

A Study of Corruption in India

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ABSTRACT

For a nation, economic growth is crucial since the amount of economic growth impacts people's standard of living and is regarded as a good proxy for human progress. Corruption is one of the ideologies recognized to have an impact on a nation's economic prosperity. Scholarly research on the subject of the various effects of corruption on economic performance is examined in this study. As a case study, we've used India as an example. We used a correlation study to support our claims that corruption has a detrimental impact on economic growth. Data on corruption perception (CPI), GDP, GDP growth rate, and FDI have all been used in our analysis. It is thus an attempt to investigate the empirical link between corruption and economic development.

Keywords: corruption, gdp, economic growth, fdi, legal system, cpi

I. INTRODUCTION

Corruption has been widely recognized for decades as a threat to democracy's integrity. It stifles economic progress and weakens social cohesion in developing countries. According to Transparency International, "corruption is the abuse of entrusted power for private gain." The World Bank defines corruption as "the misuse of public office." In other words, Zakiuddin and Haque (2002) argue that corruption cannot be treated as a discrete and self-contained problem that must be dealt with on its own. That's what they say. "There are numerous variables that go into corruption, including human behaviour and many others that are difficult to detect or quantify."

In light of international initiatives like the OECD Anti-Bribery Convention, the UN Anti-Corruption Convention, the Inter-American Convention Against Corruption (IACAC), the Organization of American States (OAS), and the Council of Europe (CE), which place a heavy emphasis on international business, "corruption" may be treated as merely "bribery". Corruption, on the other hand, is a more general term that includes acts of bribery. It's critical to remember that corruption is more than just a money exchange or a backroom deal. It has a negative impact on the state's public, private, and individual lives, and its culture, politics, and economy. Bribery is only one type of corruption. There are many forms of corruption in our society.

1.1 Economic Growth

We've decided to focus on corruption's impact on India's economic growth out of all of the possible outcomes. Economic growth is defined as an increase in the production of economic goods and services when compared to the previous era. Measured in real (adjusted for inflation) or nominal terms, GDP is a nation's total economic output.

Corruption has a significant impact on economic growth since it costs the government a significant amount of money in taxes and fees. As a result, economic investment declines and development expenditures such as education and healthcare decrease, resulting in harm to both economic growth and development. It has a negative impact on the economy to the point that it has been determined that corruption produces more distortion than taxes (Rose-Ackerman 1996).

Corruption is viewed as either a good or a bad thing, and we explain this in Section 2. Some academicians believe that corruption is a negative force for economic growth, while others think the opposite is true i.e. it is helpful in economic growth. Corruption and economic growth are discussed in this section, which summarizes secondary research we conducted. A full sectoral examination of the problem in India is provided in Section 3. In Section 4, we conducted a correlation study to see if there is a correlation between corruption and economic growth in India. Conclusions and future study directions are outlined in the concluding paragraphs field.

II. CORRUPTION IN INDIA

According to nominal GDP, India is the fifth-largest economy in the world, while it is the third-largest economy in terms of purchasing power parity (PPP). Although it continues to thrive, the country is nonetheless plagued by the scourge of corruption. Small bribes and large schemes are both examples of corruption that frequently make the headlines. India has been placed 80th out of 180 nations in the most recent Corruption Perception Index (2019). India scored 41 out of 100, it was deemed satisfactory. These numbers, notwithstanding an improvement over the years, are still a concern for the Indian economy.

More than a few factors contribute to India's widespread corruption, including a lack of transparency in the bureaucracy and a government-controlled monopoly on certain industries. In recent years, a number of high-ranking governmental officials have been involved in major frauds. For example, the Coal Allotment Scam (Cost–186000 Crores), in which the Indian government was accused of inefficiently awarding coal blocks between 2004 and 2009, was one of the most significant scandals in India. The Commonwealth Games (CWG) Scam was another significant national fraud (Cost–70000 Crores). Indian sportspersons accounted for just half the amount awarded in this case, and the Swiss Timing company was accused of being given a contract at an excessively high fee of Rs. 95 crore, which was unreasonably inflated. There have been scams like the 2G Spectrum Scam, the Black Money Laundering Scam (Mega), the Adarsh Housing Scam, the Stamp Paper Scam (Bofors), the Fodder Scam (Bofors), the Hawala Scam (Satyam), and the Stock Market Scam (MadhuKoda scam).



Figure 1: Reason for corruption in India

Source: <https://iasexamportal.com/current-affairs/corruption-in-india-an-analysis>

It's common in India for large numbers of people to evade taxes each year. As a result, the government suffers a significant revenue shortfall. A report from the State of Tax Justice (2020) said that India lost \$10.3 billion in taxes owing to global tax abuse, which is 0.41 percent of the country's GDP. Multinational corporations (MNCs) lose more than \$10 billion a year in tax abuse, while private individuals lose \$200 million a year in tax avoidance. As a result, 44.70 percent of the health budget and 10.68 percent of the education budget have been squandered. Paying the salary of 4,230,656 nurses annually is also an option. \$11.3 billion, or 0.4 percent of India's GDP, constitutes 0.1 percent of the worldwide offshore wealth. Moreover, the survey identifies Mauritius (23.6 percent), Singapore (17.2 percent), and the Netherlands (11.2 percent) as the three countries most responsible for India's vulnerability to outward foreign direct investments. According to this report, corruption appears to be wreaking havoc on the Indian economy.

2.1 Corruption and Business

A wide range of discretionary rights are available to public employees, giving them the ability to extort unauthorised payments from businesses and residents alike. The granting of public contracts is notoriously corrupt, particularly at the state level. The payment of bribes in the healthcare, IT, and military industries has been highlighted by political scandals. The degradation of the government's general efficiency, protection of property rights, ethics, and corruption, as well as undue influence on government and judiciary judgments, has resulted in a more difficult economic environment.

2.2 Corruption's Aftereffects

2.2.1 Negative Effects

- The social and moral fabric of society is degraded, the government's credibility is eroded, and the poor and marginalised by the state are exploited and violated as a result. For example, a poor person's right to food is violated when the PDS allotment is diverted. The right to a clean environment is threatened by EIA fraud and complicity with illegal miners.
- It makes doing business more difficult. Investing in India continues to be hampered by widespread corruption, according to the most recent Global Competitiveness Index. This hinders private investment, which leads to job creation and innovation and ultimately to the exodus of Indian talent.
- Another impact of the leaks and diversion of resources to phantom recipients is the rise in inequality. ICDS, NRHM (scams have been discovered in various states like UP), NREGA, etc. Education and health disparities perpetuate historical inequality in the backward regions of the country.
- Tax evasion and black money are the progeny and food of corruption, which is why the tax system is corrupt. Parallel economies in India may account for up to half of the country's gross domestic product (GDP).
- As numerous CAG audits have shown, corruption and cronyism cost the state a lot of money that could have been put to better use in other areas, like the social sector or building infrastructure.
- In the long run, corruption raises the cost of production, which ultimately falls on the customer. It leads to the use of low-quality materials in the construction of roads and bridges, resulting in the deaths of many people.
- It is because of illegal lobbying that the policies of the state are influenced by an elitist bias. For example, healthcare and higher education at the tertiary level receive greater political and policy attention than those at the primary level.
- Another corruption-related shortcoming is the government's inability or unwillingness to effectively implement big development projects.
- In an era of rising antagonism between neighbours, delays in military modernization are becoming increasingly common due to corruption in earlier defence purchases. It's a bad sign for national security, to say the least.
- Encroachment on ecologically vulnerable areas such as wetland areas by real estate projects in urban areas has resulted in increased vulnerability to natural disasters such as flooding and drought due to corruption.
- An unholy alliance between the state and criminals is formed when law enforcement authorities such as the police are corrupted. Rather than upholding its constitutional obligation of public service, the incompetent government serves its own interests at the expense of the people it is supposed to serve.
- Criminals are emboldened by police corruption, which results in the underreporting of crimes, while court corruption forces citizens to resort to unethical means of obtaining redress.

2.2.2 Positive Effects

- It aids in the reduction of bureaucracy in the overworked and sluggish government apparatus, particularly for enterprises that cannot afford to wait around for long periods of time to receive clearances.
 - Officials benefit from the "gift culture" by forming networks that can speed up tender processes and, as a result, make the job go faster.
 - It lowers compliance costs for a wide range of businesses, including small and medium-sized enterprises (SMEs), which would otherwise find it difficult to compete with the larger industry. Individuals benefit as well; for example, someone stopped for violating a traffic rule can avoid paying a Rs. 500 fine by paying Rs. 100 instead.
 - Many refugees have been spared deportation to countries where they face persecution because of corruption.
 - People at the lower echelons of the bureaucracy benefit from it.
- These benefits, however, pale in comparison to the harm that corruption causes to society and the economy. Lawlessness is encouraged and regional and communist sentiments rise as a result of inequity, dissatisfaction, and animosity in society.

III. CORRUPTION IN INDIA: A SECTORAL ANALYSIS

The annual India Corruption Survey is conducted by Transparency International India (TII). Responses from about 81,000 people in 20 states were registered in 2019 with 190,000 responses. Compared to 2018, a survey found that 51% of participants paid bribes, either directly or indirectly (56 percent). The residents of Delhi, West Bengal, Goa, Gujarat, Kerala, Haryana, and Odisha reported the least corruption.

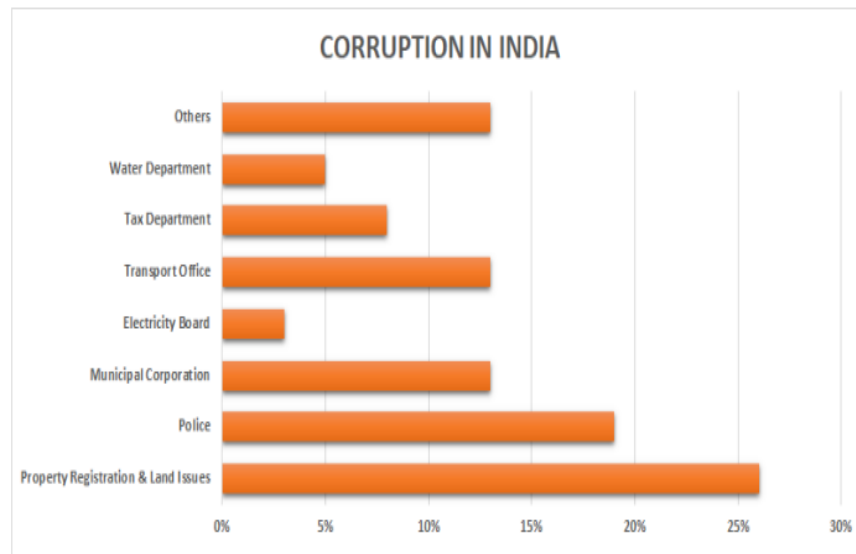


Figure 4: India's corruption
Source: India's Corruption Perceptions Study (2019)

There is widespread corruption in the legal system, particularly in the lower courts. Bribes are exchanged for favorable court outcomes in some cases. The judiciary's effectiveness is harmed by widespread corruption and an already-existing problem of resource constraints. Despite the massive backlog of cases, it takes far longer (1420 days on average) than it should to enforce a contract in this region. Because businesses don't view the court system as a barrier, it has a negative effect on the business climate because they don't see it as a necessity.

IV. METHODOLOGY

As a result of the existing literature, we plan to investigate the relationship between corruption and economic growth in India in more detail. For this, we've used scatterplots and correlation to analyze the data. On the other hand, correlation is a statistical measure of how closely two variables move with respect to one another. The correlation coefficient values will represent the linearity of the relationship if it is found to be such. Even if the link is non-linear, a scatterplot is a useful tool for capturing it. STATA, a statistical analysis programme, was used to conduct our empirical research.

For the years 1995–2019, we looked at statistics on India's perception of corruption via the Corruption Perception Index (CPI), GDP, GDP growth, and foreign direct investment (FDI) in billions of dollars. Transparency International has released the Corruption Perception Index (CPI) every year since 1995. Expert assessments and public opinion surveys establish the index's rankings, which are based on countries' perceived levels of public sector corruption. GDP (in constant 2010 US dollars), GDP Growth Rate (annual percentage), and Foreign Direct Investment (in billion dollars) are all calculated using World Bank data.

Table 1: Coefficients between CPI and GDP, GDP Growth Rate, and FDI.

Variables	Correlation Coefficient
GDP (at constant 2010 US\$)	0.5243
GDP Growth Rate(annual %)	0.0484
FDI	0.5038

V. ANALYSIS

The CPI and GDP (in constant 2010 US dollars) were found to have a positive relationship, correlation between them was found to be 0.5243. They are moderately connected with each other. According to the study conducted, the CPI and GDP growth rates in India are not shown to have a linear association. It is merely 0.0484 which means absence of a relationship between them. CPI and FDI are also having moderately positive relationship between them. It's important to remember that as

the CPI rises, so does the country's level of corruption. If India's GDP and foreign direct investment (FDI) are expected to rise then country's CPI will also expected to be on a higher side.

VI. CONCLUSION

Corruption, as discussed in the preceding section, has a detrimental effect on economic progress. Correlation studies undertaken in India support this, as evidenced by the following:

- The relationship between the CPI and GDP is moderately positive.
- There is a moderate correlation between the CPI and foreign direct investment (FDI).
- The CPI does not appear to have a significant linear association with the GDP growth rate.

It is very important to break the positive association between economic growth indicator and CPI. Transparent governance and artificial intelligence can be used to curb the menace.

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