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Study Of Factors Influencing Corruption: Case Study Of India

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Abstract

India is one of the largest democracy in the entire world and it is been plagued by high rates of corruption. (Jebamani, 2017). Corruption is rampant in India and is prevalent in every sector of the Indian society and it has caused maximum suffering to the human kind (Rajak, 2013). The study makes an attempt at identifying some key factors that influence corruption in India to a large extend. Study considers a set of variables including: Population, Economic Freedom, Political Stability and Trade Openness among the many others.

The study conducted was quantitative in nature and the data collected on various factors was of past 23 years. The results showed that economic freedom is the most significant factor influencing the Control of Corruption, followed by Trade Openness, Political Stability and Population..

Key words: Economic Growth, India, Indian Corruption, Control of Corruption, and Corruption.

“Without strong watchdog institutions, impunity becomes the very foundation upon which system of corruption are build on.”

- Rigoberta Menchu Tum (Nobel Prize Laureate)

Introduction

World Bank defines corruption as “the abuse of public power for personal benefit” (Bardhan 1997). The word corruption means destruction, spoiling or ruining of a society or nation. A corrupt society is characterized by immorality and lack of concern or respect for the law. it's the abuse of public power for personal gain. Corruption comes in many different appearances like fraud, extortion, bribery, embezzlement, misappropriations of public goods, nepotism (favoring family members for jobs and contracts) and influence pending (Rajak, 2013)

Corruption for any nation has fierce impact on its economic and societal development (Dimant & Tosato, 2016). The prominence of corruption in the public policy discourse in India has hiked up in recent years. This is, in part, a reflection of a series of high-profile “scams” that have occurred in the recent years. (Sukhatankar & Vaishnav, 2015). Corruption is widespread in India and is ever growing. India has been ranked 81st out of 176 countries in Transparency International's 2017 corruption perception index (CPI) (Jebamani, 2017).

The repercussions of corruption are broad, ranging from lowered economic growth to a distortion of public expenses, and are a major obstacle in a country's growth and development (Enste & Heldman, 2017). Corruption reduces public revenue and increases public spending. It thus, contributes to larger fiscal deficits, making it more difficult for the government to run a sound fiscal policy. Corruption is likely to increase income inequality



because it allows well positioned individuals to take advantage of the government activity at the cost of the rest of the population.

Therefore, lowering corruption in India is extremely important given its negative impact on growth. Hence, the study makes an attempt at identifying some key factors that influence corruption in India to a large extent. Paper considers a set of variables including: Population, Economic Freedom, Political Stability and Trade Openness among many others. The study conducted was quantitative in nature and the data collected on various factors was of past 23 years. Five hypotheses were formed and tested using correlation and multiple regression analysis.

The research was conducted with the following objectives in mind:

1. To find out the impact of Population and Economic freedom on control of corruption.
2. To find out the significance of political stability and trade openness for control of corruption.

To evaluate the above objectives the study first identifies key factors that influence corruption in India in the subsequent Chapter. Next chapter then quantifies the effect of these factors on corruption level in India. The study concludes with the policy implications and suggests that Economic freedom is the most significant factor influencing the Control of Corruption, followed by Trade Openness, Political Stability and Population.

Key Factors Affecting Corruption In India

Corruption is a phenomenon no country is immune to and it has fierce impact on economic and social development of the country. (Dimant & Tosato, 2016). Therefore it has become a matter of concern for both governments and political scientists. (Kundu, 2015). Corruption is widespread in India and is ever growing. The consequences of corruption are broad, ranging from lowered economic growth to a distortion of public expenses, and are a major obstacle in a country's growth and development.

Therefore, reducing corruption in India is imperative given its negative impact on development and to do so, identification of key factors that influence corruption at large is necessary so that needful policy measures are taken to curb corruption in India.

As per previous literature, major factors that influence corruption are: Trade Openness, Population, Public Budget, Economic Freedom, Political Stability and GDP per Capita (Altiner & Turedi, 2016). Out of these, the key factors that the study has considered are 1. Population 2. Economic Freedom 3. Political Stability 4. Trade Openness.

Economic Freedom is defined as every individual's right to control and choose their labour and property and the freedom to compete; without any state intervention. Excessive market interventions of preventive quality against free trade, imposed by the governments which possess monopoly power and decision-making authority, via taxes, licenses and various regulations; form a basis for the economic power to concentrate in a small part of the society and hence for the increase of corruption activities (rent-seeking) such as bribery, etc (Tanzi, 1998)

Trade Openness is accepted in the theoretical literature as one of the economic factors which influence corruption, trade openness has a reducing effect on corruption, that is to say, with the expansion of foreign trade volume, international companies administer significant amounts of bribe in order to win profitable foreign contracts, to get privileged access to markets or to ensure financial gains such as tax incentives.

Political stability is defined as the political system to be distant to violence, brute force, coercion and destructiveness; lack of any disruption at the political process. Political instability causes disruptions in the areas of economic stability, efficient and fair judicial system, and efficiency of public administration; each of which are among the fundamental tools for the countries in combating corruption. This circumstance weakens the capability of a country's policy and institutional framework to prevent and combat corruption. (Compante, 2009).



Population, defined as the number of people who live in particular area, city or country. Population has a negative impact on Control of Corruption. The increasing population increases the competition, whereas, the opportunities and resources are limited and hence, people resort to corruption activities (rent-seeking) such as bribery, etc (Tanzi, 1998).

The index for Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests. Control of Corruption Index is superior from Corruption Perception index and hence, it was chosen as the dependent variable for the study.

Having identified the key factors, the subsequent chapter quantifies the affect of these factors on corruption level in India.

Analysis Of Key Factors Influencing Corruption In India (1995-2017)

The study is based on the secondary data collected from the World Bank and Trading economics website. Data collected on all the selected variables is of the past 23 years (1995-2017). The regression equation is:

Equation 1:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where,

Y_0 = Control of Corruption: indicating the control corruption index ranging from -2.5 (most corrupt) to +2.5 (for the cleanest)

X_1 = Population

X_2 = Economic Freedom: indicating the level of economic freedom ranging from 0 (no freedom) to 100 (perfect freedom)

X_3 = Trade Openness: The proportion between total value of import plus export and GDP.

X_4 = Political Stability: Indicating political stability ranging from -5 (very unstable) to +2 (very stable)

Results and Discussion

To analyze the data, different statistical tools were used like mean, standard deviation and multiple linear regression. Cronbach's alpha is used to check the reliability and internal consistency of the data. Stata was used for the statistical analysis.

Reliabilitytest

This test is performed mainly to check the reliability and internal consistency of the sample data collected for the purpose of the study. The statistical tool used to conduct reliability test is Cronbach's Alpha. Any value above 0.5 is acceptable.



Table 1 reliability statistics

Test scale = mean(unstandardized items)

	N	PERCENT
CASES Valid	23	100.0
Excluded	0	0
Total	23	100.0

CRONBACH'S ALPHA	N OF ITEMS
.710	5

The perusal of Table 2 analyses that the Cronbach Alpha value is above 0.5 which shows a good internal consistency in the dataset.

Having found data to be reliable and consistent, Multiple Regression for the study has been done with the equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

The result obtained is detailed as under:

Table 2:R-Square

R Square	0.7966
Adjusted R-Square	0.7514
Root MSE	0.60558

Table 3: Multiple Regression

Variable	Standardized beta	Std. Err.	T stat	P value
population	-0.5638197	0.2186484	-2.58	0.019 (p<.05)
economicfreedom	1.063012	0.2753569	3.86	0.001(p<.05)
tradeopenness	-0.9909876	0.2341368	-4.23	0.001(p<.05)
politicalstability	0.6989166	0.1337488	5.23	0(p<.05)
_cons	2.735067	0.5016723	5.45	0(p<.05)



Dependent variable: Control of corruption

So, the multiple regression equation formed is:-

Control of Corruption = 2.7350- 0.5638(Population) +1.0630 (Economic freedom) -0.9909 (trade openness) +0.6989166 (Political stability)

The analysis suggests that if there is a 1 percent increase in Population and Trade openness, there will be a 56.38 percent and 99.09 percent decrease in Control of Corruption respectively. With percent increase in Economic Freedom and Political stability, there will be 106.30 percent and 69.89 percent increase in Control of Corruption respectively. The study hence, finds that Economic Freedom has the most significant influence on Control of Corruption and therefore, policies should be made to properly measure and promote Economic Freedom.

Conclusion And Policy Implications

Curbing corruption , a lengthy, expensive and rigorous effort has become a crucial agenda for India. In order to do so, understanding the factors that influence control of corruption is important. India is one of the largest democracy in the entire world and it is been plagued by high rates of corruption. (Jebamani, 2017). It has become the need of the hour to address the issue of rampant corruption in India and the first step towards it is to identify key factors that cause corruption to a large extent in India.

The purpose of this study was to identify factors that influence corruption in India..In this regard. Regression Analysis was conducted on data of past 23 years, using control of Corruption Index as the dependent variable. Empirical findings set forth that all the factors that were included do influence corruption in accordance with the theoretical assumptions. In this scope, as political stability and economic freedom facilitate the control of corruption and hence make a decreasing effect on corruption, population and trade openness on the contrary is a factors that has a negative effect on control of corruption, i.e., they increase corruption. suggests that Economic freedom is the most significant factor influencing the Control of Corruption, followed by Trade Openness, Political Stability and Population.

Interventions that are restrictive upon economic freedom level such as taxes, regulations, licenses, controls, quantitative restrictions should not be applied excessively. Instead of those, liberal economic policies which enhance competition and freedom should be conducted (Altiner & Turedi, 2016). It is accepted that corruption is especially higher in times of uncertainty, specifically in periods of political instability.In this regard, it should not be overlooked that prior to anything else, a strong and stable government is necessary for an effective combat against corruption, which would then result in higher growth of the economy. (ibid)

Also, the ever increasing population of India is a major problem and needs to be addressed urgently.The government needs to formulate policies to keep in check the country's increasing population as it not only a major influencing factor for corruption but for numerous other issues plaguing the nation. In order to curb corruption in India, trade openness needs to be restricted and to do so, stringent tariff policies are to be formed.

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