

Decentralization and the Saga of Corruption

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Abstract

The growth of democracy and parliamentary institutions in India are legacies of the British rule. This is not to say that participatory government was unknown to India. We are aware of the existence of many bodies which aided and advised the King on several aspects of the State. But the idea of elections and the prominence of elected bodies in the governance of the State is undoubtedly an adapted Western concept. It need not hurt our patriotic pride to accept the fact that the democratic ideals and institutions in India were borrowed from the West. But implementation of such ideals to be effective must take into account the indigenous conditions – the vast social, cultural and religious diversity of the country. The growth of democratic institutions in India saw the recommendations of the Balwant Rai Mehta Commission and the consequent 73rd and 74th Amendment Acts ushering in an era of decentralization through a three-tier Panchayati Raj system. Decentralization process in India has gone a long way, but the process is not complete, in a sense, that the participation of the poor and the disadvantaged sections of the society in local democracy (PRI and ULB) is yet to be institutionalized. The merits and demerits of the decentralization process continue to be a red-hot topic in various forums. One demerit pointed out is the prevalence of corruption. Has decentralization made corruption broad-based in the country? Has the tentacles of corruption permeated from the elite to the poor? The paper attempts to examine the various facets of corruption vis-à-vis the decentralization process.

Keywords: decentralization, panchayati Raj, PRI and ULB, corruption, democracy, secularism

The aim of the paper, among other things, is to study the relation between decentralization and corruption. To realize the objective, the following broad areas have been examined and critically analyzed;

1. Market forces and corruption.
2. Corruption and the Indian psyche.
3. Democracy and corruption.
4. Seventy years of Indian decentralization.
5. Decentralization and corruption.
6. Conclusion – a hyperbolic model of decentralization.

After critically examining the above-mentioned topics, a hyperbolic model of decentralization process is suggested. The model is not based on any empirical study or data but rather on pure qualitative analysis and theoretical speculation. The model highlights the need for an inverse relationship between the extent of decentralization and incidence of corruption.

Market Forces and Corruption

It has been said by some economists that demand-supply gap fuels corruption. Whenever there are more supply and meager demand, corruption raises its ugly head. For instance, let's examine the recruitment of teachers in aided schools of Kerala. When the number of qualified applicants (supply) far exceeds the number of vacancies (demand), an exorbitant amount of money (Rs. 25 to 40 lakhs) is paid to the school authorities by capable applicants to

get the job. One may argue that such malpractices are due to lack of governmental or political will to check them and not due to the interplay of demand-supply forces. If that argument is accepted, one has to examine why there is a lack of political will here?

The answer, perhaps, can be found in the matrix model propounded by the Nobel prize-winning economist, Milton Friedman which is depicted and explained hereunder;

Whose Money is spent	On Whom Money is Spent		
		On yourself	On someone else
		I	II
	Yours	Economize and seek Your highest value	Economize but do not seek the highest value
	III	IV	
Someone else's	Do not economize but seeks highest value does not seek the	Do not economize and highest value (Hot bed of corruption)	

The first square represents the scenario where you spend your own money on yourself and family. In this scenario, you tend to spend the least possible and try to get maximum value. A richer person may spend more than you, but he will demand more value for whatever amount he spends. For instance, if a person wants to buy a laptop, he won't simply buy the first laptop he comes across. He will shop around, check specifications, look into reviews, study after-sales services and warranty provided and negotiate before deciding to buy. He will try to get maximum value for the money he spends.

The second square depicts the situation where you spend your money on someone else. Consider the case where you have sponsored lunch for the inmates of an orphanage. Here you would probably buy some decent food without burning a hole in the pocket. You would not spend hours hunting for the best quality food for the same price. Any decent quality is going to be fine!

The third square deals with the situation where you spend somebody else's money on yourself. In this scenario, you tend to spend up to the maximum limit possible, because it is not your money. For instance, if a company executive has a food allowance limit of Rs.1000 per meal, he has two options to maximize value;

1. He can go to an expensive star hotel and have food for Rs.1000.
2. He can have food for Rs.100 and may manage to elicit a fake voucher for Rs.1000 from the hotel manager. He then submits the fake voucher to his company for reimbursement.

The second option is the breeding ground for corruption.

The fourth square represents the worst scenario of you spending someone else's money on someone else. This is the domain of politicians and bureaucrats. They control the spending of the tax payers' money on a variety of programs and schemes (apparently for the benefit of the people). Generally, they do not care about how money is spent so long as their private needs and coffers are filled. The clever ones astutely conform to the rules and regulations while robbing the country. The fourth square represents situations aptly called the red-hot bed of corruption. Such situations exist in all elected democratic systems.

Milton Friedman's fourth square tells that, in any democratic system, there is plenty of scope for corruption. Only a person with unflinching integrity and morality can withstand the lures of making quick money. The wily politician, with the connivance of the bureaucrat, can easily circumvent the rules and regulations. The answer to why there is no political will in taking certain decisions such as checking the collection of exorbitant sums of money by aided school managements from hapless applicants lies exclusively in Friedman's fourth square. In economics, there is nothing called free lunch. But Friedman's fourth square seems to provide lots of free lunches for the ruling class.

Corruption and the Indian Psyche

The state is an impersonal, abstract entity. The very concept of state embodying a set of values and

yet abstract is incomprehensible to the Indian psyche. Most of the Indians find it very difficult to relate themselves to the state. It is often said that since the State belongs to everyone, it belongs to none! Many Indians, generally, have no qualms of conscience in robbing the State.

Corruption in India has a cultural dimension. For the people of India, there is nothing immoral in corruption. In India, religion is a business or a transaction. People in India give God gifts in the form of cash or gold and expect an out of turn reward. Outside the walls of the temple, such a transaction is called a bribe. These gifts do not feed the poor but remain idle and gather dust in temple vaults. The religious mentality of the Indians, perhaps, seems to have inculcated the belief that bribing is one way of seeking blessings. The moral sanctity and tolerance for corruption stem from this cultural and religious mentality. No wonder, an utterly corrupt politician can make a comeback in India, something unthinkable and impossible in the West!

History of India tells of the capture of kingdoms and forts after guards and commanders were paid off. Such instances of corruption are so many that it would seem that corruption had been in our blood from the onset of civilization. The Battle of Plassey which arguably laid the foundation of the British empire in India was only a skirmish. Clive bribed MirJaffer, and the Bengal army vanished into thin air! The consolidation of the Mughal empire under Akbar took place with the capture of Chitor. The bitter struggle took place, and Chitor fort could be captured only after Akbar bribed the guards to open the fort gates. Another instance is the bribing of the Raja of Srinagar by Aurangzeb to release Sulaiman, the son of DaraSukhov. There is no dearth of such instances of bribery and treason in Indian history.

Before the advent of the British, India comprised of hundreds of warring kingdoms. Even after the British administratively united these warring kingdoms under one umbrella, no idea of nationhood arose among the Indians to effectively confront the common enemy. Despite an enlightened leadership of educated Congressmen in the late 19th and early 20th centuries, the idea of India as one nation was hardly crystallizing. Even today, the ideals of democracy, secularism, scientific temper, etc. are

yet to percolate to the common man, in spite of best intentions. Consequent to the failure of the evolution of a nation state, a feeling of belongingness to the State failed to evolve.

The political system of India is inherently corrupt and is destroying the moral fabric of society. People do not live in a vacuum, the system in which they live shapes them. One reason for corruption being innate in our system of government is the failure to chalk out an effective system of checks and balances. Our system of government began to break down almost immediately after independence because the powers of the President and the Prime Minister were poorly defined. Even today, the system of checks and balances as envisaged by the Constitution makers is not working properly. Power has become so concentrated that governments have become unresponsive and corrupt. No wonder generations of Indians have seen nothing but depravity and debasement. That is why, year after year, global indices rank India as one of the most corrupt nations in the world!!

Given the above, corruption historically and culturally seems to have been very well known to the Indian psyche. The notion that corruption is bad was brought in by the British and Western ideals. With education and the growing awareness of one's rights, the idea that corruption is a crime has taken roots in the Indian psyche. Politicians harp on making the nation corruption free but with little success. No doubt a corruption free atmosphere is the sine qua non for the success of every democratic organization. Eradication of corruption assumes utmost importance if we want to make our democracy meaningful.

Democracy and Corruption

No doubt corruption is one of the biggest global issues of our time. Many empirical studies have been carried out to ascertain the relationship between democracy and corruption. Though the studies were not conclusive, the empirical data show certain trends which cannot be ignored. The empirical data conclusively show that the levels of corruption typically increase during the initial democratization stage. Once democracy ripens into consolidation, there is a reason to believe that corruption can be reduced. However, the process is not linear. It can

take a great deal of time and results may vary across different types of democracies and in different countries.

Indian democracy is an example of unconsolidated democracy. It is very obvious because democratization is still in the experimental stage- we have not achieved 100% functional literacy, the poor and the downtrodden generally, have no say in the governance, the disparity between haves and have-nots keeps on increasing and the undiluted presence of corruption in higher circles of power – all point to an immature form of democracy despite 70 years of freedom!!

The great thinkers of the past endeavored to spread the ideals of liberty and democracy to establish a global welfare environment. But when democracy was introduced in India, the wily politician taking into advantage the illiteracy of the masses, paving the way for corruption to raise its ugly tentacles. The interconnection between democracy and corruption is well known, though empirically controversial. Historically, democracy seems to have laid a golden path for corruption to strive. In India, democracy is arguably the best process through which the “enlightened” can hoodwink the “downtrodden” to “uplift” wealth.

Corruption is a very serious social malaise. It corrodes society and eats into mass welfare and equality of chances. It lowers compliance of regulations, reduces the quality of governmental services and increases budgetary pressures on the government. It undermines economic development. Corruption is an all-pervasive phenomenon capable of permeating through every branch of life and society. Democracy provides convenient platforms for corruption to thrive. Anticorruption agencies do exist, but they are ineffective and make little or no difference. The absence of free and genuine media concerns have aggravated the situation. The so-called “scams” that occasionally come into limelight reflect only the microscopic tip of corruption iceberg!!

All the political parties of India have amassed enormous wealth. Since it is an “all-parties affair,” no politician talks about it. Most of the media is run by political parties and their supporters and hence cannot be expected to raise any alarm in this respect. Even the Communist parties have huge assets and

seldom do they speak about redistribution of these resources. Horse-trading is common in Indian democracy whenever there is a hung Parliament of Assembly. Exorbitant sums of money exchange hands during this “political festival.” The recent political drama in Tamil Nadu after the demise of Smt. Jayalalitha is a case in point. When lawmakers behave and act like lawbreakers, there is little that one can do. Even the judiciary goes on the backfoot!! Nepotism, a cousin of corruption, ensures that sons, daughters, and relatives of the powers that be are chosen and groomed for plum posts in utter neglect of better qualified and competent persons.

Notwithstanding the above, we have hope that democracy, given time, can gradually alleviate corruption. But it requires tremendous political will. The existence of a large black economy in India is eating into all our investments made in various sectors. When we spent Rs.10 on education, only Rs.2 reaches the target group the remaining being siphoned off by dark elements in our economy. The type of democracy that wipes out corruption is one where everybody is literate, everyone understands the import of social programs and budgets, and acts as a watchdog against corruptive tendencies. We are far off from realizing such an enlightened democracy, but we can hasten it by following and taking corrective steps in the right direction.

Seventy Years of Indian Decentralization

The Indian democratic experiment is a labyrinthine puzzle. Democracy as a political doctrine can be successful when its subjects generally have functional literacy, can understand and appreciate the import of budgets and other projects in the public sector. We have not attained 100% functional literacy yet, and most of our citizenry is not capable of appreciating the import of budgets and various programs. One way to bridge this inadequacy is to ensure their participation in village level budgets and other social programs. Thus decentralization, among other things, strengthens democracy by making the citizenry more responsive to their rights and needs.

The history of decentralization in modern India is essentially the history of the evolution of Panchayati Raj institutions in the country. True, the British period witnessed a large number of

economic, social and infrastructural developments, but these developments were aimed at sustaining the continuance of British rule in India. The growth of nationalist politics incorporated Gandhi's ideals of self-sufficient villages and highlighted the need for village-based participatory democracy as the basic unit of Independent Indian democracy. This sentiment found a place in our Constitution vide the Directive Principles of State Policy (Article 40). The Article enjoins the State to take steps to organize Panchayats and endow them with such powers as may be necessary to enable them to function as units of self-government. However, it was the recommendations of Balwant Rai Mehta Committee which gave a powerful thrust for village self-government. The Committee recommended a three-tier Panchayati Raj system while observing that "Government's programs with people's participation must be replaced by People's programs with government participation."

Decentralization in India began with the above recommendations of Balwant Rai Mehta Committee. All the State enacted Panchayat Acts, and Panchayats came to be established throughout India by 1960. However, these steps did not change local realities as laws were inadequate and inexplicit to make Panchayats meaningful. Besides, the resistance of the bureaucracy towards devolution of powers and functions complicated the matter. This led to the enactment of the landmark 73rd and 74th Constitutional Amendment Acts. These Acts not only declared Panchayati Raj as units of self-government but also gave a constitutional mandate to the States for properly implementing them. The legal framework for implementing decentralization of governance and transforming Panchayats into units of self-government was complete.

Twenty-five years have passed since the landmark 73rd and 74th Amendment Acts. Critics opine that the Amendment Acts though significant, left several matters relating to Panchayats to the State government's discretion. In response to this criticism, the Government of India reconstituted the Ministry for Panchayati Raj in 2004 to strengthen devolution of authority and removal of bottlenecks obstructing their proper functioning. All told, decentralization in India has come a long way, but the

process is still incomplete. The Panchayat Planning process initiated in West Bengal during the 1980s, the People's Plan initiative of Kerala during 1990s were metamorphosing steps in the right direction. The euphoria and enthusiasm it created reflect the people's willingness to embrace participatory democracy. When the Planning Commission of India (Titilayo) advised the States to prepare the 11th Five Year Plan by village level plans prepared in GramaSabhas, the process of decentralization came to be integrated with planning at the national level!

As the process of decentralization permeates through our societal fabric, more and more people get involved in planning and decision making at the grass root level. This enhances people's understanding of governance and inculcates in them feeling belongingness to the nation. Gradually they become capable of understanding and appreciating the import of public programs in alleviating social issues and problems. The decentralization process may be said to have reached the highest level when a maximum number of people get involved in village planning, and their say is felt strongly in the various programs implemented. Paradoxically, the initial stages of decentralization process are characterized by high incidence of corruption. Corruption tends to increase with more and more vested interest groups coming into the fray in local self-government and reaches its zenith over some time. The paper suggests that corruption reaches a plateau when the number of ordinary citizens participating actively in local self-government increases beyond a certain value. The plateau ends at the transition point after which corruption decreases hyperbolically. Before highlighting and tracing the path of corruption vis-à-vis decentralization, let us examine the relationship between decentralization and corruption.

Decentralization and Corruption

A good number of empirical studies have been conducted to ascertain globally the relation between decentralization and corruption. However, these studies have failed to conclusively establish any positive relationship between decentralization and corruption partly due to faulty variables and partly due to extraneous factors. After studying these empirical papers and examining the data collected in

them, the crux of the findings is distilled out and is depicted hereunder.

Banfield argues that decentralization fosters corruption because one has to deal with only a small segment of the government. He maintains that in a fragmented system, there are fewer centralized agencies to enforce justice. Bardhan and Mukherjee differentiate between centralization and decentralization based on the workings of special interest groups. They claim that decentralization is due to the relative vulnerability of local self-government to undergo “capture” by the local interest groups. Although there is no a priori verdict in favor of a decentralized system, decentralization takes place because of the cohesiveness of interest groups at the local level. They boldly claim that countries with more tiers of government are more corrupt and less efficient in providing public services than unitary governments!

Prudhomme claims that there are more opportunities for corruption at the local level. This is because local officials have more discretionary powers than the higher level counterparts. Moreover, local officials are likely to be more affected by the pressure exerted by local interest groups. This view is substantiated by Manor, who argues that decentralization is always associated with an increase in the number of people who are involved in corrupt ends. However, he cautions that this need not imply an increase in the overall money siphoned off by corrupt means.

The studies of Gonzales and Asia M reveal three main causes of corruption in the public sphere;

1. Institutional incentives: (such as discretionary powers, complex procedures, low wages, etc.)
2. Lack of transparency and public information.
3. Lack of accountability of public officials.

The above causes are supplemented by factors such as lack of service orientation in the public sector and weak democratic institutions.

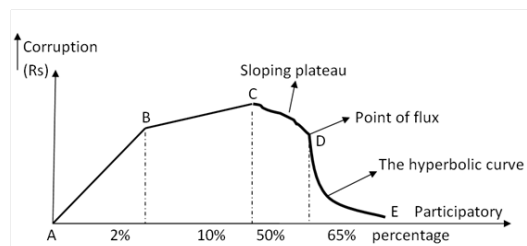
It is true that decentralization allows for better fulfillment of diverse individual needs. Besides, decentralization increases public expenditure on infrastructure. This effect is more pronounced in developing countries, but the effect becomes weaker when local self-governments rely more on central

funds than on their resources. Studies do imply that fiscal decentralization in governmental expenditure is strongly associated with lower corruption provided it is accompanied by devolution of revenue generation to local self-governments. It is also argued that increased decentralization causes more competition for capital and can result in a low level of corruption. Many studies have shown that with decentralization of the administrative licensing system to lower levels, corruption decreased significantly.

Thus from the above empirical studies, one may qualitatively conclude that introduction of decentralization results in increased corruption. The quantum of corruption increases as the decentralization process goes on but only up to a certain limit. With more participation of the local populace and women, the growth of corruption gets gradually arrested. These qualitative findings are summarized into a hyperbolic model below.

Conclusion – The Hyperbolic Model

The paper, after critically analyzing the available empirical data, comes out with a hyperbolic model based on pure theoretical speculation. The model depicts four periods or phases in the process of decentralization. Each phase has its characteristic features and develops into the next phase as a continuum. The graph (not to scale) depicting the various phases in the model is shown below;



Assumptions in the Model

1. The portions AB and BC in the curve are shown as straight lines. The linearity is an assumption and is not based on any data or mathematical reasoning.
2. The independent variable “participatory percentage” refers to the percentage of people among the women and local downtrodden who have become politically conscious and are aware of their say in the decentralization

process. Politically conscious citizens are assumed to be aware of their rights to

- (i) know how they are governed.
- (ii) Participate actively in the auditing of representatives.

3. The dependent variable on the y-axis refers to the total amount of money and services siphoned off using corrupt practices.

Phase I – Dominance of Local Elites

The point A refers to the introductory stage of the decentralization process. This phase is characterized by rampant corruption. Local self-governments come under the control of local elites. Corruption increases as local elites become aware of the lack of monitoring from higher levels and the inability of centralized regulatory agencies to enforce justice. This phase of decentralization is shown by portion AB of the graph.

Phase II – Era of Local Ombudsman

This period witnesses more and more participants from the local elite communities and a fewer number of politically active ordinary citizens come into local self-government. Quantum of corruption increases due to a large increase in the number of social projects undertaken, but the rate of increase in corruption decreases appreciably. An important feature of this phase is the establishment of aggressive monitoring systems such as a local ombudsman. The success of this grievance redressal system may inspire more and more politically active local people to come into the forefront and ask questions on public expenditure. Portion BC of the graph represents this phase.

Phase III – The Sloping Plateau

The phase is called sloping plateau from the shape of the graph representing the period. In this phase, the growth of the decentralization process is characterized by the improved performance of local ombudsman and other control mechanisms. More ordinary people come into the limelight, and most of the local elites are pushed to the back seat. The burgeoning number of the capable citizenry in the local self-government facilitates transparency and accountability. Corruption decreases slowly despite the tremendous increase in expenditure volume. The phase is shown in the segment CD of the graph.

Phase IV – The Hyperbolic Period

This phase represents the beginnings of idealism in the decentralization process. It is possible that a long time may be required to reach this phase. More than 50% of the downtrodden village populace actively participate in local self-government. The institution of the ombudsman and other regulatory mechanisms may gradually wither away. Theoretically, this phase may not reach completion in the foreseeable future. It would be utopian to imagine that more than 70% of the downtrodden people would become literate, politically aware and capable of running the local self-government. The hyperbola DE represents this phase.

As can be seen, the introduction of the decentralization process paves the way for corruption. Corruption increases tremendously and becomes rampant during the first phase. At this juncture, it would seem that decentralization is a mechanism to institutionalize corruption. But it is not true. As decentralization becomes more and more participative, corruption tends to decrease substantially as highlighted in the above model.

All told, today decentralization in India despite 25 years since inception, is in the first phase lying somewhere on the portion AB of the graph. Local elites rule the self-government and corruption is well spread. The focus of decentralization has not shifted from the local elites to the non-elites. Despite sincere efforts, decentralization has not been able to attract the participation of the most deprived sections of the society. Social changes take place slowly. Steps to expedite the process of Sanskritization of the rural downtrodden are on the anvil. We have a long way to go, and it is hoped that we may reach the sloping plateau stage shortly!!

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