

IMPACT OF CORRUPTION ON ECONOMIC GROWTH THROUGH DEVELOPMENT

ECONOMICS PERSPECTIVE

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1. Introduction

Corruption has been widely recognised as a threat to democracy for decades. It stifles economic progress in emerging nations and rips the social fabric apart. Corruption has been defined in many ways. The World Bank defines corruption as “the abuse of public power for private benefit.” Similarly, the OECD (Organisation for Economic Co-operation And Development) used a definition that covers a broad range of corrupt activities is the “abuse of public or private office for personal gain” and Transparency International (TI) defines corruption as “the misuse of entrusted power for private gain.”

It is vital to highlight that corruption is more than just a money transaction or an under-the-table transaction. It adversely affects the culture, politics, and economy, including the state's public, private and individual lives. The international initiatives like Organisation of American States (OAS), Inter-American Convention Against Corruption (IACAC), Council of Europe (CE), Anti-Bribery Convention (ABC), United Nations Convention for Anti-Corruption (UNCAC), Organisation for Economic Co-operation and Development (OECD) presented corruption as the ‘bribery’, but according to research bribery is just one type of corruption, which is a far larger concept than bribery.

There are various types of corruption in public, private, profit, non-profit sectors shown in the following:

Private Sector Corruption

Extorsion	Collusion	Insider Trading	Embezzlement	Nepotism	Gifts, Hospitality
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Public Sector Corruption

Trading in influence	Bribery	Illicit Enrichment	Trading in influence	Abuse of Functions	Favouritism
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Non-profit Sector Corruption

Check Fraud	Fictitious Vendor Schemes	Ghost employees	Funds for personal use	Kickbacks from vendors	Expense fraud
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There are many effects of corruption, but we choose to study the impact of corruption on economic growth. The economic growth depends on corruption similarly corruption depends on the economic growth of the sector. As example the economic growth measured on the basis of or represented by Gross Domestic Product (GDP) and Gross National Product (GNP). Economic growth is an increase in the production of goods and services, compared from one period of time to another ([definition](#)). The corruption causes major losses in the revenue of the government. There are two types of mindsets who believe corruption harms economic growth and the other ones who take corruption in a positive manner. In this paper, we summarise the problems regarding corruption in India, detailed analysis of previous years data and try to describe the relationship between corruption and economic growth. In the end, we mentioned the conclusion and future scope in this field of research.

1.1 Motivation of Study

The increasing corruption in not only India but the whole world is a major problem which cant be ignored. The increasing number of complaints in The Directorate of Enforcement ignite to study further in this case. From the datas of world bank and transparency international (TI) surveys we have to look into this. The mega world of corruption causes slow

economic growth, less development, less investment, poor quality of education and health. On the other hand, corruption speeds up the implementation of government or public sector works.

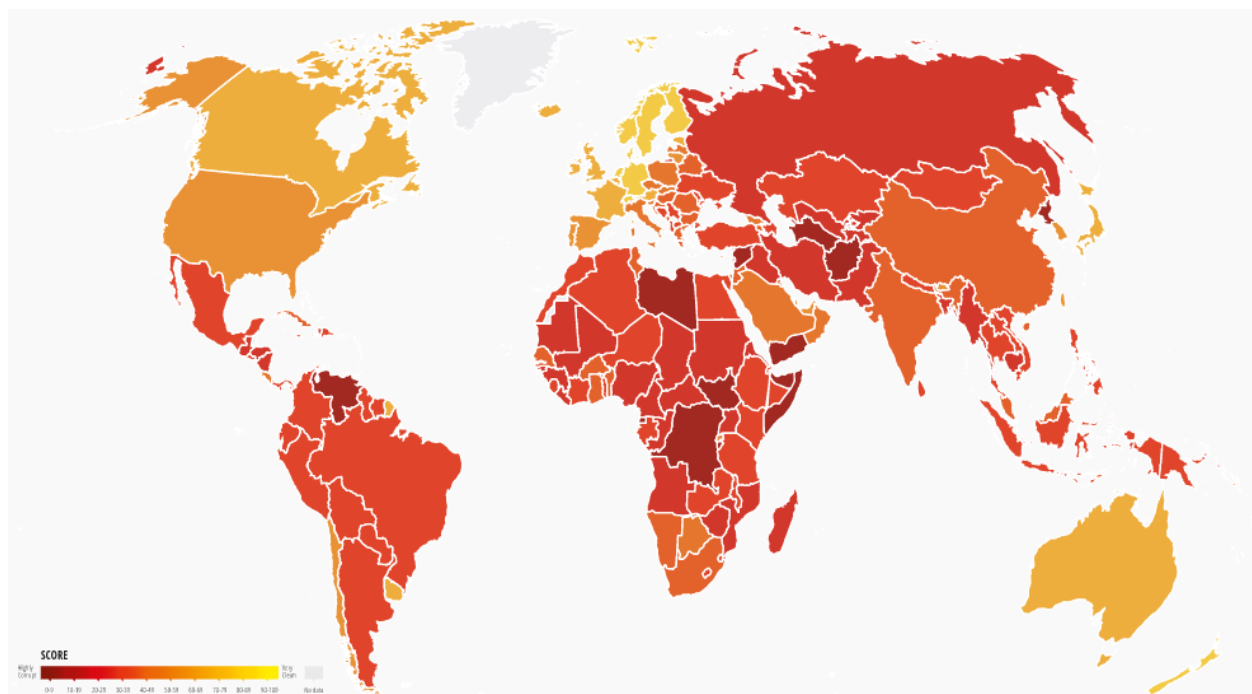
Objective of Study

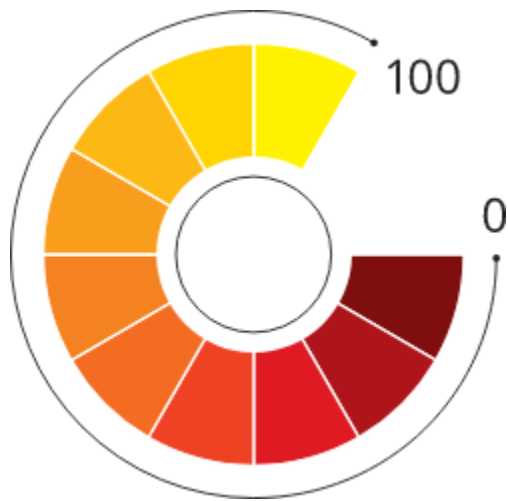
India is the third largest economy in the world. But the corruption cases in India are a cause of worry for the economic development of India. In this paper, we are trying to find the relationship between economic growth and corruption, its good or bad effects and the major cases and history of corruption. For this we have to analyse the variables like gross domestic product (GDP), gross domestic product growth rate (in annual percent), foreign direct investment (FDI) and corruption perception index (CPI). The data shows reducing corruption in India but the figure is large in number that can not be ignored.

Literature review

Analysis of corruption

The corruption perceptions index (CPI) states the index that scores countries on the perceived levels of government corruption by country ([definition](#)). The corruption perception index ranges from 0 to 100. Transparency International (TI) conducts The Corruption Perceptions Index survey annually.





The CPI uses scale from 0 to 100

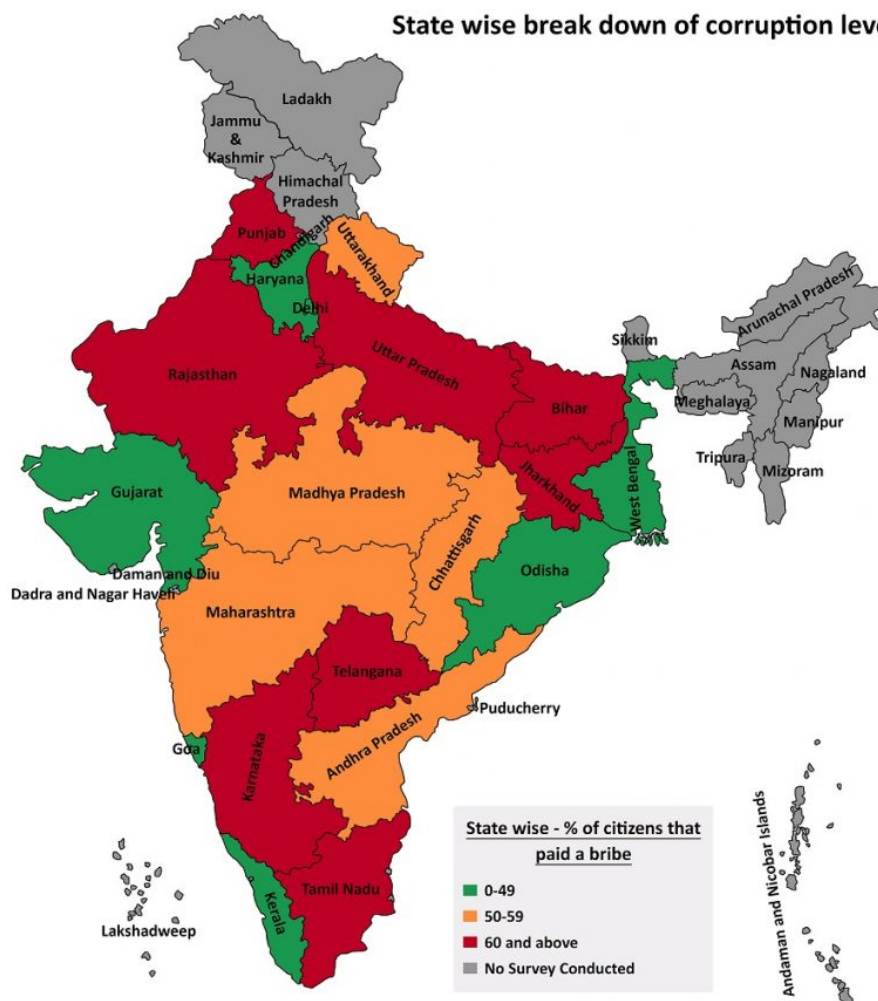
100 is very clean

0 is highly corrupt

The corruption perception index conducts surveys in 180 countries and territories and ranks them around the world on the basis of their public sector level corruption. In the year 2021, out of the 180 countries, 49 countries showed great progress in reducing corruption. On the other hand 131 countries show no significant effect or progress in corruption. Since last ten years, the global average corruption perception index is unchanged, around 43 out of 100. 117 countries are below the score 50, 48 countries between the score 50 and 80 and 9 countries above the score 80. A lower score than 50 indicates major corruption problems in the country.

India Corruption Survey 2019

State wise break down of corruption levels

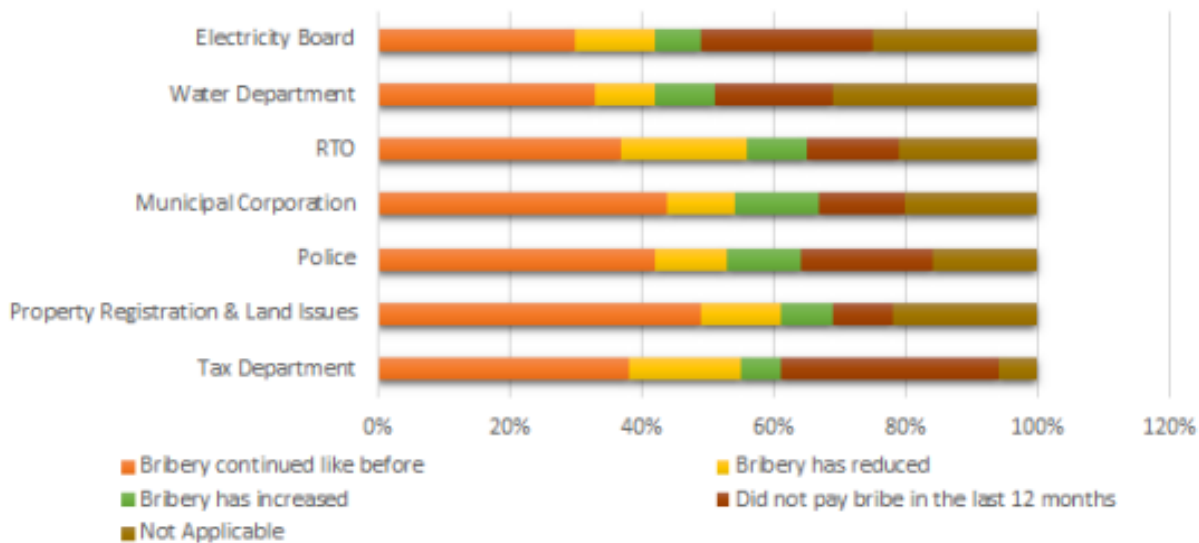


According to the annual survey of citizens who paid a bribe by Transparency International India (TII) recorded from 81,000 citizens from India in the year 2019, the states Haryana, Gujarat, Kerala, Odisha, West Bengal, Kerala have score range 0-49 which means less than 50 percent population paid a bribe which is not a big issue. The states Maharashtra, Uttarakhand, Madhya Pradesh, Chhattisgarh, Andhra Pradesh range between 50 to 59 percent. While Punjab, Rajasthan, Uttar Pradesh, Karnataka, Uttar Pradesh, Bihar, Jharkhand had the highest bribery rate which is above 60 percent.

From the further sectoral analysis of corruption in India, the bribery growth rate has discontinued in recent years. Property registration and land issues have the highest bribery rate of corruption. In the electricity board 3 percent citizens paid a bribe. While in the water

department 5 percent, in the Regional Transport Office (RTO) 13 percent, in the municipal corporation 13 percent, in the police department 19 percent and in the tax department 8 percent citizens paid a bribe. 13 percent of citizens who voted for the survey said that they paid for other authorities. In the last 12 months, the bribery in the Tax department reduced (17 percent citizens voted for this). While 12 percent said that bribery is reduced in property registration and and issues, 10 percent believe the reduction in municipal corporation department at the same time 44 percent believe in the continuity. In the regional transport office department 19 percent voted for reduction while 37 percent voted for the same and 9 percent for growth. In the Police department the rate of corruption grew by 11 percent, 42 percent voted for the same and surprisingly 20 percent did not pay a bribe. 9 percent voted for an increase in the corruption rate in the water department, 33 percent said that it has not changed, 9 percent said that it has decreased while 18 percent voted for not paying a bribe. Coming to the Electricity board commision, the citizens who voted for increase are 7%, who voted for did not pay a bribe are 26 percent, who voted for decreased are 12 percent.

SECTOR-WISE CORRUPTION ANALYSIS



The 13 percent citizens paid for other authorities which contained the education, law and judiciary system. These contain the money for donation fees, exam passing fees, exchange the orders for criminal, civil, family cases in the courts. The increasing corruption in the court with more than millions of pending cases is a major problem in this field. As per report, around 3.12 crore are pending in the different high courts and district courts which is due to

shortage of employees and widespread corruption at the lower court levels. These pending cases also include cases from the education department. The donation fees and fake exam attempts results in illiterate youth increasing day by day due to loose challenging laws and regulations in the judiciary system.

Research Data & Methodology

In this paper, like the literature, we are trying to find the relation between corruption and economic growth. For this, we use tools like correlation and scatter plots. The scatter plots are the graphs in which values of the two variables are plotted along two axes and this pattern of points results in any correlation pattern. While correlation means statistical measure that expresses the extent to which two variables are linearly related and it is measured using sample correlation coefficient. ([definition](#)) Then the question is why we use two tools like scatter plot and correlation, if the relationship between corruption and economic growth is linear, we found this relation in correlational values. And if the relationship turns out to be non-linear, we see this in the scatter plot graph.

As we see the corruption perception index (CPI) which is the annual index published by Transparency International India (TII). In our research, we use Gross Domestic Product (GDP), its growth rate (growth rate of gross domestic product) to find the relationship between economic growth and corruption. Then from the World bank database, we collect foreign direct investment (FDI) data from the year 1995 to 2019 and the corruption perception index (CPI - from 1995). As seen above in the Analysis of Corruption, CPI ranks the countries on the basis of their corruption in the public sector and which is on the basis of voting of around 81,000 citizens and their 1,91,000 responses.

The following scatter plot shows GDP(constant 2015 US\$)

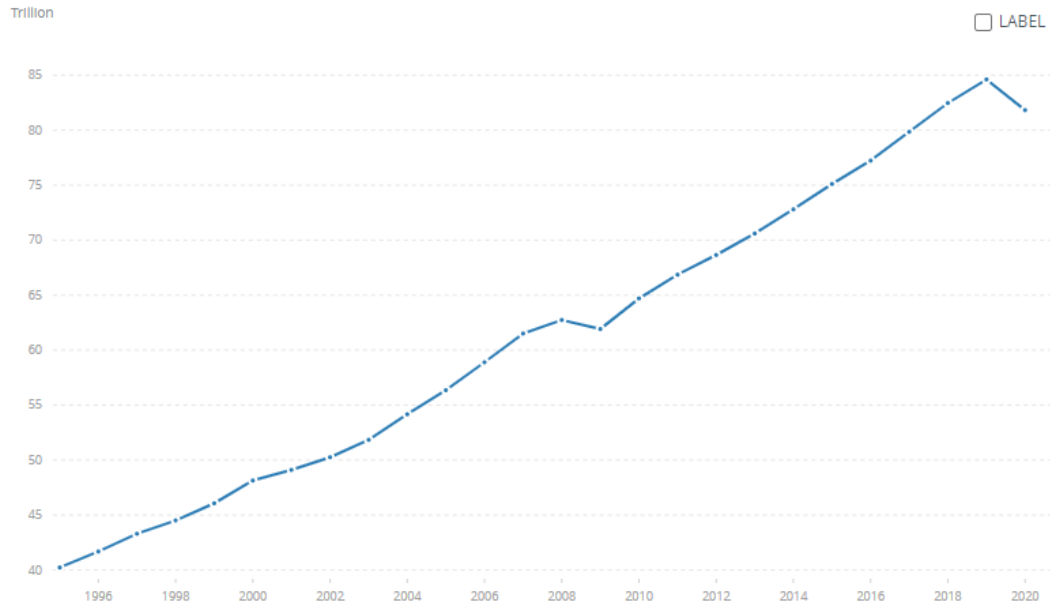


Figure : plot of GDP (at constant 2015 US\$)

Source: World Bank for GDP (at constant 2015 US\$) and Transparency International India (TII) for CPI

The following shows scatter plot for relationship between two variables GDP and CPI for India:

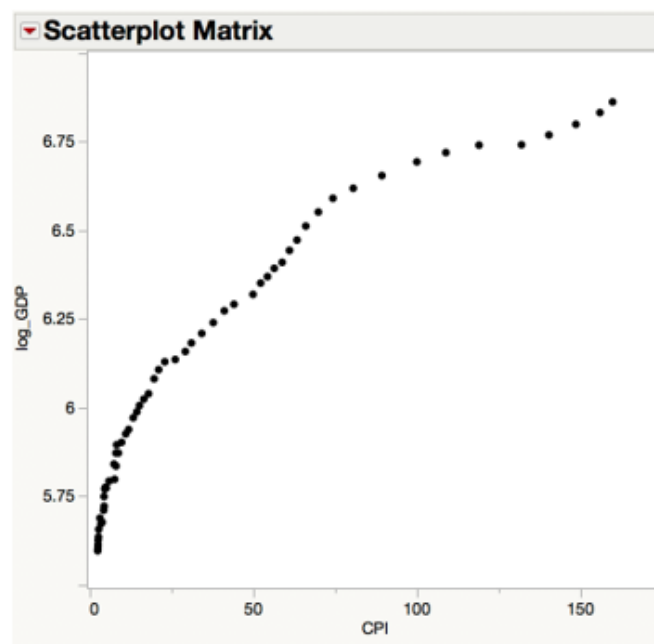


Figure: GDP vs CPI (corruption perception index)

Data Source : World Bank official website ,Transparency International survey for India

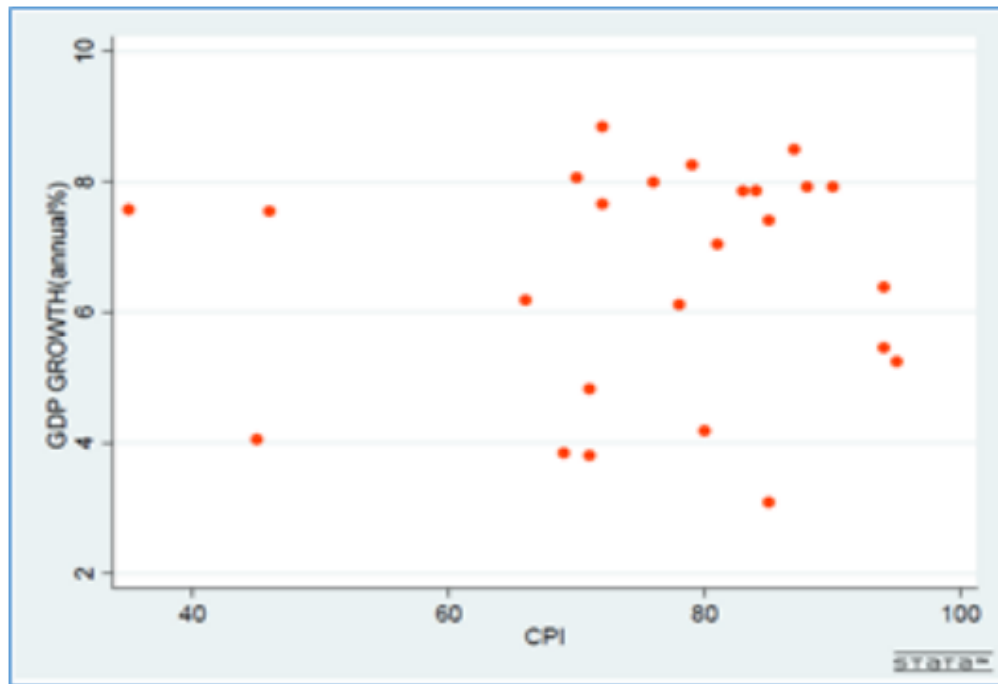


Figure : GDP growth rate (annual percent) vs corruption perception index (CPI)

Source : World bank and TII

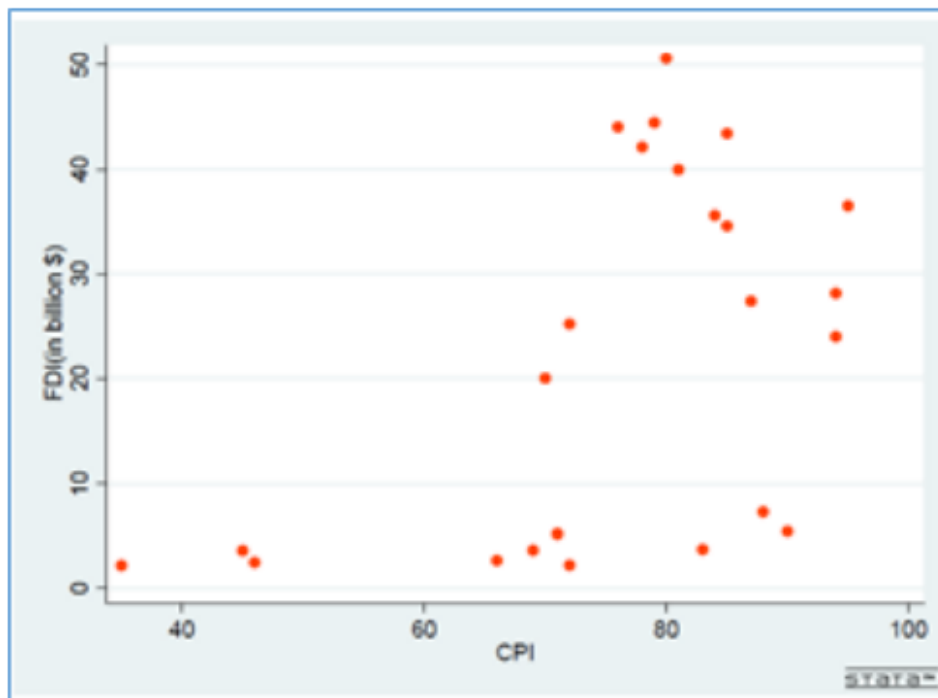


Figure : FDI vs CPI

Source : World Bank and TII

We plotted the corruption perception index against foreign direct investment, gross domestic product and growth rate of gross domestic product. The correlation coefficient for gross domestic product and corruption perception index is 0.5245, for growth rate of gross domestic product and corruption perception index is 0.0482 and for foreign direct investment and corruption perception index is 0.5038.

Data

Year	CPI	GDP	GDP Growth rate (annual %)	FDI (in billion US\$)

