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“Dismantling the Corruption Mechanism in a governemnt”

by S L Rao‘

In the last 12 years the amounts of money illegally diverted to private hands from national resources have reached astonishing proportions. A few of the most notorious ones are well-known. The CAG estimated presumptively that well over Rs 1.70 lakh crore was lost to the country in the telecom 2G spectrum scam;1.86 lakh crores in the coal block auctions; that Praful Patel as the civil aviation minister ordered the ailing Air India to buy 68 planes and not 28 as was originally approved, and in order to do this, Patel gave “long-term perspective” as an excuse, while releasing valuable Air India routes to private parties; in 2010 the country lost Rs 70000 crores in the Commonwealth Games scam. Welfare schemes also have been a source of much theft and diversion of national resources to private hands. The public distribution scheme is said to have made rich men of many officers of the Food Corporation of India. By creating millions of bogus ration cards to divert subsidized grains to the market, many bureaucrats and traders made big money. It is estimates that 40% of subsidized kerosene for the poor is diverted for adulteration with diesel for trucks. . Money from the MNREGA scheme is said to reach perhaps 50% of its expenditures to desired beneficiaries. .Most government projects and welfare schemes have substantial diversion of resources illegally to private parties. These are said to include low and high level bureaucrats, politicians, Ministers and intermediaries. Intriguingly, though there are many newspaper report, and other documentation, it is difficult to name anyone who was arrested, punished and whose illegally gained assets were confiscated.

The administration and regulation of economic policies and enterprises is complex. Institutions were created after indepednence and staffed. Rules and procedures, were prepared. To ensure that they are followed, there has to be a frame of multiple approvals. These are revised periodically to make them stronger. Even when there is no doubt about eligibility, the laid down system has to be followed. I suspect that they are framed to enable easy diversion of funds to private use.

The “socialistic pattern of society” from the 1950s to 1980s taught people to trust government, not non-government organizations or business. Anyone working for private profit was suspect. State owned entertpises were set up through nationalization, to provide services to the public that were low priced. Profit making by them was incidental. The return on government investments was not the priority. .It was inevitable that over time these enterprises stagnated, made poor returns, many used state ownership to favour cronies. Both central and state enterprises were infected by the disease. Where they enjoyed a monopoly over raw materirals, imports, etc, they seemed to do well (for example, oil and gas, airports, ports, railways, power generation and transmission, etc). As the economy grew and private investment entered to give competition, many state enterprises declined. (for example, HMT, BSNL, MTNL, Air India, and many others apart from almost all state government owned enterprises.

In 1969 Indira Gandhi nationalized banks and insurance companies, ostensibly to be a boon for the poor and for agriculture and rural India which would now access credit easily.Control over funds for all purposes opened a fresh avenue for which rules and procedures could be devised. It enabled crony lending based on contacts than financial capability to repay. It significantly expanded opportunities for for theft by those who ran the system and the contact men who brought the two parties together.The financial pposition of state-owned banks is one sign.

Debt became the principal source of capital. Bank deposits were the primary ending source, not long-term savings. Government relaxed debt equity norms. This was done especially for high investment projects like infrastructure. In most of them the promoter brought in only 20 to 30% as equity . With so much civil construction in such projects, many promoters soon withdrew their contribution by taking illegal commissions from contractors.

Tax evasion, “havala” to accumulate capital illegally in overseas banks and benami investments in india, became common practice for many businesses (and intermediaries , government functionaries). Rigid licensing led to under invoicing of exports and over invoicing of imports so that funds could be illegally accumulated abroad. Now the Mauritius route, participatory notes, FIIs, give other ways.

To an extent some relaxation of licensing in the 1980s, and more from 1991 began unshackling the economy and enterprise from “license-permit raj”

It left intact the bureaucratic control structure over all business and investments by government departments and officers. Control raj remains. The difference is that the pickings are now much larger as evidenced by the many scams and the financial condition of state owned banks. In addition is the control exercised by state governments on acquiring land, giving pollution clearance, employing labour, etc.

In the new century many government owned national resources have become very valuabl. There is much money made in licensing, selling or just allocating them. These include coal, telecom spectrum, iron ore, airline routes, some road projects, toll ways). The investigative process is not geared for this scale of potential and actual thefts. Government employees found it very profitable to collude in them. The judicial process was too slow and tended after many years of meandering trials to either acquit for lack of enough evidence, or to let off the accused with nominal fines. Statutory regulators were created to rule on issues which could lead to large profit, or to sell natural resources (licensing, tariffs, etc).They have limited penal powers, and themselves are retired bureaucrats with strong government links. An exception was the Competition Commission of India which had powers to fine malefactor companies in proportion to their turnover acquired by using illegal means (like price collusion, combinations). Though CCI has fined many companies in cement, real estate, etc, thousands of crores of Rupees, very little has actually been recovered. Appellate Courts and the Tribunal have stayed them for years. This is a good example that our judicial system has not understood the damage to the economy because of misbehavior by enterprises

The present government shows no intention of changing the system as described nor moving obviously to a market economy. The system is rotten and has created methods for massive corruption and theft. It has to change drastically at all levels, administration, police, judiciary, regulators, procedures, rules, inspectors, multiple.clearances, quick investigation, severe punishments for those found guilty, and so on. A key reason for slow trials in Courts is the role of governments as the biggest litigants in India. Despite promises, government departments continue to appeal against all unfavorable judgments.

Easing the doing of business in India seems to be purely rhetorical. Unless there is reform at all levels we will not reduce corruption.

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