

Government causes Poverty through Corruption and Inefficiency

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Abstract: Governments are supposed to ameliorate poverty through redistribution programs that subsidize education, healthcare, food and housing. However governments are handled by politicians who are very corrupt. As if that is not bad enough governmental inefficiency is legendary. It would appear that all taxes are collected just to fund government and not government programs. It is obvious that this much corruption and inefficiency in government can cause poverty. Paradoxically, economists do not discuss corruption and inefficiency in government as much as they should.

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I. Introduction

Everybody knows that politicians are corrupt. And corruption takes tax payer's money and puts into a politicians pocket. And if corruption is making politician rich, it should be making ordinary people poor. And yet corruption is hardly discussed by economists, when all they think matter is unemployment, inflation and growth.

According to World Economic Forum, corruption accounts for 5% of global gdp according to UN secretary general Antonio Guterres[1] and that is a whopping 4 trillion dollars. In India, at 5% that would be 10 lakh crore rupees and that could double the income of bottom 50% of population.

As if corruption was not bad enough, there is inefficiency. The inefficiency could be overstaffing in government or huge land available to government at no cost. For instance Indian President stays in 360 acre house, and the interest on his house is 100,000 times his pretended salary. Also the over staffing in government is legendary – Governments in India spend almost 8% of GDP on salaries of government employees.

This paper discusses how government through corruption and inefficiency is a cause for poverty. Hopefully this will induce other economists to study this area.

Corruption is Anti Thesis of Government

Corruption is dishonest or fraudulent conduct by a person who is entrusted with power. Clearly what this means is that corruption makes the person in power rich. And it is a zero sum game. If in an economy at an instant someone is becoming inordinately rich without producing any goods or services in exchange, that means that person must be stealing it from someone else. And most studies indicate that globally corruption is 5% of GDP. Indeed according to Bibek Debroy, corruption in India also amounts to 5% of GDP.[2]

5% of GDP in India is huge amount. That is almost 10 lakh crorerupees(1 crore = 100,00,000 and 1 lakh = 100,000). Even if one assumes that 10 crore Indian families are poor, that amount would add 1 lakh rupees to incomes of those poor family, which will essentially double their income.

Now clearly this money is going into pockets of few politicians and officials. And we are talking of at most 100,000 politicians and officials which is 0.01% of population. So basically what corruption does is take money from 100% of population and puts into hands of 0.01% of population.

Now government is supposed to tax the rich so that the money so collected could be used to help the poor in form of subsidised education, housing, food and health care. What corruption does is take money from poor and not so poor and put it into hands of some people who become rich only because of corruption. Government is supposed to take money from rich and give it to poor. Corruption takes money from poor and makes some one rich. Now clearly corruption is antithesis of government. And the paradox is corruption is part of government.

Just imagine a nation where tax to gdp ratio is 15% and corruption is 5%. So what it means is that almost 33% of money taken by government in taxes is taken from poor to make some people rich without those people contributing to economy. It does not take one to be an economist to realize that 5% of GDP is a big amount – an amount that can double the income of bottom 50% of population.

Globally corruption is 5% of GDP which means 4 trillion dollars. Even 1% of that amount can make significant dent in the poverty of 1 billion poor people, increasing their income by 20%. Just imagine what 4 trillion dollars could do if it were used to ameliorate poverty.

Very shockingly, Economists do not study corruption as much as they should. Indeed remove corruption and economic problem gets solved. Corruption is the source of all poverty. If corruption can be contained then poverty would not be an issue.

Government Inefficiency is legal corruption

Sample a dialogue from Yes Minister, the popular BBC serial.

“23000 administrators in department of administrative affairs just to administrate other administrate other administrators’?”

“Directly responsible to me are 10 deputy secretaries, 87 undersecretaries and 217 assistant secretaries”

Rajiv Gandhi, Indian Prime Minister, used to say that out of 1 rupee I send only 16 paise reaches poor people.

Public sectors are inefficient. Hence in India the share of government is negligible in airlines, telecom, media and not substantial in banking and insurance. The good thing though is that in case of Public sector enterprises, the inefficiency is booting out by efficient private sector organisation.

However government is a monolith to which there is no competition. And hence tax payers money is used to prop up governmental inefficiency instead of fighting poverty.

And governmental inefficiency all boils down to ego trip of politicians. President of India and Governors of States of India together occupy more than 1000 acres of land. The Lutyens zone in India is almost 9000 acres meant to house a few thousand politicians. Graveyards of few leaders of India grab almost 260 acres of land. This when housing is expensive and almost 50% stay in slums.

Salaries of government servants cost almost 8% of GDP. It should be obvious that at least 50% of this can be reduced.

Thus governmental inefficiencies or legal corruption amounts of almost 5% of GDP. Just imagine a nation like India where tax to gdp ratio is 15% and governmental inefficiency is 5% of GDP, almost 33% of government money is wasted through inefficiency.

And you cannot prosecute the government. After all President of India stays in 360 acre house in a nation where 50% of people are in slums and 50% of people are malnourished and 50% did not have toilets and it is perfectly legal and honourable.

Economists must study Corruption and Inefficiency

Thus corruption and inefficiency can waste almost 10% of GDP. However economists do not seem to be too keen on studying corruption and inefficiency.

Economists must study corruption and inefficiency because 10% of GDP being wasted is a crime – legal crime in inefficiency and illegal crime in corruption.

Very shockingly economist pretend that corruption is no issue at all

John Maynard Keynes made a statement – “The ideas of economists and political philosophers are more powerful than is realized. Indeed the world is ruled by little else”

If Economist make Corruption and Inefficiency an important facet of their study, hopefully corruption and inefficiency will reduce.

References

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