

Economics of Corruption

Divya Singh (2nd Year)

As we are nearing the end of 2010, there is no doubt that 2010 has been crowned as the 'Year of scams'. 2010 has seen some of the worst moments for India. IPL controversy, CWG, Adarsh Flats controversy, LIC Loans scam and then the Radia Tapes; all of these have helped India to sink in transparency. But the question is, were these scams really surprising? Or was it all just expected for a country like India?

Well, Wikileaks has brought some serious information out and one of it is the level of corruption that has engulfed Russia. One of the cables talks about the 'three-tier' system in Russia where at every level, 'bad' is so intricately mixed with 'good' that it is hard to separate the two. There are even questions challenging the existence of democracy in Russia. Some say that it is Vladimir Putin who is enjoying supremacy and not the real president Dmitry Medvedev. The reason why I am citing the example of Russia is that both the countries are alike in many ways and share same set of problems. Both Russia and India are democracies and trying to achieve stable economic growth. And both face the corruption as its biggest enemy.

The Wikileaks points out that corruption is so much built into the structure of Russia that there are very few chances of its removal. Is the same true for India? The history of India since independence brings out a gloomy picture. The fact is that corruption is not new for India. Recent events have just shown its existence at the top though it has always been present starting from the grass root level. Since an Indian child is born, he is shown that bribery is the best way to get work done. He grows up seeing how money got him driver's license, how donation got him into good school/college; how money helped him buy votes in university elections; so by the time he reaches the top, accepting or giving bribe doesn't bother him much. He doesn't understand why bribing in crores to get loans is wrong when giving bribe of 500 rupees is okay. The saddest part is that we all encourage corruption at the lower level and condemn at the higher level.

Now let's see why corruption thrives, or in other words; what forces drive corruption to persist and grow.

Incentive: Bribing gets your work done at any level, so why not do it? For instance, you want to get a birth certificate but you don't want to stand in line. A dealer can do that for you in return for reasonable amount so why won't you accept that offer?

Opportunity costs: Take the above example. If you try to get the birth certificate legal way, you would have to waste your entire day at the MCD office. You would lose your one day's work. Now you would wonder (like an economist would do) 'Is it worth the pain? The opportunity cost of my time is certainly greater than the dealer's time'. And so

you would hire the dealer.

Uncertainty and risk: Where there is uncertainty, there is risk and where there is risk, there is a solution-information. Continuing the above example, there is a good amount of risk that even after sacrificing your entire day at MCD's office; your work may not be done. The dealer in that case, provides you with information and hence minimizes risk at an affordable price.

Cost Minimization: Well, this is something that goes for everybody. Take a firm for example. It wants to start a plant in some area A. Now it would definitely require a lot of work like getting court's approval, environment clearance etc. Whereas bribing the required officer would save both money and time.

No barriers: All of the above reasons would fail if there is strictness or strong legal action against bribery/corruption. You know that no one would catch you or take you to jail or fine you if you get driver's license the illegal way.

And finally, who's watching the watchmen? Even the police are corrupt. The Allahbad High Court Judges have confirmed the reality of common Hindi movie dialogue that money can buy everything in India!

I would like to conclude by adding that corruption is like a virus that has affected every level in India. It is heartening to see that when India is trying to fight poverty, high unemployment, illiteracy, malnutrition, there is an added problem: corruption. Not surprisingly, its solution lies in stricter action, greater vigilance and greater sense of morality among citizens.