

# Economic Implications and Theory of Corruption

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**Abstract- Introduction:** Corruption is silently eating into the vitals of our nation. It is an incurable disease which is capturing world day by day. Corruption affects all regions of the world & all levels of society, but the impact is greatest in developing countries.

**Objective;** ( i) To understand the types of corruption, (ii) To develop logically the economic implications of corruptions, (iii) To attempt the development of theory of corruption and its Market. **Methodology:** The research and analysis is purely based Logical thinking and secondary data. **Conclusion:** It is possible to develop a complete economic theory of corruption where corruption will be treated as a traded commodity with the possibility of market analysis being applied and it can also examined which particular model of a market.

**Key Words:** Corruption, Market, Economic Implications

## Introduction

Corruption is silently eating into the vitals of our nation. It is an incurable disease which is capturing world day by day. Corruption affects all regions of the world & all levels of society, but the impact is greatest in developing countries. Corruption means taking undue advantage of power, authority, and level for making illegal transactions. Corruption is a term with many meanings, but generally it entails misusing one's office for a private gain or unofficial end. It involves both a monetary and non-monetary benefit. Most of us have a broad understanding of what corruption

means. We also know it is widespread – ask anybody on the street. Most of us have a personal story to tell, and it often makes you angry and frustrated. However, the edges of bribery are quite fuzzy! Giving a tip is not considered bribery; in fact it is considered quite civilized! But if a government official demanded a 'bakseesh', you would certainly consider it to be a corrupt action, won't you?

## Statement of Problem

Economic implications of corruption and if possible develop the theory of corruption and its markets.

## Objectives

- ( i) To understand the types of corruption .
- (ii) To develop logically the economic implications of corruptions.
- (iii) To attempt the development of theory of corruption and its Market.

## Working Definition

**Corruption:** Discussion of the definition of corruption has progressed little since Heidenheimer's groundbreaking distinction between definitions centered on public opinion, public office and public interest. All these definitions have been severely criticized. Traditional concepts of corruption lurks a much older one based on distributive justice – namely the 'impartiality principle', whereby a state ought to treat equally those who deserve equally. This principle provides a much more plausible reason for why the public condemns

corruption than alternative approaches, and, moreover, it is recognized fairly universally: the implicit distinction between 'public' and 'private' is certainly neither as 'modern' nor as 'Western' as many have claimed. The impartiality principle provides a starting point for the discussion of both corruption in 'traditional' societies and contemporary political corruption – corruption involving violations of specific non-discrimination norms governing the access to the political process and the allocation of rights and resources. The impartiality principle calls for rule-bound administration and thus underpins the public office definition of corruption. A central element of the analysis of corruption is the study of specific non-discrimination norms and their comparison across time and place. This approach leads to a significant enrichment of the concept of corruption.

**Markets:** A market is any place where the sellers of a particular good or service can meet with the buyers of that goods and service where there is a potential for a transaction to take place. The buyers must have something they can offer in exchange for there to be a potential transaction.

### Types of Markets

Different types of market structure include:

1. Pure competition
2. Monopoly

Price discrimination-These market structures are discussed below.

#### 1. Pure Competition:

The market consist of buyers and sellers trading in a uniform commodity such as wheat, copper, or financial securities. No single buyer or seller has much effect on the going market price. A seller cannot change more than the going price, because buyer can obtain as much they need at the going price. In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.

#### 2. Monopoly:

In economics, an industry with a single firm that produce a product, for which there are no close substitutes and in which significant barriers to entry prevent other firms from entering the industry to compete for profit is called pure monopoly.

### Review of select literature

Economics of Corruption by Susan Rose: The relationship between market structure and the incidence of corrupt dealings in the government contracting process. Three cases are analyzed. We first deal with a situation in which government preferences are well-defined and many firms compete for the contract; we then contrast this case with one in which government preferences are 'vague' and finally eliminate the competitive assumption to consider the case of bilateral monopoly. It is then possible to consider the extent to which various criminal sanctions will deter corruption and the degree to which criminal incentives can be reduced by revising contracting procedures and reorganizing market structures.

John Macra discussed in Underdevelopment and the economics of corruption: A game theory approach is preferred on the grounds that it can most effectively explain the basis for decisions of reasonable men to be corrupt. A simple model is presented showing how bribery might be a dominant strategy. A prisoner's dilemma type of situation emerges with the added complication that the judge and jailer may be corrupt. Other conclusions are that one official will not accept bribes from more than one firm. It is impossible to predict which firm will win the contract. No obvious solution emerges and legal remedies are discounted. This paper then reviews the principal general equilibrium effects and concludes that their likely effect on economic development is negative.

According to Mishra, in *The Economics of Corruption*: Various sections cover its concepts, history and evolution; the causes for its existence and persistence; its consequences; and finally ways in which it can be combated.

The book deals primarily with the economic aspects of corruption, though political, social, and historical facts are touched upon wherever possible. Starting with Kautilya's Arthashastra to provide a historical flavor of corruption, the volume covers both individual behavior and that of groups, classes and sub-cultures. While discussing the consequences of corruption on economic development, several readings focus specifically on India discussing aspects such as fiscal problems and informal black markets. Measures to combat corruption are also discussed by focusing on the incentives and institutional structures that are major factors in corruption.

### **Different Types of Corruption**

#### **Bribery**

Bribery means making of illegal payment, or bribes, to persons in official positions as a means of influencing their decisions. Bribery is the crime of giving or receiving something of value to influence official action. Both the person giving and the person receiving the bribe are guilty of bribery. Bribery is illegal for two reasons: (1) it usually involves a public official using his or her office for personal gain; and (2) it can cause officials to make unfair decisions that affect citizens. Bribery is a very old crime. There is evidence of bribery dating back more than 4,000 years. No one knows how often people commit bribery, but many experts believe that most people who bribe officials are never caught.

#### **Coercion**

Coercion means demanding or obtaining property from another through the use of threats, coercion, or intimidation. This can include threats of physical harm or some form of blackmail such as threats to cause harm to one's reputation, livelihood, marriage etc. Extortion is not usually a violent crime, but it can be, where a person is forced into involuntarily submitting to sexual acts in exchange for a person not filing a criminal complaint, revealing defamatory information to the public, or not injuring the victim. In some states extortion has only occurred when

money or property has actually changed hands as a result of the threat. In other states, just the threat is enough to constitute extortion.

#### **Cronyism**

It means favoritism, especially in the giving of political appointments. There are many job positions that require minimum qualification and skills but reality shows that there is a practice of appointing friends to high-level, especially political, government posts regardless of their suitability. Cronyism has now become a serious issue in India.

#### **Embezzlement or Misappropriation**

The crime involves taking possession of or expending such property that was legally received, for example, for storage. The stealing of socialist property by an official through abuse of office is considered equivalent to embezzlement or misappropriation. In political terms it is unscrupulous use of one's position which is when a political office holder unlawfully uses public funds for personal purposes.

#### **Nepotism**

"Nepotism can get any person very far in the world if he got the right connections."

There are cases where it seems that high authority people favoring of their relatives or personal friends because of their relationship rather than because of their abilities.

#### **Electoral Fraud**

It is illegal interference with the process of an election. Acts of frauds affect vote counts to bring about an election result, whether by increasing the vote share of the favored candidate, depressing the vote share of rival candidates, or both. It is also called voter fraud.

#### **Kickback**

A kickback is a collusive agreement which is designed to help or influence an individual,

company, or government entity. When a contractor promises to “kick back” some of the proceeds from a contract to the hiring decision-makers, a kickback has been offered. If the official suggests such an arrangement, a kickback has been solicited. Kickbacks can be in the form of money, credits, gifts, gratuity, offering of services, or anything of value.

### Patronage systems

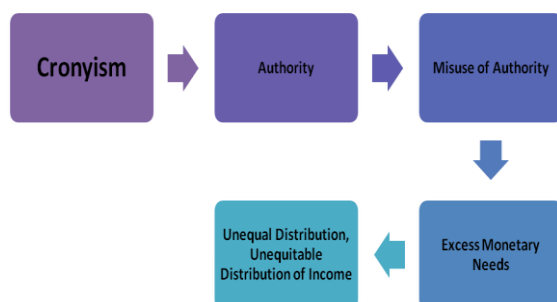
It deals with taking advantage of the power to make appointments to government jobs or the power to grant other political favors. Making the distribution of jobs and favors on a political basis, as to those who have supported one's party or political campaign.

**Corruption: Ultimate will always be a economic impact**

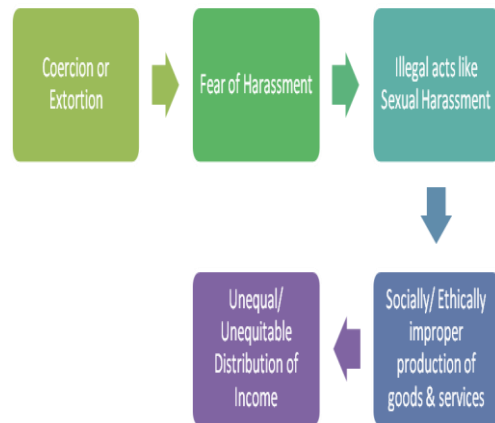
**Figure-1  
Bribery**



### Cronyism



**Figure-2  
Coercion or Extortion**



We can see from the above discussed types of corruption & its social & economic impact, ultimately it will result at Unequal distribution of income. Similar kind of effect of other types of corruption can be measured.

### Discussion

Now we will start with the **new theory of corruption**, where we are considering corruption as a commodity for which there is market and price mechanism.

### Nature of the Market of corruption

- (i) The seller is a typical situational monopolist and all the features of monopoly market will be there. Monopolists have complete or absolute command over the supply and price. That monopolist will do discrimination among the buyers.
- (ii) Where there would be chain of persons involved in delivering the permission/license/Admission, under such circumstances there are many sellers involved but ultimately it tends to be a collusive monopoly or cartel monopoly.
- (iii) Thirdly there can be one seller and one buyer situation which is similar to monopsony market situation.

(iv)

### Price Determination in Market of Corruption

## Economic Implications and Theory of Corruption

- (i) Larger the benefits expected from a particular permission or license higher would be the illegal price expected.
- (ii) Higher the amount of risk involved in granting or delivering the permission/ license, higher would be the illegal price.
- (iii) Speedy the delivery of any permission/license expected higher would be the illegal price.
- (iv) Greater the greed of person/persons involved in rendering service or goods , higher the illegal price .
- (v) Higher the rate of inflation, higher will be the illegal price for any transaction.
- (vi) Higher the demand of goods or service, higher will be the illegal price.
- (vii) Higher the scare resource or service, higher will be the illegal price.

### Conclusion

In conclusion it can be stated that doing away at presently empirical research it is possible to develop a complete economic theory of corruption where corruption will be treated as a traded commodity with the possibility of market analysis being applied and it can also examined which particular model of a market can maximize social welfare by curbing corruption or by bringing about competition and transparency.

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