Cracking the Corruption Conundrum

S.K. SHANTHI

An international corruption perception index ranks India 85th among 174 countries for 2014. A discussion on the ongoing debates around the disparity in the prevalence of corruption among various countries — and some perspectives on how it can be tackled.

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The Transparency International (TI) presents a corruption perception index every year and 2014 India, with a score of 38, ranks 85th among a sample of 175 countries. In this sample, the top ranking country is Denmark with a score of 98 and Somalia ranks 174th with a score of 8. The scores range between 0-100 and about two thirds of the countries in the sample are scored at less than 50. The data highlights the fact that the perception of corruption in the countries sampled has a wide variation.

CORRUPTION DEFINED

The business dictionary defines corruption as: 'Wrongdoing on the part of an authority or powerful party through means that are illegitimate, immoral, or incompatible with ethical standards. Corruption often results from patronage and is associated with bribery.' This definition is as broad based and acceptable as any.

In this article, we present research findings on two main issues. First, we try to understand the underlying reasons why perceived level of corruption is so widely dispersed across countries. Secondly, we discuss briefly the so called 'Greasers Vs Sanders' debate, and conclude with comments on the various approaches suggested in the literature on how to combat corruption.

WHY SO MUCH OF CROSS-COUNTRY DISPARITY IN THE PERCEPTION OF CORRUPTION?

Economists, political scientists and others have offered various explanations. Some studies explain country differences in terms of ethnography and other social, historical and cultural practices. For instance, giving a gift during weddings and other private functions of public officials is common in countries which are more deeply rooted in traditions. Can this practice be termed corruption? In some cultures, this may not be perceived as corruption at all.

Others find evidence in support of the hypotheses that levels of corruption may be attributable to the level of economic development. Like say, higher per capita GNP (Gross National Product) is associated with lower levels of corruption. But testing the causality is important here. Does lower corruption lead to greater per capita GNP or is it vice versa? There are studies that argue both ways.

Yet another segment of researchers attribute this to differences in the type of political institutions. For example, a federal or vertical structure of the state is found to be associated with more corruption; also the types of incentives for corruption that exist due to various public and government policies. The greater the cumbersome nature of rules and regulations, greater is the incidence of corruption. An interesting result in this context finds support for the hypothesis that former British colonies have less perceived corruption than other former colonies of say Portugal or Spain. (Treisman, 2000)

Susan Rose-Ackerman (2010) offers a summary. "Corruption in all its myriad forms arises at the intersection of culture, the market, and the state. Its prevalence forces us to confront the tangled connections between private wealth and public power and between cultural practice and the creation of a competent and impartial government. Sometimes sensitivity to culture and history in one society will lead to tolerance of actions that are labelled bribery in other societies. Sometimes public or private power is so rigid and oppressive that individual payoffs to avoid the rules seem the only feasible way to cope. Voters do not always punish flamboyantly corrupt politicians at the polls, presumably because no credible alternatives exist. It may seem better to tolerate an incumbent who takes a share of the spoils of office than to risk retaliation from the incumbent by supporting an untested challenger."

CAN CORRUPTION BE BENEFICIAL? THE 'GREASERS VERSUS SANDERS' DEBATE

Economic Development through Bureaucratic Corruption by Nathan Leff (1964) made a provocative case in favour of corruption and over the years this has come to be known as the 'Greasing the wheel' argument. Simply stated, the argument is that corruption helps businesses and individuals bypass extremely cumbersome rules and regulations and brings about socially optimal solution. The work gets done. Therefore, it is a good thing. On the other side is the argument of the 'Sanders', who claim that corruption acts as sand in the wheels and leads to welfare losses to the society.

Leff (1964) discusses the case of Brazil and Chile where an honest enforcement of price controls led to stagnation in food production, whereas a corrupt implementation caused increased production in the 1960s. Levy (2007) provides some evidence to the effect that during the centrally planned era of the Soviet Union, corruption allowed the Georgian economy to produce far more output and to allocate what was produced far more efficiently than would otherwise have been feasible.

However, there is a problem with this logic. Even if corruption helps overcome cumbersome rules and regulations in the short-run, it also incentivises instituting more cumbersome rules in the long-run to extract these rents. This is the 'fallacy'. What is more, this argument is dangerous and creates a societal tolerance to corruption (Aidt et. al, 2008). There are other studies that demonstrate the fallacy through country studies. In fact, many of these cumbersome regulations, whatever their original justification might have been, are kept and continued with the sole purpose of allowing bribes to be collected (Djankov et al. 2002).

An interesting Indonesian case is demonstrated by Olken (2007) where he shows that about 18 per cent of subsidised rice meant for distribution to the poor disappeared, probably into the pockets of the village heads, and a scheme that should have improved social welfare actually reduced it. Kauffman and Wei (1999) study firm-level data from around the world and the question of whether the so called 'speed money' actually speeded up business deals and found that what happened was quite the opposite.

Corruption also hurts genuine wealth formation in a country. Aidt (2009) finds a strong negative correlation between growth in genuine wealth per capita which is a direct measure of sustainable development and corruption. While corruption may not affect the growth of per capita GDP, it leads to unsustainable development. As has also been argued by Mauro (1995), Bardhan (1997) and Mendez, F. and Sepulveda, F. (2006).

This has come to be known as the Greasers Vs the Sanders debate and there is overwhelming evidence in support of the Sanders and against the Greasers. The conclusion is that corruption only hinders development and progress.

COMBATTING CORRUPTION

Literature discusses three approaches to fighting corruption: the legal approach, the business man's approach and the economist's approach. The legal approach argues in favour of stringent punishments and improved enforcement of anti-corruption laws to fight corruption. The business man's approach argues in favour of increasing the salaries of bureaucrats and the economists argue that competition is the way forward. In the extreme, the so called 'Libertarians' argue in favour of reducing the government to its minimum functions and letting all economic activity to be driven by market forces. The countries that have successfully fought the battle against corruption have adopted all three prescriptions. The emphasis is on having a broad based strategy that addresses the problem as a systemic issue. The jury is out on what is the best strategy.

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