

theirview

Deconstructing corruption in India

It is possible that, if streamlined and predictable, some forms of corruption may act like efficient taxes

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is a civil servant. These are his personal views.

What is the architecture of corruption in India? Has it increased or decreased since the opening up and liberalization of the Indian economy in the early 1990s?

Data on corruption and the black economy is hard to come by, is mostly invisible, and is hotly debated.

The popular notion is that corruption has increased, since larger sums are involved than in the past. A dispassionate analysis, however, needs to make five kinds of corrections to the little data available.

First, definitional. Corruption involves misuse of sovereign power for personal gain. A broad definition would include use of state assets, such as official cars, gadgets, stationery and premises for personal use, through conflating the distinction between what is private and what is public. This distinction is however relatively modern, and still to crystallize fully in developing societies.

A narrower definition centres on a conscious intent to misappropriate, and involves third-party transactions: accepting consideration, in cash or kind, for services ordinarily available from the State as a matter of right, or for their accelerated/preferential/wrongful access.

Second, while there is a close connection between the two, a heuristic distinction needs to be made between black money, which evades taxes imposed by the State, and gains from corruption, which is use of State power for personal enrichment.

Third, a distinction needs to be made between petty bureaucratic corruption, at the level of the humble traffic cop, patwari, tax official, and high corruption, involving a nexus between politicians and bureaucrats. This nexus is unequal, with most of the gains accruing to the former. Also, the latter's participation may be active or passive.

Petty corruption has a direct, palpable and experiential impact on the

life of the common citizen. High corruption has an indirect, but nevertheless equally powerful, impact through foregone growth, quality of life, inflation and a larger public debt burden. It is difficult to determine which form of corruption is more rampant.

Fourth, the data needs to be adjusted for inflation, as a large nominal increase need not mean an increase in real terms. Thus an illegal gratification of ₹10 in 1990 may actually exceed a ₹100 gratification today.

Fifth, corruption is a financial flow, distinct from the current stock of ill-gotten wealth, the lagged outcome of past corruption, and the returns thereon, minus what has been consumed. If the annual flow exceeds consumption, which is likely, the stock of corrupt wealth would grow over time. Some of this stock is indistinguishable from what we call black money. But a good portion falls outside the ambit of black money, comprising, for instance, gains from rapid appreciation of land value.

Estimating data largely invisible or non-existent is a daunting exercise. Only the very bold and optimistic venture to even try. Unsurprisingly, debates surrounding both black money and corruption are steeped in polemic, with large, unverifiable and contestable numbers flying around.

While numbers are hard to come by, and even harder to verify, it can nevertheless be assumed that incentives in the political and administrative systems have remained pretty much the same. What has changed quite dramatically since 1990 is the structure and trend growth of the Indian economy. Levels of financial flows, and along with them corruption and black money flows, have therefore risen. The economy is also much more open today. Incentives and drivers in the economic system have changed.

With the economy becoming much more tradable, the capacity of the tradable sector to absorb illicit



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demands has reduced with the imperative to remain globally competitive. The burden of corruption has consequently shifted from the tradable—from the so-called licence, quota permit Raj—to the non-tradable sectors, such as construction, utilities, and other infrastructure, including real estate.

Unsurprisingly, the execution of infrastructural projects has suffered as a result, leading to declining productivity and economic growth, and a weaker fisc as contracts are renegotiated and land-use patterns changed to the disadvantage of the State. Whereas in Western economies, the real estate bubble was inflated by easy monetary policy, financial deregulation and leverage, in India it stems from the compulsion to park large proceeds from corruption and black money. Since the same sources fund political activity, this bubble will be difficult to prick.

The correlation between corruption and economic growth—positive, inverse or idiosyncratic—is, however, by no means clear. In India it may hinder growth, but then, think China, with its putative combination of insti-

tutionalized corruption and high growth rates. It is ranked lower (100) than India (85) in Transparency International's global Corruption Perceptions Index, but much higher (90) than India (145) in World Bank's Ease of Doing Business Index. Howsoever morally repugnant, it is entirely possible that, if streamlined and predictable, some forms of corruption—speed money—may act like efficient taxes. Like Tolstoy's unhappy families, corrupt societies are corrupt in their own way.

The Indian economy is now growing at a faster clip than what it was in the early 1990s, generating larger surpluses relative to what is required for subsistence. It is this surplus that comprises the fodder that feeds corruption in societies with flawed value systems and low self esteem. If, as argued, incentives in the political and administrative system is unchanged, it is likely that both the flows and stock of corruption proceeds may have increased in real terms since the early 1990s.

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