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**The economics of corruption**

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|  | **By Dr Ishrat Husain** |
|  | The recent tragedy in which 258 innocent persons lost their lives in a fire that gutted a garment factory in Karachi has once again generated a controversy in the media about the widespread collusion and corruption prevalent in the departments dealing with safety, occupational hazards, building control, labour inspection and others. Road-worthiness certificates are issued to defective motor vehicles, approvals for buildings are given for structures without fire protection, CNG tankers ply on the roads without following safety regulations, electricity connections are granted without adequate safeguards, adulterated foodstuff and drugs are sold liberally without let or hindrance. The usual blame game will once again obscure the root cause that underpins this tragedy and many other past and future incidents.http://magazine.thenews.com.pk/upload_image/10/3474_9-17-2012_1.jpg  Why do these infractions take place? There are many factors but economic factors play a major role. In our bureaucratic structure inherited from the British, an asymmetry exists between the enormous discretionary powers enjoyed by the petty bureaucracy and their training, educational backgrounds, competence and remuneration. Patwaris, SHOs, sub-registrars, labour inspectors, court readers, SDOs, drug inspectors, building control officials, clerks in DC offices, income tax, inspectors, customs appraisers are the persons who interact with the common citizens on a day to day basis. On paper, the legal and formal powers are vested in their officers who are supposed to supervise and direct these officials but in actual practice the informal and effective power resides in these lower echelons. They can invoke their powers to make individuals paupers or prosperous depending on the nature of the deal.  The irony is that all accountability exercises so far, including purging and screenings under marital law regimes or convictions under the NAB ordinance have been focused on the officer class. The lower functionaries have remained unscathed and have got emboldened and believe they are untouchables. Those who have accumulated money illegally by misusing and abusing their powers share some of their booty with the politicians and bureaucrats at higher levels. They also oblige these ‘higher-ups’ by favoring them and their cronies while exercising their discretionary powers. As superior officers keep rotating while lower ranking officials remain entrenched almost semi permanently in their positions, the latter create a deep-seated fear among those who dare complain against their misdeeds. The complainants are scared that if they lodge a formal petition against the high-handedness or extortionary practices of these lower functionaries to their superiors two possible outcomes are likely to ensue. First, if the superiors are allies in the corrupt practices of their subordinates the petitioners may be harassed and persecuted. Second, if there is an honest officer at the helm of affairs there may be no immediate retaliating action against the complainant but as soon as that officer is transferred, the person may be subjected to humiliation, revenge or retribution. Those who wish to get their work done therefore are forced to come to terms and yield to the demands of these officials. Unless this power asymmetry in the bureaucratic structure is reversed, corruption cannot be minimised. Ninety five percent of government employees in the federal and the provincial governments fall in this category.  Now let us examine this particular tragic incident. Compliance with the different rules, regulations, circulars and directives in force imposes a huge cost on the industrialists. Some of these rules and regulations are antiquated and have been rescinded, replaced or substituted. But as the knowledge about these rules and regulations is confined to the labour or building inspectors and is totally opaque, the factory owner pays a monthly sum to these inspectors to avoid their nuisance value. These inspectors have the powers to shut down the factory on flimsy grounds alleging violation of the opaque rules or by-laws causing huge financial loss to the owners. By paying regular monthly payments, the owners are in fact buying insurance against this high risk they can suffer at the hands of the government inspectors. At one meeting with the business community, I was given a list of 42 such officials representing different federal, provincial and local departments. The list may be inflated and some of the officials may be discharging their duties honestly but it is fair to surmise that these payments are being made to at least 25 to 30 departments and agencies. In return for this favour, these inspectors turn their face, ignore the violations committed by the owner, complete the paperwork and provide the required certification or clearance.  Let us look at the benefits and cost of this rampant practice. The benefits of these transactions accrue to the inspector and the factory owner. The inspector supplements his low government salary with this monthly payment. In an economic sense, a portion of the remuneration of the government official is borne by the factory owner who then recoups this and much more by evading taxes. The factory owner avoids the enormous cost of the shutdown of production that the inspector is empowered to carry out and also the cost of compliance of laws and regulations dealing with safety, hazard, standards, environment, health etc. The payment he makes to the various government inspectors is only a fraction of these potential costs and so he is better off by making these off-the-book payments. So if both the parties – the owners and government inspectors – mutually gain from this transaction then who bears the cost? It is the taxpayers, the employees and their families and the economy.  The government has to pay for the compensation of lives lost when a tragedy takes place and loses taxes evaded by these owners. The employees and their families suffer from the loss of lives and livelihoods and the economy because of the loss in production when tragic incidents such as the one that occurred on September 12, 2012 take place.  The inspectors and the factory owners will sooner or later get away scot-free by either paying their way through the police, or winning over witnesses or the lower judiciary. The probability of getting punished under the present system of administration of justice is so low that the economic calculus favours those who are bold enough to take the chance of indulging in corrupt practices.  How can this vicious cycle be punctured? It would require the reform of the bureaucratic structure, business process re-engineering, introduction of e-government, transparency and public disclosure of government rules and regulations and strict punishment to those who are found corrupt. These are the only sustainable ways to avoid tragedies of this kind and many other socio-economic, law and order and security problems which we face as ordinary citizens every day of our lives.  The writer is a former  Governor of the SBP. |