

# Corruption and Planning

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CORRUPTION is a word bandied about a great deal in the literature on economic development of the Third World. Normally it is associated with central planning of the economy. Intuitively, of course, we can all see that corrupt practices are likely to emerge when a few people - the politicians, scientific experts and especially the bureaucrats upon whom the administration rests - have the power to determine who shall receive the official favours.

Rarely, however, is the extent of corruption quantified. Quite obviously the problems of doing so are enormous, but we now have some idea of its pervasiveness in India\*. It is crucially important to note that the illegal incomes calculated by Prof. Shenoy are the

consequence of policy decisions, not the result, in the first instance, of some inexorable streak of corruption in man.

India has been wedded to economic planning since gaining independence. Only now are we gaining knowledge of the extent to which distortions have arisen in markets and resource allocation. The five-year plans, with a related morass of regulations effectively designed to dissuade entrepreneurial activity, have proved admirable vehicles for lining the pockets of a few civil servants, politicians and businessmen, in the following ways:

(1) A fixed exchange rate unrelated to the competitiveness of the economy in foreign markets is not a virility symbol peculiar to industrially advanced societies. Indian leaders have also refused to make adjustments. Thus, the official ex-

change rate remained fixed between 1949 and 1966 while home prices rose 80 per cent. Thus, reports Prof. Shenoy, importers con-

tinued to pay Rs. 476 for every \$100 worth of imports while the prices at which they sold them rose by 80 per cent. As a result, wide gaps were created between the landed costs and the market prices of imports, ranging between 30 and 500 per cent of the former.

(2) Apart from redistributing income in the above manner, it quickly became clear that the system of import licences was a source of quick income. An illegal market in them developed which - as with the other forms of corruption - is officially recognised as being of "common knowledge"! The prices quoted for the licences are in terms of premia over the face value of the licences, and sales are effected through such means as the forward sale of the goods concerned. Prof. Shenoy tells us that, so open was this illegal market, that price quotations were occasionally printed in the Indian newspapers. The import licences are issued free: their value arises purely because of the insistence on an inflexible exchange rate - and there is no doubt that part of the illegal proceeds find their way back to the public servants who issue the licences.

(3) Vast sums of public money, spent under the plans, found their way into private pockets. Official estimates gauge the loss as between 10 and 40 per cent of public sector expenditures. Prof. Shenoy says that if we assume that 20 per cent was siphoned off, then about Rs. 433 crores a year was salted away into private pockets, between 1961 and 1969. This when incomes of the agricultural peasants remained static.

(4) Not surprisingly, black markets and smuggling became organised rackets, because of the import restrictions and exchange controls. The goods unofficially traded in include jute, cashew nuts and spices, as well as gold, foreign currencies and rupees. Prof. Shenoy estima-

ted gold smuggling at around two million ounces annually between 1951 and 1961. Current estimates put gold smuggling at the rate of Rs. 157 crores a year.

But the greatest criminal losses have been due to bungling in the bureaucratic planning of the economy since the last war. Economists are only now able to point out the appalling extent of deprivation arising out of the whole gamut of

licences (for imports and for investment according to the region/sector); red tape forms; exchange rates fixed by political rather than economic criteria. All have served to constrain the development of the economy - and direct such progress as has been made along some stony paths. But these are precisely the losses to a poor country for which those responsible will not be called to account.

\* S. R. Shenoy, *India: Progress or Poverty?* I.E.A. Research Monograph 27, £1.