

The Corruption System*

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It cannot be verified and may not be true. But the view that the record of graft and corruption during the two-term, nine-year rule of the UPA is the worst in India's post-Independence history is widespread. The reason is obvious. While corruption has always been with us, and is by no means only an Indian disease, the period in question has seen an almost respite-less, spate of allegations of corruption, many of which have stuck.

Yet, to the nation's dismay, the government is unmoved. It attempts in the first instance to sit through the controversy generated by every allegation, especially when it involves protecting the highest in the land. It allows some to be charged and investigated, while refusing to entertain questions to those above, as has happened in the 2G Spectrum scam. It dismisses demands from members of a duly constituted Parliamentary committee that specific individuals should be invited to testify before it. It even makes brave to tamper with a status report on a Supreme Court mandated CBI investigation, and then ignores the court's strictures. In the event, the suspicion that the government is aware of corrupt practices, harbours those involved, and does not care, has grown.

The terrain in question is wide, with allegations of kickbacks for procurement for games events and the army, of procedural errors and malfeasance in the distribution of resources varying from land, non-reproducible reserves of coal and iron ore and spectrum, of suspect disinvestment and privatisation, and of violations such as the "sale" of government positions to the highest bidder interested either in the regular incomes they afford or the opportunity for graft they provide.

Across this wide terrain, the allegations suggest, the scale of each instance has been on the rise. Petty corruption, such as those of a clerk or constable, is now almost forgotten though widespread. A few hundred rupees make no bribe when payments amounting to crores, tens of crores, or even hundreds of crores are routinely quoted in the media. What is at issue today is large-scale corruption. Moreover, the allegations are against those at the top, involving senior bureaucrats, high level public sector executives, ministers, and, even if tangentially, the Prime Minister. The bribe givers too are allegedly big, including some of the top and hitherto unsullied businesses and captains of industry. Does this then mark a new phase in the ubiquity and intensity of an old problem? That seems to be the case even if difficult to prove.

However, the visibility of corruption may be greater because of more transparency and better reporting. It is true that the number of allegations in any give time period is much larger. There are many factors that may be contributing to this rise in the number and significance of the "revelations". One is of course the proliferation of the media and competition within a media space that increasingly depends on sensationalism to attract readers and viewers. With defamation laws still weak, such competition results in a willingness to deliver

an exposé even when the evidence is not complete. The language and method is also in many cases in the nature of a media trial without adequate investigation. Moreover, the media too is not free of corruption, with allegations not just of paid news parading as editorial content, but also of the investigative story being used as a weapon to extract advertising revenue. So there is reason to believe that there is far more reporting of alleged corruption today than in the past. This tendency is aggravated by the fact that politics today is a far more contested terrain and the politicisation of the bureaucracy has increased. Selective leaks to the media to discredit opponents helps trigger a scandal and force an investigation. More the leaks, greater the evidence of corruption.

A more encouraging reason for the spate of revelations of corruption is increased access to information. Not only has civil society activism yielded a Right to Information Act that is being exploited to garner information that puts errant officials under scrutiny, but statutory bodies have also played a role. Obvious examples are the office of [the Comptroller and Auditor General of India](#), which has investigated and questioned dubious practices in areas varying from the sale of spectrum to the allocation of coal blocks, or of Lokayuktas, such as in Karnataka, that have exposed malpractice in the issue and use of mining licences.

While these reasons for greater reporting and increased revelation of the corruption phenomenon may suggest that the problem need not be worse than it was, the fact of the matter is that even the revealed tip of the corruption iceberg is far too large for comfort. Moreover, there are other reasons to infer that the space and potential for corrupt practices have increased after liberalisation, rather than decreased. The “urge” to engage in such practices also seems to have been enhanced in the new environment.

Advocates of liberalisation had long held that state control and regulation during the pre-liberalisation years between the 1950s and 1970s allowed for corruption. Given the detailed physical and financial controls in place, bureaucrats and policy makers were seen as capable of using their control over the levers of policy, in areas varying from licensing through tariffs and foreign exchange allocation to provision of credit, to favour those whom they wanted to privilege. While this was done in the name of plan objectives, it was claimed, it also provided the grounds for demanding and receiving a *quid pro quo*.

There were, of course, many sensational instances of allegations of large scale corruption. The cancer of corruption that pervaded the East India Company had indeed affected even early leaders of Provincial Councils, forcing Gandhi to declare in the late 1930s that: “We seem to have weakened from within. I would go to the length of giving the whole Congress a decent burial, rather than put up with the corruption that is rampant.” However, Gandhi’s standards were high, and the number of individuals, the instances and the magnitudes involved were small relative to later trends. The problem persisted in the post-Independence period. The Jeep Scandal of 1948, involving the purchase of army jeeps for Rs. 80 lakh, through a process that bypassed established procedure, and the Mundhra Scandal of 1957, involving the sale of fraudulent shares to LIC by businessman Haridas Mundhra, were two among the well known post-Independence

corruption controversies. The first was closed, but the second led to Mundhra's arrest and the resignation of Finance Minister T. T. Krishnamachari.

But there was much in the system that seemed to make these the exception than the rule. Political leaders in early post-Independence India had won their spurs through the national movement, as part of which they had engaged in much sacrifice. They were unlikely to turn to corruption so easily. Moreover, as Feroze Gandhi's role in the Bennett Coleman acquisition, the LIC-Mundhra and the Jeep scandals showcased, parliamentary scrutiny of the (mis)use of authority was considerable. Besides parliamentary scrutiny, the ethos of the time was such that a majority of the bureaucracy saw itself as part of a common national project. Corruption was not the norm, and peer example discouraged it. Moreover, the income levels and life styles of the bureaucracy did not induce a desire for large additional incomes on the side. So even if petty corruption was significant, big corruption was not too widespread. Nor was it always very big. In the old days, allegations of corruption were inevitably associated with the unearthing of wealth beyond that warranted by known sources of income. Given the size of those incomes the magnitude of corruption could not have been large.

Matters seemed to have changed since the 1980s, with [the Bofors scandal](#), involving kickbacks from Bofors AB in return for orders of its 155 mm howitzer, almost symbolising the transition. This change cannot be attributed to just a change in the value system as the nationalist fervour and commitment to social change associated with the freedom movement wore out. Social behaviour of the kind that leads to an escalation of the scale of corruption must be a result of systemic influences associated with a change in circumstances with time.

Two changes occurring in this period are of relevance here. The first was political: the destruction of the Congress as a mass party under Indira Gandhi, the associated end of one-party dominance and the emergence of competitive politics. Not only did central leaders and vote-getting local satraps become important, but competitive politics saw the increase in the use of money power in the electoral process. The second was socio-economic: a transition in the social vision underlying the trajectory of development, from one in which the focus was on regulating capitalism to ensure that the fruits of development were more equitably shared, to one where the emphasis was on unfettering capitalism in the hope of realising capitalist success.

The first was an obvious encouragement to corruption among the political elite. If money has to be outlaid to win elections, it must be mobilised: either from those who expect favours from politicians benefiting from their donations or garnered by the politicians themselves during past periods when power had been held and exercised. That provides the basis for increased corruption. The second involved state functionaries favouring capital as part of the development project, making it easier for them to push policies in return for which they can expect illegitimate payments. Since this occurs in a period when the social ethos is one that celebrates the wealthy and the economically successful, sudden increases in the wealth position of individuals is not seen as abnormal. For even a suspicion of corruption, it is not enough that an individual's wealth exceeds what can be built based on known sources of income. What matters is direct and

adequate evidence of illegitimate acquisitions of income that violate existing laws. Moreover the rise in inequality and the consumerism spawned by a combination of new found wealth and the freedom to imitate international lifestyles substantially increased the desires of the post-liberalisation middle class. Money had to be found if such desires were to be met.

It is in this light that we need to examine the argument that liberalisation should result in a reduction in the extent of corruption. The premise underlying that argument is that it is only under regulated capitalism of the 1950s kind in India that the state, which rationed access to commodities, services or finance, can, by favouring some, lay the ground for a *quid pro quo*. That is not true. In all societies, there are scarcities of one kind or another: access to the best free hospital facilities; access to land; access to a scarce “intangible” resource like the air waves; or rights to extract limited and non-reproducible mineral resources, to name just a few. In a regulated regime there are well-defined rules on how this is to be done. Those rules can be violated, but there are well-defined procedures and benchmarks to decide whether unwarranted access has been provided to one or other agent. In a liberalised economic order, on the other hand, while the government still has the right to determine the level of access, its role is seen as one of providing such access as part of a process of encouraging private sector-led growth.

In that world, state involvement can lead to corruption from both the “buy” and the “sell” side. Bribes can be paid when orders are placed by the state for military equipment, purchase of goods for consumption or investment or for provision of a host of services. Since liberalisation involves an increasing emphasis on getting the state out of production and on outsourcing services of different kinds, corruption from the buy side is bound to increase. But bribes can also be received when public assets are disposed off by the state: through the disinvestment of public equity or privatisation of public enterprises, provision of land for various “development purposes”, or sale of spectrum or [coal blocks](#). Since these can be sold only to some and at a price decided by politicians and bureaucrats, there is much profit to be made. A “small” fee for the agents delivering such profit is not a high price to demand.

This increases the space for the misuse of power. The result is large-payoffs for two groups. The first is for those occupying high positions in the state apparatus. The second for the business interests which derive gains from decisions purchased at a small price. If we go by the Comptroller and Auditor General’s estimate, the loss of revenues to the state from the mispricing of 2G spectrum alone is Rs. 1.76 lakh crore or close to 10 per cent of Gross Fixed Capital Formation in the economy in 2008-09. If much of that is a transfer to those acquiring spectrum it points to huge illegitimate benefits for the private sector. There is here clearly a link between public and private corruption.

However, when discussions of corruption occur, the possibility that it serves as a mechanism for private aggrandisement receives little attention. The tenor of the discourse is that the virus of corruption afflicts only government officials and politicians who control and misuse state power. But increasingly corruption appears to reflect payments made by the private sector to realise illegitimate

gains that are not merely violative of fair practice and/or the law, but damaging from the development, environmental or fiscal points of view. Given [the large amounts that can be garnered in this fashion](#) the state seems to have emerged an important site for primitive accumulation for the private sector during the phase of liberalisation and economic reform.

The essential point is that corruption tends to be greater in periods when there is a state engineered redistribution of wealth in favour of a few and at the explicit or implicit expense of the many. Liberalisation is one such period, whether it be of the “shock therapy” kind in a largely state-controlled Russia or the (relatively speaking) moderately-paced kind adopted in the so-called “mixed economies” like India. In such periods, corruption is not just an aberration involving a few wayward individuals overcome by greed. It is systemic and reflects an aggravation of the tendency towards primitive accumulation of capital characteristic of capitalism throughout its history and more rampant in the distorted capitalism superimposed on the partially destroyed, pre-capitalist formations in the underdeveloped world.

With the transition to a neoliberal order, electoral democracy too has its cost. Evidence of the wealth amassed by elected representative reporting their assets when they stand in consecutive elections is quoted to show what corruption could be delivering to politicians. But what is also noteworthy is that increasingly it is extremely difficult to participate in the electoral process without access to wealth, irrespective of the rules that the Election Commission frames. This intensifies the drive to adopt corrupt practices.

In sum, there are two systemic causes for corruption in today’s India: the political and the economic. This has important implications. The problem can of course be partially addressed by exploiting the legal potential and the checks and balances that the current system of democracy based on the principle of separation of powers affords. But addressing it in adequate measure requires that to be combined with systemic changes in the medium term.

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