

Cost of Scams to Consumers

Ananya Goyal- 2nd year

Summary: *The shrillest accounts of corruption in the media seek to astound the reader with the enormity of sums involved; the effect of the political scams on our lives is summed up in macroeconomic figures too huge to be comprehensible. What has not been carefully illustrated is how the biggest political scams have affected us, not just as taxpayers, but also as consumers. This article seeks to draw attention to how corruption hits the consumers directly – and hard. The cost that companies incur as bribes are levied from consumers; the misappropriation of humanitarian aid makes the needy worse off as there is an artificial shortage created and the public distribution system and utility services supply inferior quality goods and services in the name of public goods.*

Political corruption increases the cost of doing business and results in a higher cost of consumer goods. What has not been carefully illustrated is how the biggest political scams have affected us, not just as taxpayers, but also as consumers. The shrillest accounts of corruption in the media seek to astound the reader with the enormity of sums embezzled or grafted; the effect of the corruption on our lives is summed up in macroeconomic figures which are too huge to be comprehensible. In the 2G scam, losses to the exchequer amounted to INR 1,76,000 crores; the fodder scam involved embezzlement of INR 940 crores (about INR 2500 crores in 2015).

But this approach may leave behind cases of incidental corruption (see Evans), like bribes to junior public officers, where the macroeconomic costs involved may be low. A bribe of INR 1000-1200 for a general utility connection may not translate into huge macroeconomic costs, but it is enough to alienate the poor who are the targeted beneficiaries of a welfare program. This article intends to focus on the cost of corruption to consumers, who directly or indirectly face the consequences of the corruption and the government scams. The cost that companies incur as bribes are levied from consumers; the misappropriation of humanitarian aid makes the needy worse off as there is an artificial

shortage created and the public distribution system and utility services supply inferior quality goods and services in the name of public goods.

The road transport in India, and the trucking industry in particular, suffers from rampant corruption; the volume of bribes is pegged at a whopping US\$ 4.5 billion annually. Even the Transport Minister NitinGadkari has often remarked on the size and institutionalization of corruption in road transport. Due to these forced stoppages by various agencies and leading to delay in the transportation time, the loss to the national economy would be in the range of INR 1130.47 crores per year. In fact, India incurs a loss of almost 3 days of GDP every week through inadequate transportation.

Transparency International report, one of the few quantifying corruption in Indian trucking industry, estimates that a typical commercial truck pays bribes amounting to INR 80,000 every year. These are paid at all stages of their operations, which starts with getting registration and fitness certificates, issuance and renewal of interstate and national permits and licences etc. Each truck driver pays INR 211-266 daily at these stopovers. This figure has only risen; Members of the Federation of West Bengal Truck Operators Association told a Statesman reporter that each truck driver paid a minimum of INR 300 in bribes daily. That is if all his required papers are in order. If not, it may even be upto INR 2000-3,000 (Murthy 2009).

Supply chain of consumer goods has grown longer with the development of transport infrastructure. These goods are ordered from distant corners of the country, not the local *kiranastores*. They travel long distances and lion's share of all freight, about three-fourths, in India is transported by road. Thus, any change in the transportation costs can have a significant effect on prices of consumer goods. Transportation costs are often conceded to be the drivers behind food inflation, but it is fuel price that is taken as the determinant. But it is interesting to note that while fuel costs do form the majority of a truck company's expenses, there is one purely institutional factor at play here. Bribes

constitute 5% of total costs for truck companies. The number of trips undertaken by a truck could increase by 40%, if forced delays by crooked cops are avoided (ibid). A typical truck driver spends upto 11 hours a day at such stoppages. Thus, the bribery-extortion directly results in a higher cost of doing business; not only does the cost per trip rises, the productivity per trip also falls because of the frequent stopovers. This increases the cost of transportation for every consumer good that is freighted across the road network. The cost of corruption in trucking industry to us, as consumers, cannot be estimated in the absence of data on the extent to which the increased costs are transferred to the consumers. But the effect of billions of dollars of additional cost could not be foreseen as insignificant.

Allocations of 2G/3G bandwidth and coal have figured among the most controversial scams in the recent years. The allocations of these resources is alleged to have been made at *lower* than the market price and to favoured companies. This would, at first glance, suggest lower costs for consumers too. But the prices take into account the cost of bribes as well and result in much higher prices. The rates of 2G and 3G services have been continuously rising, even by 100% in the recent years. (Times Of India 2014)

This kind of biased decision-making results in interests of a few individuals taking precedence over rights of all. Government expenditure is prioritised as per the opportunity to extort bribes rather than general welfare. The poor in these cases pay for the cost of the bribes in terms of higher prices for the necessities or in terms of inferior quality. A Tearfund report states that ‘there will almost certainly be overinvestment in capital goods’ like defence or huge projects offering greater opportunity for graft.

The issue of cost of corruption to consumers is not just of an alternate representation of facts. It is a way of transforming mind-boggling figures into something we, as taxpayers *and* consumers, can relate to. And hopefully, change.

REFERENCES

- Black, R.E., S. Morris, and J. Bryce. ‘Where and Why are 10 Million Children Dying Every Year?’. (accessed Jan 20, 2015).
- Bryan R Evans, Tearfund. *The Cost of Corruption: Tearfund*. (accessed Jan 2015).
- Comptroller and Auditor General of India. *Performance Audit Report on the Issue of Licences and Allocation of 2G Spectrum: CAG*. 2012-11. http://cag.gov.in/html/reports/civil/2010-11_19PA/Telecommunication%20Report.pdf (accessed Jan 2015).
- Murthy, Raja. *Cops turn robbers on India’s roads: Asia Times*. Aug 27, 2009. http://www.atimes.com/atimes/South_Asia/KH27Df03.html (accessed Jan 2015).
- New York Times. ‘Fodder Scam’ Could Bring Down a Shaky Indian Government : *New York Times*. 1997. (accessed Jan 2015).
- Odland, Steve. *Why Are Food Prices So High?: Forbes*. March 15, 2012. <http://www.forbes.com/sites/steveodland/2012/03/15/why-are-food-prices-so-high/>.
- Pelto, Marcus. “Good” corruption in Enga: is corruption a culturally relative phenomenon?: *DevPolicy Blog*. July 23, 2013. <http://devpolicy.org/good-corruption-in-eng-a-is-corruption-a-culturally-relative-phenomenon-20130626/> (accessed Dec. 20, 2014).
- Times Of India. *Airtel, Vodafone, Idea hike 2G tariff by up to 100%*. Oct 6, 2014. <http://timesofindia.indiatimes.com/tech/tech-news/Airtel-Vodafone-Idea-hike-2G-tariff-by-up-to-100/articleshow/44480304.cms> (accessed Jan 2015).
- Transparency International India. *Report on Corruption in Trucking Operations*. October 2006. http://www.transparencyindia.org/resource/survey_study/Corruption%20in%20Trucking%20Operations%20in%20India%20new.pdf (accessed Jan 2015).
- World Bank. *Road Transport Efficiency Study : World Bank*. 2005.

The Apocalypse of Capitalism

Raavi Aggarwal-3rd year

Summary: *Is capitalism heading towards an inevitable apocalypse such that no solution to the problems that plague the capitalist structure can be found within the system? This article seeks to address this question and challenge the long held view that capitalism is the only efficient form of economic system.*

Today’s global economies are caught in what the Economists term, the ‘modern form of capitalism’. Society has been polarized into distinct economic classes, namely, the ultra-rich, comprising mostly of entrepreneurs and company executives, and the middle class, constituting administrators, clerks and company