessing property disproportionate to ones income and (v) misappropriation (Mashhadi, 2000).

TYPES OF CORRUPTION

There are several types of corruption. The following distinctions can be useful in designing and developing reform programs and strategies:

Petty Corruption - practiced by public servants who may be basically decent and honest individuals but who are grossly underpaid and depend on small bribes from the public to feed and educate their families;

Grand Corruption practiced by high-level public officials and politicians, with decision making power regarding public contracts or large projects with external funding, is called grand corruption. This corruption is motivated by personal greed. The money or assets from such corruption usually is transferred to individuals or political party coffers.

Episodic Corruption - in general, honest behavior is the norm but corruption is the exception, and the dishonest public servant is disciplined when detected; and

Systemic Corruption - exists when the channels of malfeasance extend upwards from the bribe collection points, and systems depend on corruption for their survival;

Corruption can also be categorized in other ways. A distinction can be made between benefits that are paid willingly (bribery) and payments that are exacted from unwilling clients (extortion). Another way to categorize is to differentiate between bribes paid for what a client has a legal right to receive and bribes paid to receive benefits belonging to others (Langseth, 1999)

IMPACT OF CORRUPTION

Globally, almost all academicians and policy makers agree that the devastating effects of corruption pervade through each and every aspect of public life. Corruption hinders economic growth, augment inequalities and other problems and smears economy's image globally. The corruption has multifold impact encompassing: political costs, economic costs, social costs, environmental costs and issues of national security for the economy.

Political Costs: Weakened public trust in political institutions, reduced political participation by public, electoral process distortion, limited selectiveness of political choices and legitimacy loss are the major political costs of corruption that result in the reduction in the governance capacity leading to lower quality government services and infrastructure consequently resulting distrust of public in the institution of democracy.

Economic Costs: Corruption mars the economic efficiency by misallocation of resources in favor of rent seeking activities, increasing the cost of public transactions, acting as an additional tax on business thereby reducing investment, reducing genuine business competition. Generally, the economic costs of corruption point to the loss in foreign direct investments (FDI); an important source of employment generation. Reduction on FDI could foster income inequality, widen poverty, and aggravate the unemployment problem especially in the developing economies.

Social Costs: The effect of corruption on the social fabric of society is perhaps the most alarming and most damaging of all. It weakens people's trust, the key component of social capital, in the political system, in its institutions and its leadership. Corruption distorts the value systems and wrongly attaches elevated status to occupations that have rent seeking opportunities. These results in a disillusioned public, a weak civil society and declined productivity as well as poorly performing economy; all which attracts corrupt leaders to political life thereby hurting the economic and social development. Eventually, there is a risk of creation of tolerance in the society towards corruption by regular demanding and paying bribes in day to day life.

Environmental Costs: Environmental degradation is an indirect but serious consequence of corrupt systems. Environmentally devastating projects are given preference in funding, because they are easy targets for siphoning off public money into private pockets (Central Vigilance Commission, 2010). Corruption undermines the effectiveness of environmental policies because less effective environment regulations could be easily circumvented through bribes resulting widespread pollution especially in case of developing countries (Boehm, 2008).

Issues of National Security: Corruption within security agencies can lead to a threat to national security, including through distortion of procurement, recruitment of ineligible persons, providing an easy route for smuggling of weapons and terrorist elements into the country and money laundering (Central Vigilance Commission, 2010).

EXTENT OF CORRUPTION IN INDIA

In India, corruption assumed alarming since 1970s when one scandal regularly went after the other. Since 1991, with economic liberalization, the much hyped higher growth rates failed to reduce severity of poverty, hunger, malnutrition, social injustice and corruption. There exist several indicators of growth of corruption in India. Also it is confirmed by several studies conducted by various international and national organizations like Transparency International, World Bank etc. that the graph of corruption has shown rising trend for Indian economy in last few decades. One of these indicators is the Corruption Perception Index (CPI) which has been brought out annually since 1995 by the Transparency International (TI), a Berlin-based global non-governmental agency, monitoring the political and corporate corruption across the world. CPI is the composite index based on 13 different expert and business surveys conducted throughout the year by various international bodies. According to this index (CPI) for 2010, India ranked 87 among 178 countries. India's integrity score declined from 3.5 in 2007 and 3.4 in 2008 and 2009 successively to 3.3 in 2010. A score of zero means most corrupt while 10 indicates the lowest level of corruption (Transparency International 2010).

Another indicator is the Global Corruption Barometer 2010, developed by Transparency International (TI), according to the findings of which, the largest cross-country survey on worldwide public opinion and experiences of corruption confirm that 74 percent Indians believe that corruption levels have increased in the past three years. 54 percent Indians reported they greased the palms of authorities to get things done (Transparency International, 2010). The 2007

TII-CMS India study indicates that 48% of below poverty line households (BPL) who interacted with the police have paid a bribe to get their grievance recorded in the First Information Report (FIR). Many of them claimed that procedural holdup was part of a designed ploy to induce citizen to pay bribe (Transparency International, 2008).

A study by the US-based Global Financial Integrity, an international watchdog on the illegal running away of money from a country, noted that some \$462 billion or Rs 20 lakh crore flew out of India between 1948 and 2008 amounting to nearly 40 percent of India's gross domestic product and nearly 12 times the size of the estimated loss to the government because of the recent 2G spectrum allotment scam. Illicit money flowing out of India has grown at an average of 11.5 percent annually. Some 68 percent of India's collective illicit financial loss took place since India's economic reforms in 1991 (Biswas, 2011).

Transparency International India conducted "India Corruption Study 2005" in 20 major states of India, covering 151 cities and 306 villages, in order to study the corruption faced by the common man on a day to day basis in selected 11 public services. This study brought out very surprising facts regarding the extent of corruption in India. The public services were analysed on the basis of two categories namely: (i) Need Based Services (six) comprising of Income Tax, Municipalities, Judiciary, Land Administration, Police and Rural Financial Institutions; and (ii) Basic Services (five) comprised of Schools, Water Supply, Public Distribution System, Electricity and Government Hospitals. Both perception and experience of corruption were more in case of need based services than in the basic services. According to the study, the common citizens of the country paid a bribe of Rs. 21068 crores (Rs. 210.6 billions) during the last one year for availing one or more of these eleven public services. The most disturbing factor brought out by the study is that even judiciary is plagued by corruption. According to former Chief Justice of Supreme Court of India, Sam Piroj Bharucha, up to 20% all judges in India are corrupt (Das, 2006). TII's study puts the value of corruption in judiciary in the entire country at Rs. 2630 crores (Rs. 26.3 billion) per annum. Further the study reports that three fourth of citizens feel that corruption is increasing. According to TI Report, judicial corruption in India is attributable to factors such as "shortage of judges and complex procedures". This results in backlog in the disposal of cases and a loss of public confidence in the judiciary system. There is also a high degree of discretion in the processing of paperwork during trials where court officials often misuse their power with impunity. The inordinate delay at times affects the strength of the evidence to collaborate with the accused to escape punishment. Obsequious handling of tax and duties by Income Tax, Customs, Central Excise, and Enforcement authorities in favor of the wealthy

is common. Corruption in India has emerged as a grave problem as it is widespread in every sphere of life in India. Scarcity of good people, lack of transparency, Red-tapism and the cushion safety available to the corrupt are the main reasons for the spread of corruption in India. There exist several other reasons such as excessive bureaucratic presence in Indian Welfare State Model, decline of integrity among the upper levels of bureaucracy, low salaries of public servants, ethical decline in politics, decline in accountability among public servants and political leaders, market consumerism, along with the widespread problems of poverty, illiteracy and inequality. Moreover, the tolerance of corruption in Indian social life has also increased (Jena, 2006). Main factor behind the increase of corruption is the materialistic outlook of world. Everybody is trying to have more facilities and have extra money. But in India, there is lack of opportunities to earn money and fulfill the desire, which simply emphasize on the corrupt practices and unfair means (Mashhadi, 2000).

NEXUS BETWEEN CORRUPTION AND POVERTY

Corruption is a cause of poverty and a barrier to successful poverty eradication. Corruption impedes the socio-economic functioning of institutions and the State by exerting direct penalties which in turn produce poverty. It is one of the major determinants of poverty. Combating corruption is therefore a crucial part in the poverty reduction process. High levels of corruption aggravate the living conditions of the poor by distorting the entire decision making process connected with public sector programs. Corruption deepens poverty by hampering productive programs such as education and health care at the expense of larger capital intensive projects which can provide better opportunities to extract illegal incomes. Alternatively, social and income inequalities in poor countries make greater imbalances in the distribution of power and encourage corruption (Ndikumana, 2006).

The World Bank's "World Development Report for 2000-01: Attacking Poverty" summarized current thinking on the corruption-poverty linkage as:

"The burden of petty corruption falls disproportionately on poor people ...For those without money and connections, petty corruption in public health or police services can have debilitating consequences. Corruption affects the lives of poor people through many other channels as well. It biases government spending away from socially valuable goods, such as education. It diverts public resources from infrastructure investments that could benefit poor people, such as health clinics, and tends to increase public spending on capital-intensive investments that offer more opportunities for kickbacks, such as defense contracts. It lowers the quality of

infrastructure, since kickbacks are more lucrative on equipment purchases. Corruption also undermines public service delivery.”

Corruption, by itself, does not produce poverty. Rather, corruption has direct consequences on economic and governance factors, intermediaries that in turn produce poverty. Two models emerge from the research literature (Chetwynd, 2003). The first model, “Economic Model” assumes that corruption affects poverty by first impacting economic growth factors, which, in turn, impact poverty levels. In other words, increase in corruption shrinks economic investment, distorts markets, deters competition, causes inefficiencies by increasing the costs of business, and increases income inequalities thereby exacerbating poverty. In short,

Increased Corruption → Reduced Economic Growth and increased Income Inequality → Increased poverty

The second model, “Governance Model”, states that corruption affects poverty by first influencing governance factors, which, in turn, impact poverty levels. So, for example, corruption erodes the institutional capacity of government to deliver quality public services, diverts public investment away from major public needs into capital projects (where bribes can be sought), lowers compliance with safety and health regulations, increases budgetary pressures on government and ultimately aggravates the situations of poverty.

Increased Corruption → Reduced Governance Capacity → Increased Poverty

Nexus between Corruption and Economic Growth

The relationship between corruption and economic growth is complex. Economic theory supports the notion that corruption hinders economic growth in the following ways:

Corruption Discourages Foreign and Domestic Investment: rent taking increases costs and creates uncertainty, reducing incentives to both foreign and domestic investors.

Corruption Taxes Entrepreneurship: entrepreneurs and innovators require licenses and permits and paying bribes for these goods cuts into profit margins.

Corruption lowers the Quality of Public Infrastructure: public resources are diverted to private uses, standards are waived; funds for operations and maintenance are diverted in favor of more rent seeking activity.

Corruption decreases Tax Revenue: firms and activities are driven into the informal or gray sector by excessive rent taking and taxes are reduced in exchange for payoffs to tax officials.

Corruption diverts Talent into Rent Seeking: officials who otherwise would be engaged in productive activity become pre-occupied with rent taking, in which increasing returns encourage more rent taking.

Corruption distorts the Composition of Public Expenditure: rent seekers will pursue those projects for which rent seeking is easiest and best disguised, diverting funding from other sectors such as education and health.

The impact of corruption is so destructive that World Bank has declared it to be the single most damaging obstacle to both economic and social development. The debate on the effects of corruption is particularly fervent as some authors suggest that corruption might *raise* economic growth through two mechanisms; firstly, the corrupt practices such as “speed money” would enable individuals to avoid unnecessary bureaucratic delay and secondly, the government employees who are allowed to levy bribes would work harder, especially in the case where bribes act as a piece rate. While the first mechanism would increase the likelihood that corruption be beneficial to growth only in countries where bureaucratic regulations are cumbersome, the second one would operate regardless of the level of red tape (Mauro, 1995). In contrast, Shleifer and Vishny (1993) argue that corruption would tend to lower economic growth, and Rose-Ackerman (1978) warns of the difficulty of limiting corruption to areas in which it might be economically desirable.' Murphy, Shleifer, and Vishny (1991) provide evidence that countries where talented people are allocated to rent-seeking activities tend to grow more slowly.

The countries with low per capita have generally high level of corruption. Similarly, countries with high per capita income have generally a low level of corruption (Chaturvedi, 2011).

ANTI-CORRUPTION STRATEGY/ MEASURES FOR COMBATING CORRUPTION

Corruption is certainly one of the greatest obstacles to development; the demand for combatting corruption and for good governance is increasing world-wide. This paper emphasizes on an anti-corruption strategy including a governance program. The anti-corruption strategy aims at empowering individuals, communities, and governments by disseminating knowledge which, in turn, results in greater government accountability and transparency—central elements in building institutional capacity and improving service delivery. The anti-corruption strategy advocated rests on the following four pillars:

- (a) Economic Development;
 - (b) Democratic Reform;
 - (c) A Strong Civil Society with Access to Information and a Mandate to Oversee the State;
- and,

(d) Presence of Rule of Law,

There have been several legislative and administrative provisions to combat the menace of corruption in India. The parliament has already created an enabling legal environment to empower public to fight corruption without the fear of victimization through legislations such as Prevention of Corruption Act 1947 amended in 1988, Representation of People Act 1950, Right to Information Act 2005, Whistle Blower Act 2010 and much announced Lokpal Bill. Following measures could be further suggested for reducing corruption-

1. For punishing the corrupt officials, a *strong legal framework is needed* according to which Chief Ministers, Central Ministers, Members of Parliament and Legislators should be investigated by Central or State level Lokpal/Lok Ayukt. These investigative agencies should be independent and made responsible to report directly to Prime Minister. For their efficient working and supervision Special Oversight Committee should be instituted. A time bound solution to the complaints is advocated because delays in the judgements generally involve further corruption and change in statements that could results in wrong decisions.
2. Enforcement of laws, regulations and sanctions is essential and is premised on an independent and strong judiciary. To prevent corrupt practices, *an institutional legal and procedural framework should be developed by reviewing and simplifying laws/rules/procedures* for efficient delivery of public services at all levels of government. Transparency should be the prime objective in public services delivery system.
3. *Reforms for the political funding and tightening of anti-defection law are needed* because one of the major reasons of corruption is the funding for elections.
4. A *code of Ethics* for high level Political and Public authority should be the necessary for evading corruption malpractices.
5. *Development of Consensus and strong political* will to curb corruption is the another factor that should be backed up by Election Commission along with all political Parties, Media, Civil Societies and Civil Organizations.
6. *Participation of Civil Society in government programs should be encouraged* because such participation is critically linked to good governance and efficient delivery of government services. Sustainability of reforms and good governance by state, regional and local administrations is ensured when there is informed participation on the part of citizens in their development and the country's advancement (Transparency International, 2008).

7. E-governance should be used specifically in combating corruption. E-governance is the use of information and communication technology (ICT) to promote more efficient and effective government, greater convenient government services, greater public access to information, and more government accountability to citizens (Central Vigilance Commission, 2010).
8. Important role should be given to the NGOs for their active involvement in the development process.
9. *Right to Information should be enacted more effectively* as Right to Information Act provides a broad framework for Government and Citizens' interface to design and monitor relevant projects, contain corruption, ensure accountability and to mutually share the responsibility for development. Experiences suggest that the RTI implementation has resulted in the greater level of transparency and accountability. This is also confirmed by the Transparency International that mainly due to the enactment and implementation of RTI Act in India has resulted in the decline in the rate of perceived corruption up to 15 to 20 per cent per year (Ansari, 2008).

Thus, a Paradigm shift is advocated; a shift from the old paradigm of Government action and civil society inaction to civil society taking the responsibility of cleansing the quality of governance and making it more accountable. So, it is time to recognise the reality and take positive action with the empowerment provided by the parliament (Rai, 2011).

CONCLUSION AND POLICY IMPLICATIONS

In simple words, the attempts to reduce poverty, unemployment, inequality and to promote inclusive growth must be complemented by serious efforts to reduce corruption. Combating corruption under the heading "strengthening good governance" plays a key role in poverty reduction (Transparency International, 2008). Fighting against poverty and corruption includes improving citizen engagement and a state's accountability. Since marginalization and political, economic and social exclusion are highest for the poor, they are most frequently forced to resort to corrupt practices. This makes a big challenge for the development community. If anti-corruption programs are not linked to alternative basic needs interventions, they will have adverse impact on the needy people. To have effective pro-poor anti-corruption strategies, the inclusion of social, political and cultural capital into the analysis of poverty is necessary. These strategies must look more closely at factors that limit opportunities for poor citizens' access to political and economic decision making. So, there

are at least three categories of pro-poor anti-corruption interventions in developing countries. These are promoting inclusiveness, promoting lawfulness, and promoting accountability.

Promoting Inclusiveness: Social exclusion that limits citizens' participation in political, economic and social processes is contrary to pro-poor anti-corruption efforts. Disenfranchising of citizens from society is inconsistent with the concept of good governance and theoretically has no place in democratic societies. It can be redressed by empowering groups which have been historically marginalized. Hence, inclusiveness is related closely to issues of empowerment and decentralization.

Promoting Lawfulness: Lawfulness is closely related to issues of justice, criminality, conflict resolution, social violence, peace and security, and human rights. Anderson (1999) figures a number of mechanisms through which lawlessness and poverty correlated to each other. Violence by police, prison officers and other public officials has great effect on the poor, the abuses of human rights, official harassment, and police may disproportionately affect the poor. The poor are more vulnerable to arbitrary treatment, intimidation and humiliation by public officials, and they are at greater risk of losing their property to public or private theft.

Promoting Accountability: Accountability means that government remains responsive for its actions and could be sanctioned. A significant step to develop a pro-poor anti-corruption strategy is linking the rights of marginalized communities and individuals to more accountable governments. By promoting political accountability, the poor are seen not as victims but rather as stakeholders in combating corruption (Eberlei, 2007). In nutshell, there exists is a chicken and hen paradox' in the relationships between corruption and economic growth and poverty. Corruption primarily emerges from market imperfections that are fairly common in poverty ridden developing countries. Application of corrupt practices is very high in most of these countries in which the level of economic growth and development remains low because of significant leakage of scarce resources from the production system. A vast amount of literature supports the fact that existence of high corruption reduces the availability of investment funds and hinders economic growth. Even foreign aids channeled through public sector can be misused and become a source of further corruption. Although it may be impossible to have a corruption-free society it is possible to restrict it to a minimum level. Therefore, Strong policy cooperation at national and international level with sufficient resources along with the sincere and concerted participation may improve the balance between different levels of corruption and various laws as well as acts should be enforced strictly for combating this menace.

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