

'COMMENTARAO' IN "THE TELEGRAPH" OF May 27 2013

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[How the leaks get bigger](#)

Role of Government in corruption” by S L Rao

My housekeeper had to apply for pension from her dead husband's employer, a bank. The bank wanted a tehshildar's certificate with details of her dependent children. Someone at the bank introduced her to a tout who first wanted Rs3500, then Rs 7000. After many visits, the certificate was procured. The bank should have had full records about the deceased husband, but wanted more paper! By asking for a certificate, the bank created touts and bribes for the tehshildar.

Such procedures are one cause for low-level corruption. It seems that the bureaucracy in government and the public sector has created procedures that require intermediaries to get the bureaucrat to exercise his discretion on whether to sign the form or not. Such discretionary powers exist at all levels and they invariably are sources of additional income for the bureaucrat. Even to do the job he is employed for, the bureaucrat expects additional payment. When he is violating a rule to favour an applicant, the fee is higher. The processes (many approvals in the chain), and papers for approval, make opportunities for corruption.

A study by KPMG says that \$462 billion went out in illicit financial flows from India, of which 68% went after the liberalization in 1991. Thus the abolition of many control, licenses and discretionary powers, have accompanied an increase in illicit funds. The three illicit sources were tax evasion, crime and corruption.

Corruption was principally caused by high taxes, discretion with government officials on many matters and particularly on expenditures, multi-layer contractual procedures, poorly developed internal procedures and controls and cost pressures. An important

cause is the many bans and restrictions on activities: prohibition of alcoholic drinks, betting, prostitution, early closure of bars and restaurants, etc. Violators pay bribes and avoid punishment.

The industries that experience the most corruption are construction, telecommunications, social development expenditures (public distribution system, subsidized kerosene, MNERGA, education, poverty development works. etc), financial services, defense, Energy and Power. Repetitive corruption by the same persons, and new entrants into this band of thieves, are due to poor and corrupt investigation, delayed justice and pathetically soft penalties.

Today, corruption exists at all levels of governments. From tehsildars and policemen it extends to high level bureaucrats and Ministers. With vast national resources to be exploited for a growing economy, (land acquisition and allocation, environment and forest clearances, sale of telecommunication spectrum, coal mines allotments, etc), there is massive corruption in allocation and sales of these resources. Mining, contracts for building roads, ports, airports, power plants, metros, railways, defence purchases, etc, are all rich sources. Even the very expensive social welfare schemes seem designed to give opportunities for the bureaucracy to steal by depriving the deserving.

Appointing authorities of high level bureaucrats are the new earners, with their entourage of touts to negotiate the deals. As it extends to include more of government, there is vast illegal income opportunity. Every major job in government, each responsible for large government expenditures, could be up for sale. The appointment of a Member, Railway Board, could become the first of a large market. This Member's appointment was to have been of one of the most capable contestants. But it will extend to appointing even unqualified people so long as they pay enough.

Rupees10 crores was reported as the bribe for the appointment of the Member, electrical, in the Railway Board. Such expenditures are

investments. They must be recouped and also produce an adequate return for the bribe-giver. Such appointments will lead to shoddy Implementation by the appointee, higher capital costs, and padded operating costs. Lower quality is inevitable as the contractor knows that the appointee will protect him if he is accused of poor quality of work. Poor quality of road construction, shoddy building construction, poor quality grains procured for more price, etc, are common in today's India. Most government expenditures are known to have large elements of 'leakage', that is, theft by officials and others. The sums and their percentages of total spending are huge. This raises capital costs in all government expenditures. This damages India's international competitiveness. It also deprives the citizen of quality in services, if he gets them.

Corruption requires givers as well as takers. The givers are usually private suppliers and their agents. Garbage truck contractors in cities, road repair contracts, and similar services bought by government, invariably experience higher costs and shoddy work. This creates fresh opportunities for more such work, and more corruption.

Many private enterprises also have such thefts by managers, and more often, owners. The market for the products and services of the enterprise has to be such that it can bear these extra costs. Another established route in past years (which continues) is of under invoicing and over invoicing, especially of exports and imports. These illicit earnings usually end up in foreign bank accounts.

Corruption in sports is a growing industry, as shown by the recent arrest of three cricketers. IPL cricket alone is said to have betting (presently illegal) of Rs 40000 crores. To assure winning bets, matches are fixed and players are paid substantial sums. If betting were legalized, corporatized and regulated, many of its ills could be avoided. Criminals who fix results can then be punished for crime.

The effect of corruption on industry (as giver and as taker) is to raise costs. Foreign companies who might follow a more ethical approach also are put off investing in India. The USA and UK have stringent anti-bribery laws. They put guilty top management in jail, charge big fines, and put the company's existence at risk. Even Italy, a country known to be as lax as India in its approach to corruption, has arrested the CEO of Westland for bribing Indian officials negotiating helicopter purchases.

There are many surveys that show that every social welfare and infrastructure programme in India (public distribution system, employment guarantee scheme, education for all, road and metro construction, slum clearance projects, to name a few), has leaked high percentages of expenditure. Social schemes are unable to identify defined beneficiaries. Many benefit who are outside the definition. These thefts raise governments' deficits, fuel inflation, lower growth, and worse, do not benefit the needy.

Corruption adds to capital costs and running costs. It wastes national funds. It makes for inefficiency and raises costs for the economy. It reduces the competitiveness of enterprises. It harms exports. It lowers the moral and ethical fibre of people. It spreads to all levels of society.

Can we ever reduce corruption? Yes, with some basic actions. Government servants must be accountable, function transparently, and with time limits for taking actions. Discretionary approvals must be minimized. If they are unavoidable, they must be transparent. Procedures and processes must be simplified. The poor and deserving must be identified and only they should benefit from social welfare programmes. Investigatory agencies (police, CBI, Enforcement Directorate, Serious Frauds Office, etc), must be independent in action, under a constitutionally empowered Lok Ayukta. Judicial processes must be speedy and time bound. Penalties for the guilty

must be severe, including long jail terms, for white collar crimes of corruption. Instead of banning alcohol, prostitution, betting, etc, they should be legalized and subject to registration, regulation and publication of accounts like any company. Heavy fines and long jail terms must invariably be levied for proven makers of illicit money by corruption. Both the giver and the taker must be penalized. Courts should work to strict time lines, with minimal and unavoidable adjournments.

As of now, both national political parties pay only lip service to these changes.

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