CORRUPTION AND HUMAN DEVELOPMENT: AN EMPIRICAL INVESTIGATION

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ABSTRACT

In this era of modernization & globalization, corruption has been regarded as root cause of stagnant economic growth and poor human development in the developing countries. Almost all of the International donor agencies particularly IMF and the World Bank have introduced and are implementing the anti-corruption polices through their structural adjustment programs. Good governance and devolution are now considered necessary for the economic development of any country. The literature on this subject strongly supports the existence of mutually inter-dependent relationship between corruption, growth and human development. With this background this paper is an attempt to explore empirically the existence of this relationship for SAARC countries including Pakistan, India, Bangladesh and Sri Lanka. As growth is one of the major components of Human Development Index it is expected that higher degree of corruption will lead to lower level of Human Development. For this purpose panel co-integration technique will be used for the data of period 1995-2006. To the best of our knowledge this has not been done before.

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Introduction

According to the Human Development Report (1990) of United Nation Development Programme, "Human Development is a process of enlarging people's choice". These choices are unlimited and often change as development take place in the economy. In these, long and healthy life knowledge and decent standard of living is regarded as necessary for development. However, political and economic freedom, social security, human security and guaranteed human rights productive opportunities gender equality and self-respect can also be included in the people's choices.

In fact, human development has two important aspects the one is related to be creation of human capabilities and the other is related to the use of these acquired capabilities by the people to actively participate in cultural social and political activities the relative progress of nations in improving human development is measured by the human development index introduced by United Nation Development program in 1990, since than human development index is calculated for only those countries of the world for which data is available. The Human Development Index is computed as the simple average of the three indexes on life expectancy, education and GDP. The Human Development Index is calculated for the United Nation member countries for which the necessary reliable data is available. Corruption occurs where public official has direct responsibility for the provision of a public service or application of specific regulations[1]. Worldwide consensus exist that corruption is a symptom of failed governance in fact there are two forms of corruption: public corruption & private corruption. Public corruption refers to the illegal activities that produce the economic efficiency of government and private corruption is practice by the organized crime on person and private enterprises. This paper focuses on the first form of corruption. In addition to this, various types of corruption exist like higher-level corruption (grand corruption) low-level corruption (petty corruption), organized corruption and unorganized corruption. Worldwide consensus exist that corruption spreads like cancer in economy thus it requires appropriate measures to be treated properly.

Corruption and Human Development Profile of South Asia

The Transparency International's Corruption Perception Index (CPI) over the last 12 years shows fade picture of the South Asian Countries. CPI was first introduced in 1995. Pakistan was ranked 53 with a score of 1.00 in 1996, India's CPI was 2.63 (1996) in 41 countries. Pakistan & India remain much closed with rank of 79 vs 71 and score of 2.3 vs 2.7 in 91 countries. Bangladesh slipped from 51 to 91 during 1996- 2001 showing decrease in CPI by 1.89. In 2006, Pakistan's rank defoliated sharply with score of 2.2. Although India's position have improved as its score increased to 3.3 with a rank of 70. Where as Bangladesh position further decline to rank of 156 with a score of 2.0. Bhutan was included for the first time in the CPI by Transparency International in 2006 and surprisingly was ranked 32 with a score of 6. Comparing all SAARC countries excluding Maldives, Bhutan was given minimum rank followed by India (70), Sri Lanka (84), Pakistan (142), Bangladesh (156) and Nepal (171). Corruption deteriorates the

[1] Rose-Ackerman, Susan. 1997. The Political Economy of Corruption. In Elliott, K. A. ed. Corruption and the Global Economy, Washington, D. C., Institute for International Economics,. pp. 31-60.

process of human development by reducing human security, which is one of the fundamental determinants of human development. Bribery, extortion, influence peddling, discrimination, fraud, rigging, speed money, cheating and misuse of power all are different faces of corruption. It hampers economic growth increases income equalities and discourages investment. In fact concentration of power in few hands and lack of commitment towards transparency are the root causes of corruption. Acting as catalyst they help corruption to spread likes cancer in every public institution. These phenomena are very common in most of the South Asian countries.

Table 1
Perception of Public Sector Corruption in South Asia, 2002

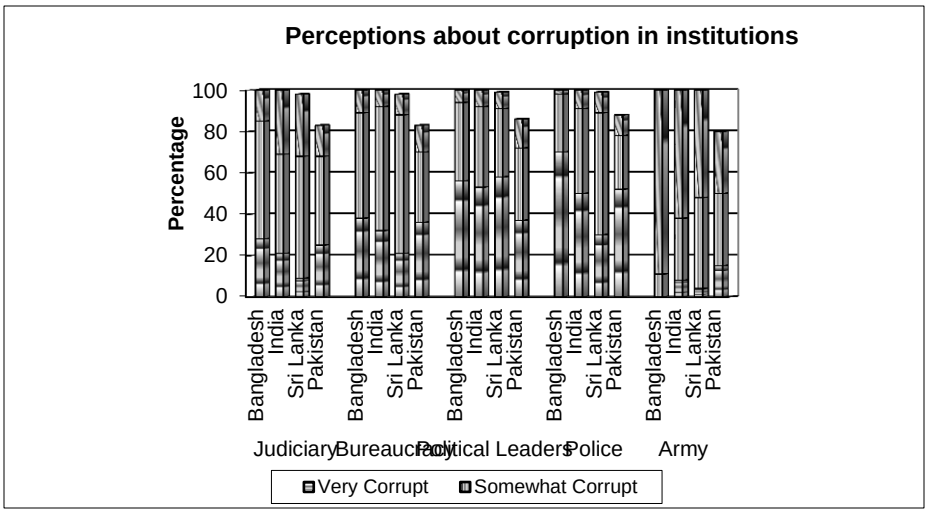
Countries	Education	Health	Power	Land Admin.	Tax	Police	Judiciary
Bangladesh	40	58	32	73	19	84	75
India	34	15	30	47	15	100	100
Nepal	25	18	12	17	25	48	42
Pakistan	92	96	96	100	99	100	96
Sri Lanka	61	92	N/A	98	N/A	100	100

Source: Transparency International (2002)

A survey based study (Table 1) conducted Transparency International (2002) in the countries reveals that perception of people on the corruption in the public sector institutions existence corruption in the Police department is reported by 100% respondent in Pakistan, India & Sri Lanka. However, in India and Sri Lanka all respondents reported corruption in the Judiciary. In Pakistan 96% respondents are of the same view. Land Administration corruption if Pakistan followed by Sri Lanka and Bangladesh. In the case of Education and Health sectors more than 90% respondents reported corruption. This provides good explanation of the failure of multi-billion dollar Social Action Program of the World Bank targeted for the Social sector in Pakistan.

The perception survey was carried out by the Mahbub-ul-Haq Human Development Center in August 2005. This study reveals somewhat similar but interesting facts (Refer chart 1) for South Asian countries including Bangladesh, India, Pakistan and Sri Lank. Finding indicates the presence of corruption in the public institutions. Also inadequate delivery of services and difficulty in approaching the high officials are very common. Corruption in Judiciary is identified by 67.7 percent respondents in Pakistan as apposed to 96% of them in 2002, suggesting declined in the incidence of corruption in Judiciary. In Bangladesh, India & Sri Lanka devastating majority of respondents feel that Political Leaders are corrupt but Army seems to be reliable. However in Pakistan Army is actively involved in country politics as well as in other national matters.

Chart 1



Source: Human Development in South Asia 2005, Human Security in South Asia, Mahbub ul Haq Human Development Centre, Oxford.

Moreover, the most interesting finding of this survey is the fact that sizeable proportion of people feels reduction in corruption in their respective countries. 31.4 percent in the former and 48.6 percent in the later country share the same view. However in Bangladesh & Sri Lanka greater than 80 percent have the opposite view for their country.

South Asian Countries in the last fifteen years witness some progress in social sector including education, health care and gender equity. Still the region suffers from the low level of human development. All together, the human development index, human poverty index, gender development index and gender empowerment measures indicate poor ranking for the region. All countries of the region have been ranked above 100 in human development index the Sri Lanka and Maldives. (Table2). The human development index for Pakistan was 0.539 in 2004 as opposed to 0.365 in 1975 shows improvement due to continuous efforts made by the government in social services sector. India's HDI increased by 0.198 during the same period, similarly Sri Lanka, Bangladesh and Nepal made improvement of 0.143, 0.183 and 0.228 respectively. Hence Nepal has made greater progress in human development as compare to other countries in the region.

Table 2

Human Development in South Asian Region

Country	Human Development index (HDI)		Gender Development index (GDI)		Gender Impowerment Measure (GIM)		Human Poverty Index (HPI)	
	Rank	Index	Rank	Index	Rank	Value	Rank	Value %
Bangladesh	137	0.530	102	0.524	67	0.374	85	44.2
Bhutan	135	0.538					71	39.0
India	126	0.611	96	0.591			55	31.3
Maldives	98	0.739					36	16.9
Nepal	138	0.527	106	0.513			68	38.1
Pakistan	134	0.539	105	0.513	66	0.377	65	36.3
Sri Lanka	93	0.755	68	0.749	69	0.372	38	17.1

RELATIONSHIP BETWEEN CORRUPTION AND HUMAN DEVELOPMENT

Human development in the process of enlarging people choices[2] these choices include long and healthy life knowledge decent standard of living political economic freedom and social security etc. whereas corruption deteriorates human development by negatively affecting all these choices. Particularly corruption and lack of transparency in monitoring and administration of the social sector expenditures has pessimistic impact on the social spending (Gupta, Davoodi and Alanso Terme 1998:79)[3] and income distribution (Rose-Ackerman 1997:33). Moreover corruption reduces the quality of health, life expectancy, literacy and increases the infant mortality rates[4]. Seluck Akcay (2006)[5] argues that corruption negatively effects the human development by discouraging growth and reducing social spending like education and health (as shown in figure 1).

[2] Human development report, UNDP (1990)

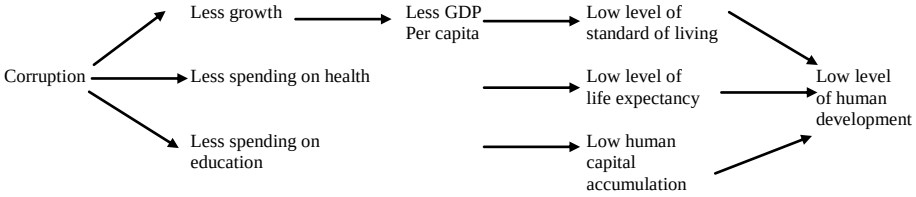
[3] Gupta, S.; Davoodi, H,; and Alonso-Terme, R. 1998. Does Corruption Affect Income Inequality and Poverty? IMF Working Paper No.79.Washington: International Monetary Fund.

[4] Gupta, Sanjeev. Davoodi, Hamid and Tiongson, Erwin. 2000. Corruption and the Provision of Health Care and Education Services. IMF Working Paper No.116. Washington: International Monetary Fund.

[5] Akcay, Seluck. 2006. Corruption and Human Development. Cato Journal Vol 26, No. 1 Winter

Figure 1

Corruption and Human Development



Source: Seluck Akcay (2006)

However, Salem, Paul (2003)[6] argues that mutually dependent relationship exist between corruption and human development and therefore suggest that country should designed such polices in which both variables should be targeted at the same time. "High levels of corruption have a number of effects on slow human development:

a. Corruption raises transaction costs and results in inefficient and irrational outcomes.
b. It is regressive in that it lays a larger burden on small and medium enterprises that need to set aside a larger share of their time and income to deal with it.
c. It is regressive in that it lays a larger burden on small and medium enterprises that need to set aside a larger share of their time and income to deal with it.
d. It undermines state legitimacy and the rule of law.
e. It leads to wider income disparities because those with influence gain more advantages; and those without, lose out.

But low levels of human development also have a casual effect on levels of corruption:

a. In poor and developing countries, institutions of oversight, control, and punishment of individuals in power are likely to weak.
b. High levels of government control, economic monopolies, and arcane regulations render the opportunities and incentives for corruption high.
c. Among middle and low-level public servants, very low pay structures provides its own motivation for corruption.
d. Weak insurance and social security environments, and inefficient labor markets, provide additional motivation for civil servants to make the most of their current posts.
e. General inefficiency of the public sector creates incentive for citizens to use corruption as a means to speed up their transactions with the public sector.
f. Populations with primary food, housing, health and educational concerns have pressing immediate concerns and are more likely to

[6] Dr. Salem, Paul. 2003. The Impact of Corruption on Human Development in the Arab World. Paper presented at 11th International Anti-Corruption Conference.

develop clientelistic relations with politicians rather than hold them broadly accountable to principles of integrity and transparency"[7].

REVIEW OF LITERATURE

Several researchers have investigated theoretically and empirically the effect of and on corruption of different economic variables. Detailed empirical literature is given in appendix "A". In addition to this, a synthetic review of studies on causes and consequences of public corruption has been done by Paolo Mauro.

The theoretical relationship between corruption and human development has been developed by D. Paul Salem (2003). However empirical analysis has been done by Akhter (2004)[8] to investigate the relationship between corruption and human development. Using a full information maximum likelihood approach, we found that economic globalization increases the level of economic freedom. This economic freedom is responsible for improving human development. However corruption also reduces with the economic globalization, which also improves the human development. Seluk Akcay (2006) investigates the relationship between corruption and human development in a sample of 63 countries using the three different corruption indexes. The results suggest the statistically significant negative relationship between corruption indexes and human development. The study strongly supports the fact that more corrupt countries lean to have lower level of human development.

As mentioned above only few researchers have studied corruption and human development relationship. Also these studies have analyzed the cross-sectional data including both developed and developing countries. The main purpose of this study is to re-investigate the existence of this relationship in the developing countries of South Asia. For this purpose the panel data of Pakistan, India & Bangladesh is used for the period of 1996 to 2006. To the best of our knowledge this type of analysis has not been done before.

Econometric Methodology and Results

To re-investigate the existence of the relationship between corruption and human development in the developing countries of South Asia, we are estimating the following relationship. For this purpose the panel data of Pakistan, India & Bangladesh is used for the period of 1996 to 2006.

CPI =f(HDI, GDP,INF)……(1)

Selcuk Akcay (2006) has used data of corruption from three different types of index. They include Corruption Perception Index as calculated by Transparency International, International Country Risk Guides Corruption Index given by a Political Risk Services and the Corruption Index being given by Kaufman, Kraay & Mastruzzi (2003).

[7] ibid pg.: 2
[8] Akhter, Syed. 2004. Is Globalization What It's Cracked Up to Be? Economic Freedom, Corruption, and Human Development. Journal of World Business 39: 283–95.

However, high correlation between these indices produced by different trading agencies exists[9]. Hence in this studies only Transparency International corruption perception Index is used. This index is developed on the basis of surveys, which are conducted in form in countries from business sector, population of the relevant country and Risk Analyst. The value of CPI lies between 0 and 10. If the CPI of any country is Zero it represents the existence of high level of corruption conversely the value of 10 shows the absence of corruption. The data on the level of human development is been taken from the various issues of the human development report (UNDP) the human development index as mentioned earlier, incorporates the three indices on longetivity, knowledge and standard of living. A country having HDI score of 1 is regarded having highest level of human development and vice versa. The result is presented in the table 3. The coefficient of the gross domestic product is positive and highly significant showing that as growth increases the level of corruption reduces. However the coefficient of the human development index is insignificant. Therefore we have not found enough evidence for the existence of any relationship between corruption and human development for the selected developing countries of South Asia. However increasing the sample size by including more countries in the analysis can affect the results. Similarly the inclusion of other related explanatory variables can also have an impact. Thus we can say that the selected data does not provide enough evidence for the existence of any relationship between corruption and human development in the developing countries of South Asia.

Table 3

The Regression Analysis to Determine the Relationship between Corruption and Human Development. Dependent Variable is the Corruption Perception Index

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Gross Domestic Product	0.002	0.000	5.367	0
Human Development Index	1.693	2.261	0.749	0.4615
Inflation	0.111	0.030	3.701	0.0012
C	-3.482	0.739	-4.713	0.0001
R-squared	0.818	Mean dependent var		1.856407
Adjusted R-squared	0.794	S.D. dependent var		1.014365

[9]Mauro, Paolo. 1997. Why Worry about Corruption? Economic Issued (6), International Monetary Fund."

CONCLUSION

The study does not provide substantial evidence for the existence of significant negative relationship between corruption and human development. This is may be due small sample size of the data. However, South Asian countries where the corruption in deep rooted in almost every public institution must become serious to adopt anti-corruption policies. Transparency and accountability has now become the pre-requisite for every development policy. Hence good governance should be top on agenda for all the developing countries in this era of globalization. The prevalence of extreme poverty, increasing income inequalities and poor human development index of South Asia recommend that huge investment for the human resource development is required.

APPENDIX "A"

Impact of Corruption: A Literature Summary

Authors	Impact on	Findings
Mauro (1996	Real per capita GDP growth	-0.3 to -1.8 percentage points
Leite and Weideman (1996)	Real per capita GDP growth	-0.7 to -1.2 percentage points
Tanzi and Davoodi (2000)	Real per capita GDP growth	-0.6 percentage point
Abed and Davoodi (2000)	Real per capita GDP growth	-1 to -1.3 percentage point
Mauro (1996)	Ratio of investment to GDP	-1 to -2.8 percentage point
Mauro (1998)	Ration of public education spending to GDP	-0.7 to –0.9 percentage point
Mauro (1998)	Ratio of public health spending to GDP	-0.6 to -1.7 percentage point
Gupta, Davoodi, and Alonso-Terme (1998)	Income inequality (Gini coefficient)	+0.9 to 2.1 Gini points
Gupta, Davoodi, and Alonso-Terme (1998)	Income growth of the poor	-2 to -10 percentage point
Ghura (1998)	Ratio of tax revenues of GDP	-1 to -2.9 percentage point
Tanzi and Davoodi (2000)	Measures of government revenues to GDP ratio	-0.1 to -4.5 percentage point
Gupta, de Mello, and Sharan (2001)	Ratio of military spending to GDP	+0.32 percentage point
Gupta, Davoodi, and Tiongson (2000)	Child mortality rate	+1.1 to 2.7 deaths per 1000 live births
Gupta, Davoodi, and Tiongson (2000)	Primary student dropout rate	+1.4 to 4.8 percentage points
Tanzi and Davoodi (1997)	Ratio of public investment to GDP	+0.5 percentage point
Tanzi and Davoodi (1997)	Percent of paved roads in good condition	-2.2 to -3.9 percentage point
Al-Marhubi (2000)	Inflation	+0.7 to 0.26 point
Mo (2001)	Economic growth	-0.545 percentage point
Bahmani-Oskooee and Nasir (2002)	Real exchange rate	-0.03 percentage point
Habib and Zurawicki (2001)	Foreign direct investment	-0.5 percentage point

Source: Transparency International (2001:256)