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Rising corruption in India signals institutional failure

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DMK party chief M. Karunanidhi and his son M.K. Stalin at a recent party meeting in Chennai. The day after DMK withdrew its support of the government, Mr Stalin was subjected to an anti-graft raid. -- PHOTO: REUTERS

By Kunal Kumar Kundu For The Straits Times

INDIA'S ruling coalition, the United Progressive Alliance (UPA), is harbouring hopes of winning a third consecutive term in government next year. But this is not a sign of political stability in India. In the World Bank's World Governance Indicators (WGI) that gauge political stability and violence, India recorded a dismal 13th percentile in 2011, down from 19th in 1996.

The recent political drama where the government survived despite a key ally (Dravida Munnetra Kazhagam or DMK party from Tamil Nadu) withdrawing its support is symptomatic of the malaise afflicting Indian politics. The government was bailed out by two warring parties in India's largest state of Uttar Pradesh, the Samajwadi Party and the Bahujan Samaj Party. Both have assured the government of their support.

These parties, with their assured support of a politically weak coalition government, intend to extract their pound of flesh for helping the government complete its term. But the party leaders and their cronies are perceived to be corrupt. They are worried the largest party in the ruling coalition, Congress, will influence the Central Bureau of Investigation (CBI) to reopen several corruption cases against them. The very next day after DMK withdrew its support, one of its leading lights (Mr M.K. Stalin) was subjected to a CBI raid, thereby confirming their fears.

The UPA coalition government itself is mired in corruption, be it the issue of 2G telecommunications spectrum allocations or coal block allocations. And the two most important schemes that enabled the government to win power in 2009, the Mahatma Gandhi National Rural Employment Guarantee Act and the farmers' debt waiver scheme, are now more known for their corruption.

Over the past four years, while the government has spent about 1.3 trillion rupees (\$29.8 billion) under the Act, a good chunk has been siphoned off and hardly any worthwhile asset has been created. In the farmers' debt waiver scheme, a recently released official audit report found that about 13 per cent of those eligible for relief did not get any while 8.5 per cent of those not qualified got relief.

The government measures its performance only on the basis of increasing its social sector spending without actually caring for the outcome. As a result, India ranks a dismal 136th in the United Nations' recently released Human Development Index for 2013, down two places from 2011. And this when the country spent 22 trillion rupees on social sector schemes over the past five years.

The glaring dichotomy between rising social sector spending and the overall outcome can be blamed on various forms of corruption. Numerous studies have shown that corruption hinders development and that governance is as important a determinant of growth and development as is macroeconomic discipline.

Corruption lowers tax revenues, increases public expenditure and leads to increases in the size of the black market economy. The result is a rising fiscal deficit.

For a developing country like India with limited financial resources, fiscal deficits are a natural consequence of the country growing itself out of poverty.

However, it is the quality of these deficits that is of concern. Rising corruption raises deficits on two counts – lower revenue generation and higher spending on leaky social sector projects. The inevitable consequence of this is that the government struggles to spend even 5 per cent of the gross domestic product on health and education, thereby condemning a large section of India's population to a low-productivity and low-income cycle that leads to large-scale penury.

On the other hand, although India's dilapidated physical infrastructure is bursting at its seams, the government has to cut down its capital expenditure. A disproportionate amount of resources is used in politically important social sector projects, which puts India's future growth potential at stake.

When the Indian economy was growing fast enough along with global growth, this deflected the focus away from the basic frailties of the economy. However, the recent alarming falls in growth rates exposed the institutional weaknesses of the country. Rising corruption is symptomatic of increasing criminalisation of politics and the wretched state of bureaucracy.

The problem is further exacerbated by India's notoriously slow judicial system, which fails to act as an adequate deterrent against corruption. The focus should be on strengthening the institutions of politics and the judiciary, the two most crucial pillars of democracy. Of course, there can't be quick-fix solutions to

deeply entrenched problems, but the question is one of will. The recent focus on direct cash transfers of government payments is a step in the right direction. But that is only a small step.

Unless there is strict accountability in public life, the virus of corruption will substantially weaken the India growth story.

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