

Essay on Corruption Vs Economic Growth

"Corruption free government is not a necessary condition for rapid economic development. If the corporate and institutions work and uncertainty is checked, progress is possible".

—S. Swatninathan

Corruption in any form is treated as an incurable disease, a cause of many social and economic evils in the society and it damages the moral and ethical fibers of the civilization. Indisputably, it is correct that corruption breeds many evils in the society and once corruption starts taking place, slowly and gradually whole country passes through its net and it becomes after sometime an incurable disease. From the point of view of economic growth, there seems to be no clear-cut correlation between corruption and the economic growth of a country. There may be the presence of some social maladies like inequality of income among the people, moral degradation of people due to the prevalence of corruption, but the parameters of economic growth which are taken on a percentage or an average basis are entirely different.

We can find several countries having corrupt regime but yielding excellent economic results and other countries with clean regime showing very poor results in terms of economic prosperity and growth.

Transparency International publishes every year lists ranking corruption in various countries. It has just come up with a list of the 10 most corrupt rulers. According to reasonably authoritative local estimates," Numero Uno is Indonesia's Suharto' who is estimated to have skimmed off \$15-35 billion. He is followed by the Phillippines Marcos (\$ 5-10 billion), Zaire's Mobutu (\$ 5 billion),

Nigeria's Abacha(\$ 2-5 billion), Serbia's Milosevic (\$ 1 billion), Haiti's Duvalier (\$ 300-800 million), Peru's Fujimori (\$ 600 million), Ukraine's Lazarenko (\$ 114-200 million), Nicaragua's Alemay (\$ 100 million) and the Philippines Estrada (\$ 78-80 million).

This list is neither complete nor exhaustive. Saddam Hussein and his cronies might have skimmed more than some of the above rulers.

Now the point of discussion is: Why do some corrupt regimes do very well and others badly?

If we take the case of Indonesia, we see the income of Indonesian's quadruple to \$ 1000 per capita under the regime of Suharto. Indonesia's economy during 1980-1990, showed a miraculous uptrend, graduating from a mere commodity producer it became a big exporter of manufacturers. During this golden period under Suharto poverty, infant mortality and fertility plummeted while literacy soared high. The era ended in ruins during the Asian Financial Crisis, but that event upended regimes from Korea to Bangkok. The achievements during the period had remained impressive and remarkable.

On the other hand, Mobutu left Zaire poorer and in more desperate condition than ever, like Nigeria and Haiti, where too, no progress was made. Marcos and Fujimori tried to rebuild the collapsing economies amidst a lot of praise for their efforts, but the prevailing corruption and maladministration eroded the initial gains seriously.

If we look at transparency international's list of 133 countries ranked in order of corruption, we will find that the well -off western countries all figure in the top of 35. Singapore, the most successful developing country, ranks at 5, Botswana Africa's star performer, ranks at 30, the Scandinavians are generally regarded the

most honest (Finland is No. 1) and the USA comes a bit lower at 18. Paradoxically, some of the poorer countries are also among the most corrupt and some of the less corrupt is progressing.

Again it is difficult to find any correlation between corruption and economic growth. Some of the fastest-growing countries in the world are also in the bottom half of the corruption list. China stands at 66, India at 83 (alongside Malawi), Russia at 86 (alongside Mozambique) Vietnam at 100 (alongside Guatemala and Kazakhstan).

Corruption in long run may destroy the whole society morally ethically and economically. Maybe, in the long run, a country needs a clean government to reach the top of the income ladder, maybe rapid income growth by itself induces better accountability and governance, maybe corruption in long run degenerate the society into several misfortunes and evils. But one fact still stands out: Clean government is not a necessary condition for rapid economic growth.

Bangladesh stands at the list of 133, yet it has been growing at five percent annually for a decade. Italy, the most corrupt country in Western Europe, has been one of the fastest-growing economies. Corruption is often a good predictor of eventual economic crisis, yet when Argentina (92) went bust, the ensuing financial crisis also consumed its neighbors Uruguay which ranks at 33.

The puzzle to ponder is why does corruption coexist with both good and bad economic performance? Why has India over the decades grown more slowly than Indonesia despite less corruption?

A survey conducted for the World Development Report some years ago, find one answer. Businessmen in surveyed countries said that the main problem with corruption was that it increases risks and uncertainties. The risks declined dramatically if corruption produced

reliable outcomes (as in Indonesia). If all players have to pay 10% and could be sure of getting their licenses (Madam Suharto was called 10%), entrepreneurs could treat this as just one more tax, factor it into their calculations of profit and so could invest with the confidence of sure gain. Most businessmen fear the arbitrariness where some entrepreneurs pay huge sums in vain, while others pay little or nothing and succeed. This happens when there is much discretion in decision making. It also happens when some decision-makers are corrupt and others are not. India is such a country where entrepreneurs are not sure of things, some decision-makers are corrupt and others are honest. One more crucial thing about India is the rule of nepotism, the rule of criminals, and blackmailing through other modes even after paying demanded money. Arbitrariness in decisions unreasonably demands to make the business wary of dealing in such cases. There is a saying in India that we have honest politicians, who take the money and do the needful, dishonest politicians who take the money and do not deliver the goods, and madmen who do not take money at all. In this lexicon, Suharto was both honest and sane and delivered the goods.

The worst situation is when the ruler extorts without giving anything in return, this seems to be a case in Zaire and Nigeria.

Finally, the quality of institutions seems to be the most important factor in the growth of a country. If the institutions work even moderately well, progress is possible even if money is skimmed off at the top. But if the institutions are incapable of enforcing any rights, corruption will hasten economic collapse.

So far as the Indian economy is concerned the slow progress is the result of a lack of decision-making at higher levels. Many politicians take money but could not enforce their will because of the powerful lobby of bureaucrats at many places and in a democracy

like India, the voice of media, the voice of opposition could suppress the wish of the leader. Ours is a peculiar democracy where politicians are corrupt but not authoritative, ours is a multi-party system where leg pulling for no cause, accusation without any evidence is common. Instability in the political system is also responsible for the slow economic progress where the Prime Minister is always busy in satiating the coalition partners to keep attached. So far as the quality of institutions is concerned we are having well-matured corporate and the fast development reflected during the last years, has brought stability in the country and good relations with the neighboring nations.

India's economic growth on an average 6% GDP despite considerable corruption is because of the stability and the liberalization measures taken by the present government, gradual privatization of various sectors, reducing bureaucratic intervention in routine work, and other measures adopted by the government. It is important to note that growth in some States, where institutions are strong and decision making is least arbitrary is faster than in other States.

In brief, it can well be concluded that corruption and economic growth have no clear correlation. Strong institutions, political stability, fast and reasonability in decision making are some of the requirements for fast economic growth.