

# **Corruption in India: When Preaching Piety is not Enough**

**By**

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**Corruption is as pervasive as it is ancient in India**

### **Definition of corruption**

- **Use of public office for private gain**
- **Size of bribe or number of transactions?**
- **Distinction between corrupt and illegal**
- **Distinction between corrupt and immoral**
- **Non-monetary forms of corruption:**
  - **when connections, not direct bribes, are used to land a job or a contract (connections are sustained by social forms of 'gift exchange' )**

- when a politician does you a favor not in exchange of money, but, say, political support
- when an official steals not your money but time, through absenteeism or shirking

**Subjective perception vs. Objective measures**

**Olken's work (2009) on Indonesian road projects (using actual estimates by engineers) shows the link rather weak**

**Shift to more direct measures of corruption at the micro level (examples). Micro-measures also give a better idea of the different types of corruption and their different implications for resource allocation.**

**Corruption usually related to regulations and bureaucratic discretion**

**-- but abolition of regulations is not always a solution, particularly because we care about other outcomes (example: pollution). Depending on the primary objective, one may even argue for some tolerance for corruption in specific cases**

**Why is Corruption perceived to have increased in the decades after Economic Liberalization in India?**

- **Limited liberalization at the state level**  
(for example, in 2012, in enforcing a contract it took on average 1420 days in Mumbai, 877 days in Chennai; dealing with a construction permit took 258 days in Kolkata, 40 days in Bangalore; registering property took 126 days

**in Bhubaneswar, 26 days in Gurgaon; and so on)**

- Value of public resources (like land, minerals, oil and gas fields, telecommunication spectrum) shot up in market value— effect of economic growth— and hence their political allocation generates more corruption**
- Under-pricing and diversion of diesel, kerosene, electricity, cooking gas, etc.**
- Mounting election expenses**
- As courts have become more clogged, normal contract enforcement more difficult, leading to judicial corruption and more settlement outside courts**

- **Diversion of more able people to higher-paying jobs in the growing private sector, having adverse effects on the composition of public sector officials**
- **With a larger role of the private sector and PPP's, regulatory agencies in different fields become more important; often weak and non-transparent regulations; more scope for post-retirement officers employed in sectors formerly regulated by them**
- **Public-private partnerships particularly in infrastructure building, where collusion between business and politicians allow for rampant cost overruns and renegotiation of terms (amounting to bid-rigging)**

- More central transfers some of them relating to anti-poverty programmes, particularly when they are not universal
- Decentralization (collusion easier at the local level, also a perception problem)
- Ethnification of politics
  - Money as a substitute for networks  
--lack of protective networks also may explain larger detection in the case of lower-caste politicians
  - Dignity politics trump governance

[ Banerjee and Pande (2009) provide evidence to show a trade-off between caste-loyalty and quality of politicians in UP between early 1980's and late 1990's in a study of over a

hundred electoral jurisdictions; they find that the effect of increased ethnicization on lowering the quality of politicians was stronger in jurisdictions where the demographic share of lower caste groups was larger]

- With increasing education and awareness more questions raised about accountability, not necessarily more corruption

Corruption as a frequency-dependent equilibrium

Corruption may increase when everybody believes most people to be corrupt

What Nehru told Myrdal: “Merely shouting from the house-tops that everybody is corrupt creates an atmosphere of corruption. People feel they live



**in a climate of corruption and they get corrupted themselves.”**

**When there are more people believed to be corrupt,**

- **at the margin the incentive for myself to be corrupt increases**
- **lower reputation loss when detected**
- **lower chance of detection**
- **lower search cost in finding a briber**

**But ultimately the size of bribe is bid down by too many competing bribers.**

**All this easily leads to multiple equilibria with different levels of corruption. Two otherwise similar countries (both in socio-economic structures and in moral attitudes) may end up with two very different equilibrium levels of corruption.**

**Also initial conditions matter; a country may get locked into a corrupt equilibrium, which it may find difficult to escape.**

**In situations of widespread belief of people being corrupt, intermediaries and touts have an interest in spreading cynical rumors and disinformation campaigns about officials (even when they are honest), which help the former in collecting bribes from their clients. In general the presence of intermediaries, by lowering the uncertainty of whom and how much to bribe, lowering the chances of detection as well as of breach of corrupt deals, facilitate corruption and make anti-corruption policies more difficult to implement**

## Schelling Diagram

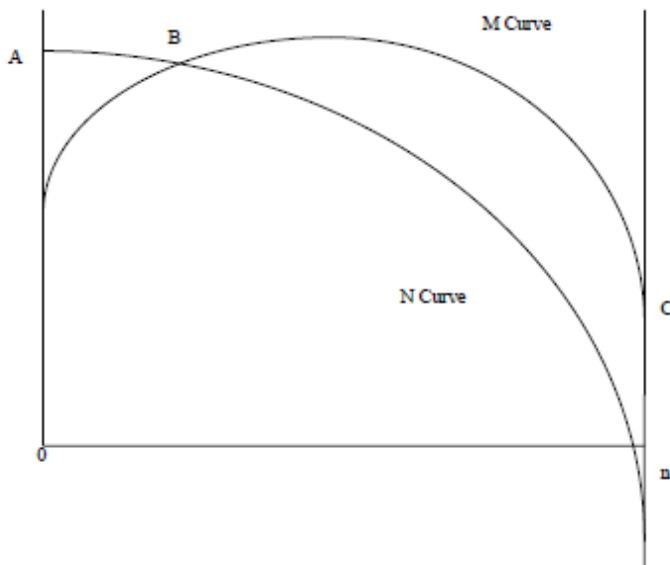


FIGURE 1

The distance between the origin and any point on the horizontal axis represents the proportion of a

given total number of officials (or transactions)  
that is known to be corrupt, so that the point of  
origin is when no one is corrupt, and the end-point  
n is when everyone is corrupt.

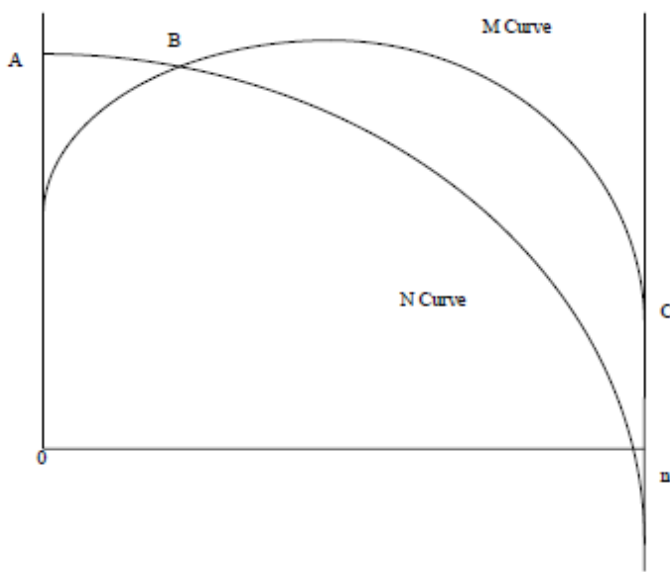


FIGURE 1

The curves M and N represent the marginal benefit  
for a corrupt and a non-corrupt official respectively  
for all different allocations of the remaining  
officials in the two categories. The way the curve  
N is drawn, the benefit of a non-corrupt official is

higher than that of a corrupt official when very few officials are corrupt, but it declines as the proportion of corrupt officials increases and ultimately becomes even negative when almost all others are corrupt.

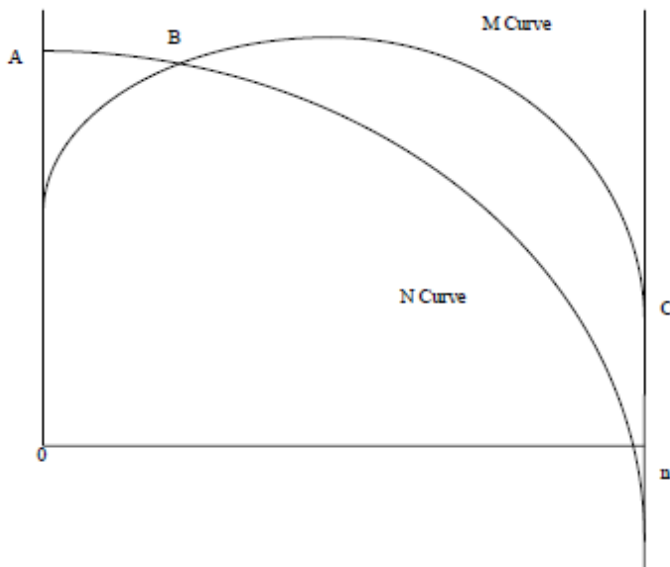


FIGURE 1

The M curve goes up at the beginning when more and more officials are corrupt (for the marginal

**corrupt official lower reputation loss when detected, lower chance of detection, lower search cost in finding a briber, etc.), but ultimately declines (when the size of bribe is bid down by too many competing bribers, for example), even though at the end-point the pay-off for a corrupt official remains positive.**

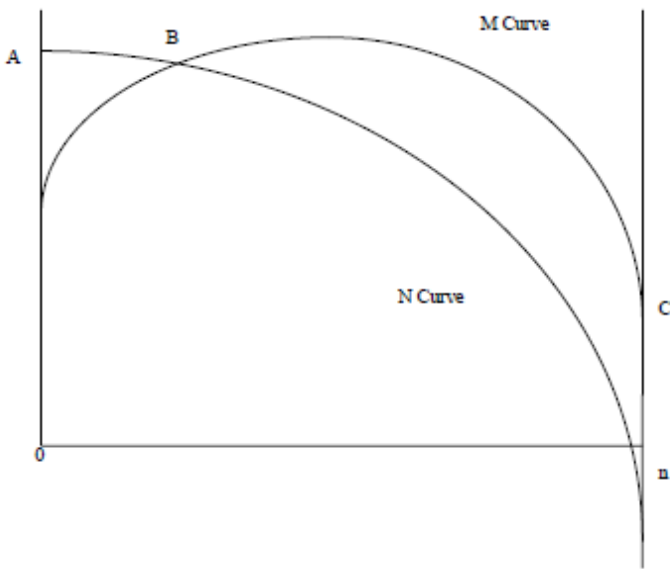


FIGURE 1

**In Figure 1 there are three equilibrium points, A, B, and C. A and C are stable, but B is not. At point A all are non-corrupt and it does not pay to be corrupt for anyone contemplating to be one. At C all are corrupt, and it does not pay to be non-corrupt.**

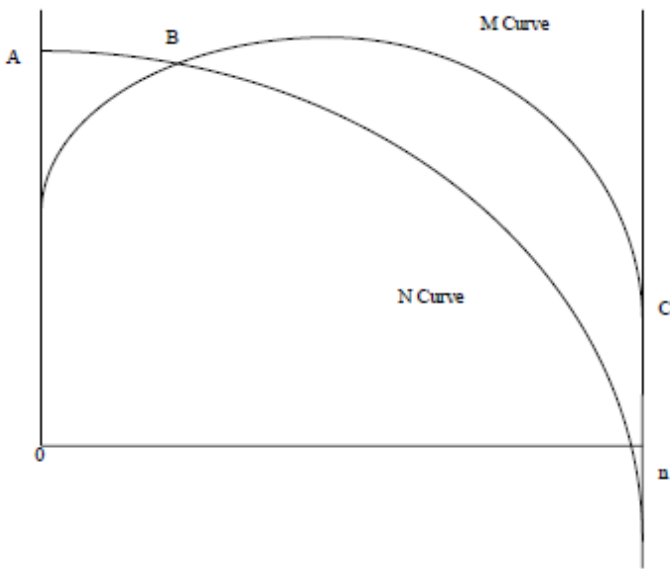


FIGURE 1

**At B, any given official is indifferent between being corrupt and non-corrupt, but if only one more official is corrupt it pays to become corrupt; on the other hand, if one fewer is corrupt, the marginal official will choose to be non-corrupt.**



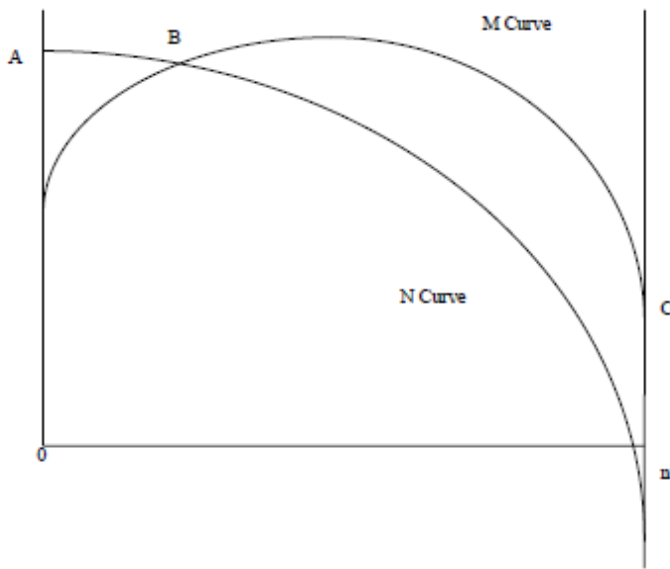


FIGURE 1

**So initial conditions are important: if the economy starts with (or gets jolted into) a high average level of corruption it will move towards the high-corruption stable equilibrium C; if the initial average corruption is low, the economy gravitates towards the honest equilibrium A. The diagram illustrates in an elementary way how two otherwise similar countries (both in socio-economic structures and in moral attitudes) may**

**end up with two very different equilibrium levels of corruption; also, how small changes may have a large impact on corruption if one starts out at points close to B.**

The contrasting approaches of the moralist and the fatalist

The possibility of an intermediate approach:  
change the incentive structure in such a way that  
“Honesty is the best policy”

Incentive structure includes rewards and  
punishments

**Rewards:** In imperial China under the Ch'ing  
dynasty, district magistrates were paid an extra  
allowance called *yang-lien yin* (“money to nourish  
honesty”)

In Singapore a wage premium above private-sector  
salaries has been successful (consistent with  
efficiency wage theory)

Need for stringent monitoring and organizational  
changes to accompany incentive reforms

Di Tella and Schargrotsky (2003) estimate in their analysis of micropanel data from public hospitals in Buenos Aires that a doubling of wages would cause a more than 20 per cent decline in the prices paid by hospitals in procuring basic supplies. They also show that monitoring policies act as a complement to raising salaries in curbing procurement corruption.

**Punishment:** the Hazare movement concentrated on punishment of the bribe-taking official by a new bureaucracy (Jan Lok Pal) with the power to investigate and prosecute at all levels of officialdom

- ❖ **Better than existing Prevention of Corruption Act of 1988, under which ‘permission to prosecute’ has to be given by the Govt., even though the Supreme Court has said it is not necessary**

**But .....**

- ❖ **A super-bureaucracy always raises questions like**
  - **Who monitors the monitor?**
  - **Do we have to bribe at yet another place now?**
- ❖ **China has the severest punishment (execution) with still rampant corruption**

- ❖ It is often difficult to legally distinguish, beyond reasonable doubt, between the outcome of simple ineptitude (or administrative failures) and that of dishonesty
- ❖ Why the concentration on punishing the bribe-taker, and not on the sometimes wealthier bribe-givers? If bribe-givers continue to have the opportunity to make a lot of money, they'll find a way. It is thus more important to deal with the opportunities at the general level than to go for numerous punishments at the micro-level
  - paradoxically, an increase in punishment may even increase the size of the bribe (to cover the rise in risk premium for the bribe-taker)

- ❖ Bribe-takers are not always individuals, it could be a political party (this is where the issue of reforming election finance becomes important). Even in offices, the bribe-collector may not be the ultimate bribe-taker, there may be an office-wide vertical network, sharing in the bribe.

### Two different kinds of Corruption:

- ❖ *Speed money*--the standard kind where you pay an official to speed up your file, you pay him to do what he is supposed to do anyway (Russians call this *mzdoimstvo*)

- ❖ ***Collusive corruption***—where you pay an official to do what he is not supposed to do (Russians call this *likhoimstvo*).

**Examples of the latter: the official connives at or looks the other way when**

- **goods are smuggled**
- **taxes are evaded**
- **income or property value is under-assessed**
- **driver's license or BPL or food ration card is issued to unqualified people**
- **bids in public auctions are rigged**
- **lower-quality materials are substituted in government procurement**



**These cases involve collusion between the bribe-giver and the bribe-taker to evade laws, and both parties gain, thus neither is likely to report this to investigators.**

**One solution is to pre-fix indices (as for example, in the case of property value assessment) leaving little scope for discretion on the part of the taxman.**

**Another, extreme, solution to collusive corruption is giving the agent/bureaucrat high-powered incentives (like tax farming)**

**But this may lead to extortion**

**An independent authority to hear appeals against extortion (for example, over-assessment in taxes) is necessary, as has been introduced as part of tax reforms in some countries.**

**Similarly, give unconditional grants to local governments, with random ex post audits.**

**Mishra and Mookherjee (2012) have suggested an appropriate structure of fines (for example, lowering fines for the offense, say tax evasion) can handle the twin problems of collusion and extortion.**

**In general some changes in administrative procedures may work better than erecting a new Lokpal super-bureaucracy:**

- **One such change is reducing the monopoly power of the official that the client has to face (in getting, say, a death or marriage certificate or a caste certificate, or a passport), wherever feasible. In the US a citizen can get a passport from almost any post office, and so corruption on getting a passport is much less than in countries like India where the passport-issuing officer has monopoly. I understand the state government of Chhattisgarh has now outsourced issuing of some certificates to a whole range of authorised private agencies, centrally verified with computer technology.**

**Drugov (2010) shows that in cases where some bureaucrats are honest and some are not, competition may give increased incentive to the applicant to invest in the requisite qualification (learning to drive in the case of driver's license or carrying out pollution abatement in the case of a firm to be inspected) . Of course, if the applicant remains unqualified, competition among bureaucrats may increase the chance of the applicant meeting an appropriately dishonest bureaucrat.**

- **Another case of reducing official monopoly power is from the historical examples of reducing corruption in the customs office in Singapore or the narcotics control section of the New York Police Department, by introducing overlapping jurisdictions of officers (in the latter case, for example, local, state, and federal agencies had overlapping involvement in controlling illegal drugs, which used to be a major source of police corruption). But these agencies have to be sufficiently independent, to minimise political collusion. (Importance of independence of CBI, for example)**

- **A less simple but important administrative reform is to change the current system of bureaucratic ‘transfers and postings’, which is a major source of illicit income of politicians in state secretariats. In general career promotion for officers in India depends more on seniority than on performance, so an officer has the incentive to maximise his or her loot in the short period of local posting before transfer. The Chinese governance system limits local official corruption by giving the local official more of a stake in the local economic performance. Chances of career promotion improve if the local area under his jurisdiction grows faster. So even when**

he steals, he takes care, in his own self-interest, that the general economic performance of the area does not suffer too much.

- Disclosure of information (RTI, availability of information on local-level allocations and targets) and use of technology (in tracking of public supplies, land records, etc.). Evidence of the effects of availability of audit reports in Brazilian municipal elections (Finan, 2008) and of citizens' report cards on politicians' past performance and asset and criminal backgrounds in Delhi elections (Banerjee et al, 2011)

**Special uncertainty and inefficiency of Indian corruption, in contrast with much of corruption in East Asia (“multiple veto powers”)**

**Finally, overzealousness in erecting a corruption-detection machinery, for all the good intentions, can stifle honest and potentially beneficial but inherently risky decisions and dynamic leadership by public-sector officials. If a risky decision does not work out, and somebody somewhere is seen to gain as a result, that often works as prima facie evidence of corrupt intent of the official, and in anticipation an official will often opt for less bold policies or status quo.**



**Part of the reason of the recent 'policy paralysis' in  
an atmosphere of suspected pervasive corruption  
Difficult to attract talent to administration under  
such circumstances**

**All this is to illustrate that corruption involves a set  
of complex and occasionally paradoxical issues  
that cannot be resolved by simplistic pious  
slogans.**