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Research Paper

Economics

Economics Of Corruption

Prof. Dr. K.J. Thankachan Director, Shri Jaysukhlal Vadhar Institute of Management Studies

ABSTRACT

The corruption has penetrated the political and economic environment of India. It has also gripped cultural, social, sports, and education sectors in its deadly pangs. As a matter of fact, corruption has entered the Indian psyche, owing to over-regulation by the government in every activity it has undertaken. The truth is that laws against corruption already exist. Anti-corruption investigating agencies are also present with full valor. But are the laws implemented in their true sense? How deep has corruption entered the corridors of power, at all levels – centre, state, municipality and local boards. The paper is an endeavor to focus on the various aspects of economics of corruption and its multi dimensional affects on the political and social economy.

KEYWORDS:Macro Economics, Corruption, bureaucracy, BPL.

I. INTRODUCTION

On the eve of Indian Independence, Winston Churchill had very precisely predicted, "Power will go to the hands of rascals, rogues, freebooters: all Indian leaders will be low caliber and men of straw. They will have sweet tongues and silly hearts. They will fight amongst themselves for power and India will be lost in political squabbles". Even 64 years after independence, India has verily proved that Churchill was then absolutely right up to the last word of his prognosis on the character and behavior of the present Indian political leaders.

New Zealand [Images] is at the top spot with a score of 9.5 followed by Finland and Denmark. The countries that occupy the bottom ranks in the index are Somalia, North Korea, Myanmar and Afghanistan, which are helmed by unstable governments and conflicts.

With the unearthing of major scams, arrests of influential people over corruption and a movement for a Lokpal stealing headlines in India, people associated with Transparency International India said since the study is a measurement of perception, these factors could have marginally contributed to the decline.

There continues to be decline in India's Integrity Score to 3.1 in 2011 from 3.5 in 2007, 3.4 in 2008 and 2009, 3.3 in 2010... indicating a serious corruption problem," said a statement from the watchdog.

II. OBJECTIVE OF STUDY

The purpose of this study is

- to infer some of the macro economic variables of an economy that illuminates some of the current and future economic influences associated with corruption
- to examine the consequences of policy reforms aimed at reducing or eliminating that corruption.

III. METHODOLOGY

The methodology adopted in this study is

- the review of literature on corruption
- the review of economic on ideas and theories on corruption
- analysis of the facts and figures with respect to corruption

IV. CORRUPTION DEFINED

Corruption is the lack of duty, morality and honesty.

The word corruption as understood by a common man, in his day to day dealings, means bribery or similar dishonest dealings, though the word has a few other specific meanings dependent on how and where the word is used. So here, we would be dealing with its meaning as being understood by a common man. The word corruption itself is the definition of corruption. This is a wider idea. But if we go to the root it is defined as the "misuse of trust for self gain". In broad "the use of authority given to somebody by some other for self or relative's economical gain", is called corruption. It may be direct or indirect gain to the person through the organization or through the group benefitted by his corrupt and unlawful act. Often the corruption is refers to the government official or to the politicians related to the public office and public entrust as a whole. But the act of corruption is also related to the private office and private sector.

In India there are broadly two type of corruption:

- Corruption in personal level and
- Corruption in organizational level.

According to Prevention of Corruption Act- (Amendment) 2010 , the "act of corruption" –

(a) means an act which constitutes a corruption offence; and includes

(i) any conduct whereby, in return for a gratification, a person does or neglects from doing an act in contravention of his public duties; (ii) the offer, promise, soliciting or receipt of a gratification as an inducement or reward to a person to do or not to do any act, with a corrupt intention; (iii) the abuse of a public or private office for private gain; (iv) an agreement between 2 or more persons to act or refrain from acting in violation of a person's duties in the private or public sector for profit or gain; (v) any conduct whereby a person accepts or obtains, or agrees to accept or attempts to obtain, from any person, for himself or for any other person, any gratification for inducing a public official, by corrupt or illegal means, or by the exercise of personal influence, to do or abstain from doing an act in the exercise of his duties to show favour or disfavour to any person;

V. FACTORS RESPONSIBLE FOR THE GROWTH OF CORRUPTION

The factors that stimulates corruption can be categorized in to three: (1) Economic Factors (2) Political Factors and (3) Socio-Cultural Factors.

(1) Economic Factors: Low level of income, Government wage policies, lack of competition, price instability, duel pricing and administered pricing, demonstration effect (Duessanberry Effect), free enterprise economy and its features, privatization and liberalization, globalization etc. are some of the as the economic factors which causes for corruption

(2) Political Factors: Some of the important political factors which stimulates corruption are the multiparty democracy, bureaucracy, political instability, number of ministerial portfolio etc.

(3) Socio-Cultural Factors :Socially people becomes To Achieve Social Status, Corruption for Good Causes,

VI. MACRO ECONOMIC CONSEQUENCES OF CORRUPTION

It has been observed that the interference of governments in the economic activities of the country. In the current scenario, the role of Government in the functioning of an economy increases. As found in 1990's, there is no pure capitalistic economy with only private ownership of means of production and there is no pure socialistic economy with only state ownership of means of production. All the economies are of a kind of mixed economy with controls in which state as well as private exists, self interest as well as social interest exists. The failure of laissez-faire capitalism with no intervention of government in private activities and the failure of socialism with only prevalence of social interest, made the governments to increase its role in the framework of a free market economy. Thus the now governments works as a :

1) Regulator and Controller 2) Promoter 3) Entrepreneur 4) Planner 5) Financier

The increase in the scope of the functions governments lead to increase in bureaucracy and consequently the bureaucratic level. One factor in

the spread of this illegal activity has been the propensity of developing-country governments to intervene heavily in their economies, often in the attempt to guide, direct, and control economic activity in order to promote the desired pace and style of economic development. Such regulatory efforts, though now on the wane in much of the developing world, continue to generate opportunities in many countries for bureaucrats in control of scarce resources to allocate them on a non-market basis, to further their own economic, political, and social prospects.

Such corruption often, in our observation, exists side-by-side with long-term economic stagnation. The extent of corruption in an economy is positively correlated with government regulatory activity, and negatively correlated with the pace of long-run economic growth and development. But correlation does not guarantee causation: corruption might be a factor contributing to a country's economic stagnation; on the other hand, in the presence of long-run economic decline the incentive to engage in corrupt activities might well increase, and thus the causation may run from economic stagnation to corruption. Furthermore, the extent to which corruption has a statistically significant effect on long-run economic growth is unclear.

Short-run and long-run macro economic consequences of corruption may generate "Directly Unproductive Activity" elsewhere in the economy.

CORRUPTION CAUSES INSTABILITY

Figure 1



VII. MACRO ECONOMIC DISEQUILIBRIUM

Corruption causes Macro Economic Disequilibrium. Figure 1 shows that how corruption causes price instability, economic instability and political instability. Corruption leads to large scale accumulation of wealth which in turn increases the purchasing power of the corrupted. The number of people indulging in corruption is not less. The wealth accumulated through corruption is either used for unproductive purpose or hoarded. In both the cases the net effect is same; price instability which in turn leads to economic instability and finally to political instability. A framework that is eminently suitable for our purposes - given that governmental regulation of economic activity often results in (among other things) officially-fixed prices of key items in the economy (e.g., formal-sector wage rates, nominal interest rates, the nominal exchange rate)— is that of "disequilibrium macroeconomics"

Figure 2



Figure 2 shoes how the internal instability leads to international instability. The Price Instability, Economic Instability and Political Instability are correlated mutually that all at a time work as cause and effect and all contribute to the international instability.

Over and above this Corruption causes Socio economic inequality, Unequal growth of the economy, Loss of public property and life, Terrorism due to frustration, Revolution/social changes, Black money, emergence of Shadow Economy. The corruption also results in Inefficient Government Functioning , Delays and Red Tapism, Inefficient Use of Corrupt Payments, Damaged Political Legitimacy etc. are other after effects of corruption.

VII. REMEDIES OF CORRUPTION

Economic principles, together with common sense, can be our most useful guides.

Widespread corruption is a symptom, not the disease itself. Eliminating corruption makes no sense if the result is a rigid, unresponsive, autocratic government. Instead, anticorruption strategies should seek to improve the efficiency and fairness of government and to enhance the efficiency of the private sector.

Government officials, Police, Politicians, Judiciary, Media, NGO's etc. are some of the fields of corruption in India.

- Granting economic incentives
- Transparent Government Policies especially financial transparency
- increasing the salaries of government officials to reduce the need to supplement their incomes
- Model Punishment
- Public Awareness of Anti Corruption Laws
- Educating public the minimum required law governing those areas in which there is a chance for corruption
- Educating the students about the bad socio-economic effects of bribery right from school level
- Strategies that reduce the net benefits of paying and receiving bribes.
- Government policy can increase the benefits of being honest.
- Increase the probability of detection and punishment and penalty

VII. CONCLUSION

From the above discussion, it became clear that the corruption has negative impact on economy in the form of Price instability which causes economic and political instability. These fluctuations has a cumulative negative impact on allocation of scarce resources, and hence on the deadweight loss to society resulting from this activity. The problems of inefficiency, low productivity, ineffectiveness, low output and low income etc. highlighted is generally viewed as confined to, or only important in, the public sector. However, another source of inefficiency could be nepotism within the private sector.

The better cure for this social epidemic is grass root level awareness of corruption and its negative impact in the individual, family, society, nation and the whole world. Children, right from the primary level of education must be taught about the bitterness of corruption so that they, while coming up will not get into the category of those giving bribes.

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