



## Corruption, Poverty, nexus and economic Development: An analysis

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**Abstract :** This paper is an attempt to analyze the impact of corruption on economic development of a country. The paper assesses whether corruption greases or sands the wheels of development. After discussing both the positive and negative impact of corruption on economic development of a country, the relationship between corruption and poverty is discussed by highlighting the channels through which corruption negatively impacts development and deepens poverty. At the end a number of measures and proposals, based on insights from economic literature, have been suggested especially for a developing economy like India to tackle corruption.

**Keywords:** Corruption, Economic Development, Poverty, Measures.

### 1. Introduction

Corruption is a global Phenomenon found in all countries. As per United Nations Convention Against Corruption, "Corruption is no longer a local matter but a transnational phenomenon that affects all societies and economies" Kautiliya in his Arthasastra said, "Just as it is impossible not to taste the honey (or the poison) that finds itself on the tip of the tongue, so it is impossible for a government servant not to eat up, at least a bit of king's revenue". Therefore, corruption is not a new thing. It has always existed.

#### The concept of corruption:

D.H Bailey has explained it as "misuse of authority as a result of consideration of personal gain which need not be monetary." As per the World Bank "corruption is the misuse of public office for private gain. 'It is an act in which the power of public office is used for personal gain in a manner that contradicts the laws of the state. According to Toke

S.Aidt,"Three conditions are necessary for corruption to take place and arise as implied by its definition. First, the public official should possess some discretionary power. Second, the discretionary power must allow extraction of existing rents and creation of rents that can be extracted. Third, political, economic and legal institutions are weak which give an official an incentive to exploit his discretionary power."

The most popular justification of the beneficial effects of corruption rests on the so called "Grease the wheels Hypothesis" put forward by Leff(1964), Huntington(1968), and Leys(1965). Common people generally view corruption as an obstacle to development and growth. But some development economists during 1960s and 1970s argued that corruption may be good for economic growth, especially for the developing economies. According to them, it is because of laws, procedures and regulations which are opaque, lengthy and cumbersome in the developing countries. Therefore, in order to bypass



such time consuming regulations, which may not be required at all, corruption works as a lubricant. The ill functioning of bureaucracy is considered as the most prominent inefficiency that corruption could grease. According to "Grease the Wheels Hypothesis" corruption may be beneficial to developing economies because of the distortions caused by ill-functioning institutions. These economists argued that corruption could work as a screening device between an efficient and an inefficient firm as an efficient firm is one that is good at getting the job done even if it is accomplished through corruption.

### **Economic development and corruption**

In a broader sense, corruption must be considered as an obstacle to development. The positive impact of corruption on slowness rests on the assumption that a civil servant can speed up an exogenously slow process. However, according to Gunnar Myrdal, corrupt civil servants may cause delays that would not appear otherwise, just to get the opportunity to extract a bribe. Moreover, the ability of civil servants to speed up the process can be very limited when the administration is made of a succession decision centers. In this case, civil servants at each stage can have some form of veto power or some capacity to slow down a project. Using industrial organization models, Shleifer and Vishny showed that the cost of corruption can be higher when, say to get an authorization for a project, many independent agents are involved than when only one is. Burdhan reports that an Indian official once declared that he could not be sure to be able to move a file faster but could immediately stop it. Under these circumstances one distortion

adds up to the others instead of compensating them, which is precisely the meaning of "Sand the Wheels Hypothesis."

Corruption at the microeconomic level cannot be taken as evidence that corruption can be efficiency-enhancing at the macroeconomic level. How does corruption sand the wheels of corruption? Literature has discussed number of channels through which the negative impact of corruption is transmitted to development. James Wolfenson, ex-president of the world Bank in his address in 1996, known as 'cancer of corruption' address, spelled out how corruption impacts development. He said, "corruption diverts resources from the poor to the rich, increases the costs of running businesses, distorts public expenditure and deters foreign investors. It is a major barrier to sound and equitable development."

Public expenditure is a key instrument of development, especially human resource development. Corruption alters public distribution among sectors and also distorts technology choices. Corruption also impacts employment negatively in the developing countries. Most of the developing countries have abundance of labor. But corruption distorts technology choices. Developing countries import capital intensive technology because of the potential opportunities of corruption attached with such imports. Therefore, corruption decreases employment opportunities available in the developing economies.

Corruption misallocates resources and talent. Empirical studies suggest that corruption is associated with high military spending both as a share of GDP



and total Government spending. Sanjeev Gupta, based on data of about 120 countries for the period 1985-1998, have confirmed association between corruption and high military spending. Moreover, military spending is a unproductive expenditure and has no direct impact on economic growth and development of a country. Corruption misallocates talent in society. People being rational human beings, join the fields of employment possessing maximum potential for rent seeking. Public sector employment in India is a pertinent example of misallocation of talent. A majority of candidates appearing in civil service exams come from medical and engineering backgrounds. Although other factors such as security of service tenure and passion for public service should not be ruled out as motivating factor, yet the fact remains that rent seeking by grabbing more power remains one of the core reasons for joining the public sector in India. Empirical evidence suggests a negative relationship between corruption and expenditure on education and health. This negative relationship is because Government finds it easier to collect bribes on some expenditure items than others. Empirical studies also suggest that corruption reduces spending on goods like medicines and textbooks. The empirical findings further suggest that child mortality rates in countries with high corruption are about one-third higher than countries with low corruption. Infant mortality rates and low birth weight babies are almost twice as high and dropout rates in schools are corruption-whether it is committed by low-grade public functionary or a big business tycoon. Corruption also breeds corruption through perpetuating distortions in the tax system. In a country where corruption is high, tax

five times higher compared to less corrupt countries.

Thus there exists a deep nexus between corruption and composition of public expenditure. Corruption appears to distort the structure of public expenditure in favor of defence, fuel and energy, culture, public service and order, at the expense of social sectors such as education, health and social protection. Corruption hampers ability of the state to raise taxes encourage informal sector. Due to corruption in the tax machinery and complex procedures of tax collection upon which corruption thrives, businesses avoid getting registered for tax purposes.

#### **Corruption-Poverty Nexus**

Corruption and poverty rise and fall together. There are number of channels through which corruption aggravates poverty. First of all, corruption negatively impacts economic growth. Dampening of economic growth means that income will not be sufficient to feed the increasing population. Empirical literature on China shows that poverty reduction was mainly possible due to sustained growth rates. Corruption also impacts economic growth by increasing income inequalities. It is an empirically well-established fact that the impact of corruption is not uniform on the individuals as well as businesses. The impact is disproportionately severe on poor and marginalized sections of society. Ultimately it is the poor who bear the brunt of

of evasion is also high. As a result, Government gets less revenue than expected, low revenue means that the state will not have sufficient money to invest for development of its people, and increasing income inequalities have



negative implications for economic growth.

Corruption also affects targeting of social programs. If corruption is pervasive, leakages in such programs will be high. It is an open secret now that the major chunk of funds allocated for development of infrastructure like roads, schools and hospital buildings is eaten into by corruption as commissions and kickbacks by engineers, construction companies. As a result, quality of the infrastructure is low and deterioration creeps within no time of their completion.

### **Corruption Enables Rule of Law Spoilers**

The Sahel and Maghreb hold pathways for smugglers moving drugs, people, and weapons from West and Central Africa to the Mediterranean. Sophisticated smuggling routes and the cover of the desert's open and sparsely populated terrain, still require corruption to effectively allow movement. It is in criminal and terrorist networks' interest to corrode governance institutions and perpetuate a weak rule of law. Giving security officials and politicians a cut of the criminal profits keeps eyes turned away and even provides cover. The former Malian government played with this dangerous temptation to its own detriment, colluding with organized crime in the north of the country, who in turn worked with terrorist organizations during the 2012 insurgency.

Corruption also allows the theft of the state and impunity amongst officials that drives citizen grievances. The Ben Ali regime rigged Tunisia's economy for his close network's favor, stashing ill-gotten gains in overseas accounts through various opaque financial flows and

shelters that Tunisians are struggling to work through today. So far almost 80 million dollars US, planes, and property have been recovered. But this is just the tip of the iceberg, as the Tunisian government now looks to ensure a smooth political transition by offering amnesty in exchange for stolen funds. This action has spurred new frustrations from citizens about a lack of justice.

### **Measures to control corruption**

1. Effective law enforcement is essential to ensure the corrupt are punished and break the cycle of impunity or freedom from punishment or loss.
2. Reform public administration and improve finance management.
3. Promote transparency and access to information.
4. Close international loopholes so that corrupt public officials throughout the world would not be able to launder and hide the proceeds of looted state assets.
5. Empower citizens by strengthening citizen's demand for anti-corruption and empowering them to hold Government accountable.
6. Tax system should be reasonable and transparent, backed by clean and clear enforcement.
7. Minimize discretionary powers of ministers and bureaucrats.

### **6. Conclusion**

Corruption is a cancer which every citizen of a country must strive to obliterate. Eliminating corruption when it is rule rather than an exception in society is not an easy task. There are many ways to control corruption but as long as corruption fails to attract legal, moral and social censures, there is no



hope of eliminating or even reducing it. Also the leadership at the top must be honest and dedicated who have unflinching commitment to the cause of eradicating corruption. Corruption must be eliminated or considerably reduced so that a country can grow and develop in a smooth manner.

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