Corruption and Development in Indian Economy

Why people cheat is an age-old question that has motivated scholars to find an appropriate answer. The simplest answer perhaps lies in the fact that some people, if not many, have a tendency to gain more returns than what is proportionate to their efforts or endowments. Understatement of personal income results in loss of government revenue as far as the personal income tax is concerned. This book provides a critical analysis of corruption, particularly in the backdrop of Indian economy. Beginning with the theoretical and empirical literature on corruption and a discussion on how various macro and micro level approaches are followed to study the issue, it takes into account an inter-country comparison of corruption and indicates the role of governance in the context of growth. The authors work out the magnitude of black income in India using the National Sample Survey (NSS) data. The determinants of bribery are also studied to assess why some firms pay bribe, while others do not, in an economy when they face the same macroeconomic environment, policy and regulations. Finally, the authors examine some of the specific issues related to corruption in the labour market and the manipulation of innovation expenditure incurred by firms. This book would interest graduate students of economics, researchers, policymakers as well as general readers who want to understand the intricacies of corruption in India.

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PREFACE

Why people cheat is an age-old question that has motivated scholars to find an appropriate answer. The simplest answer perhaps lies in the fact that some, if not many, have a tendency to gain more returns than what is proportionate to their efforts or endowments. And to materialize this they often stoop down to take recourse to corrupt means. Religion uses fear to caution individuals while spiritualism urges not to indulge in it by reminding the transitory satisfaction that material wealth can offer and the negativity that the mind develops by cultivating the desire to receive disproportionate gains. All this do not work for those who do not believe in preaching. Hence, there is the need for someone's existence to punish the greedy, be it law or any other entity.

While some individuals may believe in corruption some may not, and more importantly the degree of pursuing corruption may vary widely across individuals and instances. The same individual may remain absolutely honest in a particular situation but in another he may be hard-pressed to compromise. The moralists would of course suggest that one must stay firm whatsoever dire consequences may come in one's way, though a common individual may find it difficult to practice always. So, enforcement of utmost transparency and strict policy of retribution for one who claims bribe may be recommended. But there can still be slips because as the number of players increases, the probability of avoiding law and pursuing corruption rises.

Some of these thoughts pressed us to pursue a rigourous analysis of corruption issues, particularly in the backdrop of the Indian economy. Given the rise and fall of certain political parties in the recent years in the name of corruption a study of such kind is indeed warranted. Having highlighted in chapter 1 how corruption is viewed in the theoretical and empirical literature and how various macro and micro level approaches have been followed to study corruption we delegate the rest of the volume to purely empirical issues. Chapter 2 carries out an inter-country comparison of corruption. This comparative analysis is important to indicate the role of governance in the context of growth. Chapter 3, using the National Sample Survey (NSS) data makes an attempt to work out the magnitude of black income in India. However, the approach is limited in nature. It only tries to derive that component of black income which is due to understatement of personal income, resulting in loss of government revenue as far as the personal income tax is concerned. Chapter 4 examines the impact of corruption on performance. Using the enterprises survey data of the World Bank, the chapter proposes to pose the question as to which types of firms are more likely to pay bribes and whether bribe payment has a substantial effect on the level of performance. The evidence provides support for both the hypotheses: 'grease the wheels' as well as 'sand the wheels'. Chapter 5 looks into the determinants of bribery. To analyse the issue of corruption and bribery at firm level, we specifically seek to know why some firms pay bribe while others do not in an economy when they face the same macroeconomic environment, policy and regulations. Chapters 6 and 7 move onto some of the specific issues related to corruption in the labour market and manipulation of innovation expenditure respectively. Chapter 6 tries to delineate the corruptive practices associated with the labour contractualization process and the business contracts between the formal and the informal sector units including the home based workers. Chapter 7 using the firm level data in the manufacturing sector brings out the manipulative practices followed by the manufacturing firms in the name of innovation so as to experience certain benefits.

This is only a modest attempt to deal with a highly complex issue. We sincerely hope that the volume would encourage many more studies in the same area in the years to come.

Arup Mitra and Chandan Sharma