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## Trickle-Down Corruption and its Effect on the Indian Economy, Environment and Politics

### **Introduction:**

In 2017 Transparency International, a global organization aimed at exposing and measuring corruption in each country, ranked India 81 out of 180 countries on their annual Corruption Perceptions Index (CPI). That same year, a survey conducted by the Centre for Media Studies revealed that 27% of households in 13 states reported paying a bribe in order to avail basic public services in the last year (Economic Times, 2018). Corruption in India impacts people at all levels of society, however, the poor and disenfranchised are particularly vulnerable to its insidious effects.

For the average citizen, corruption impacts everything from consumer markets to national politics. There are many factors that contribute to corruption, including insufficient economic regulation and enforcement capacity. For the common man, there is a lack of representation and influence in local and national government, which can be attributed to vague political campaign finance laws as well as “revolving door” politicians, elected officials who move into the private sector after public service and vice-versa.

The most pervasive theme I have come across in my research on corruption in the private and public sectors is greed. Time and time again, the self-interested greed of the few outweighs

the needs of the many. As of late, the issue of corruption is getting more attention in pop culture through films, news coverage and televised protests.

In order to understand the effects of corruption, it is helpful to begin by examining those characteristics of the Indian economy that help facilitate it, most of which occurred in 1991 as a result of then-finance minister Manmohan Singh's extensive economic reforms.

### **Corruption and Economic Growth**

In 1991, India's economy underwent a drastic change. Neo-liberal policies were implemented in order to encourage trade and foreign investment and many Indian businesses were heavily deregulated during this time. Prior to these reforms, a number of industries were completely monopolized by the state under a tightly controlled state-licensing system. With the privatization of such enterprises and the liberalisation of trade policy, India's economy was transformed completely into a capitalist, globalist free-market. Prior to the economic reforms of 1991, India had protectionist trade policies, which were meant to encourage national industry. However, when India opened its doors to international trade, increased competition forced local manufacturers to increase the efficiency of production and lower the price of their goods, which, in turn, stimulated the economy. According to data provided by the International Monetary Fund, India's economy is the seventh largest in the world (World Economic Forum, 2018).

However, as Dr. Lunghar Jajo points out in his article entitled *Corruption and its Impacts in Indian Society: Causes and Remedies*, the exponential growth of the Indian economy has not benefited everyone equally. Issues of income inequality and rampant poverty are not being adequately addressed. As explained by Dr. Jajo, corruption "adds to the deprivation of the poor

and weaker sections of the economy” (Jajo, pg 2239). Dr. Jajo goes on to explain that there are several features of the Indian economic structure that make it particularly susceptible to corruption. After the 1991 reforms, what was once a heavily regulated, state-controlled economy became liberalised within a very short time-frame, causing an explosion in economic growth. However, India’s infrastructure and law-enforcement needed more time to catch up with the boom.

The exact causes of corruption are hard to identify and even harder to fix, but there are a number of stand-out issues contributing to the current circumstances. Dr. Jajo points to “a lack of enforcement capacity and regulatory complexity” and “inadequate regulation of political finance” as “deep-causes insofar as they reflect the key institutional parameters that define India’s corrupt environment” (Jajo, pg 2240).

By examining each of these factors in depth, I will demonstrate how corruption starts at the top with government policy and law enforcement and permeates every rung of Indian society leading to the current unfortunate situation India finds itself in today, where bribery and corruption are so widespread that many have accepted them as facts of life.

### **Regulation and Enforcement in the Consumer Market:**

While government regulation was reduced significantly after the 1991 economic reforms, businesses still have to abide by numerous operational guidelines in order to legally operate in India. The overarching purpose of these regulations is to preserve the public interest and mitigate market failure. With the privatization of the majority of Indian industries, the government had to establish new regulatory mechanisms and strengthen existing institutions in order to organize the

new economy. The Consumer Protection Act and the Bureau of Indian Standards Act (both of 1986) were implemented with the express purpose of maintaining consumer safety and keeping them informed about the products they purchase.

The Consumer Protection Act was passed to ensure that consumers are protected from unfair trade practices. It also explains the rights of the consumer in the event of a dispute. When the Act was amended in 1993, a section was added stating the consumer's "right to be informed about the quality, potency, purity, standard and price of the goods". The Bureau of Indian Standards Act established the Bureau of Indian Standards (BIS), a regulatory institution whose primary objective was to establish a standardized process for achieving particular levels of Indian Standard Certification (ISI mark). Industrial goods such as construction materials, electronic equipment and large appliances all require ISI marks in order to be legally sold. The ISI mark assures the consumer that the product was manufactured in accordance with the rules of the Indian Standards Bureau, and is therefore safe to use or consume.

Both the Consumer Protection Act and the Bureau of Indian Standards provide information, protection and assurance to customers about the products they purchase. However, even such robust regulatory institutions are not immune to corruption. While there are some manufacturers who will bypass the ISI certification process and simply forge an ISI mark on their goods, there have also been several documented cases of officials at the Bureau of Indian Standards accepting bribes in order to speed up the ISI certification process. In one such case, I. G. Venkata Narayanan, a scientist with the BIS, was prosecuted after it was discovered that he and another official at BIS, P. M. Murali, "demanded bribes from manufacturers of packaged

drinking water for the issuance and renewal of licenses and for ISI mark inspections” (Times of India, 2016).

### **The Long-Term Consequences of Corruption:**

There are both economists and politicians who contend that corruption “greases the wheels” of economic growth by allowing people to circumvent the impediments imposed by an ineffectual or otherwise obstructive bureaucracy” (Reyes, 2015). On the other hand, I would argue that while corruption can help businesses in the short-term by speeding up lengthy regulatory processes, it is the consumers and the national economy who ultimately pay the price.

If official certification bodies are not trustworthy, if they simply hand out stamps of approval to the highest bidder, then why would the consumer bother paying more for an ISI product if there’s no guarantee that it is genuine? In this regard, corruption compromises both consumer safety and confidence. If India wishes to attract foreign investment, it must keep in mind that domestic economic affairs and the level of corruption in a country are two pivotal factors taken into consideration by private firms looking to invest in a foreign country.

If India is perceived to have a high rate of corruption and economic instability, the country will be less attractive to foreign investors. In a recent Forbes article entitled *India’s Corruption Culture a Dangerous Game for Businesses*, Foreign policy expert James Owen aptly summarizes the challenges that both foreign and domestic firms are faced with while doing business in India:

The inherent opacity of India’s business environment, its weak enforcement of laws, and its complex and often inadequate regulations, make it a risky and perplexing investment. But

*any* company operating in India, domestic or foreign, is vulnerable to these widespread practices which have real power to facilitate or conceal serious malpractice (Owen, 2014).

The long-term consequences of corruption will damage not only the economy, but the environment as well. Corruption of public officials, particularly those responsible for safeguarding natural resources, has disastrous consequences for our planet. Environmental corruption is particularly detrimental to tribal and forest-dependant communities who are especially vulnerable to its consequences.

### **Corruption, Corporate Influence and the Environment:**

In an interview with Yale Environment 360, former Minister of Environment and Forests Jairam Ramesh (in office from 2009-2011) admitted that he was a self-described “economic hawk” when first elected to office, prioritizing economic concerns such as poverty alleviation over environmental concerns. However, he soon realized that the two were inextricably connected, stating point-blank that “In India, environmentalism is a livelihood issue” (Ramesh as interviewed by Christian Schwagerl). Ramesh goes on to explain the numerous reasons why the “grow now, pay later” economic philosophy present in so many developed countries is completely unsustainable and untenable for India. Nonetheless, there are innumerable corporations with vested interests in India’s natural resources. The immense amount of money at stake means that, despite environmental laws and regulations, forests and water resources continue to be destroyed at alarming rates to make way for industrial development projects.

India's economy is among the fastest growing in the world. The rate of consumption as well as the demand for new land and natural resources is at its peak. Unfortunately, there are a number of environmental administrators in India who are unable or unwilling to properly enforce stringent environmental laws. As a result, corruption in matters concerning the environment is rampant in India, leading to the misallocation and destruction of natural resources and the devastation of forest-dependent and tribal communities.

In a great many instances, corruption involves both corporations and the government working hand-in-glove, as in the case of Jayanthi Natarajan, the former Minister of Environment and Forests, who allegedly misallocated 55.79 hectares of forest in Jharkhand for "non-forest use". The land in question was a portion of a 192.50 hectare leasing proposal put forward by the Environmental Ministry on behalf of mining company Electrosteel Casting Limited. The company planned to use the 55.79 hectares of forest to open a steel plant. The proposal, which was re-submitted in 2008 and discussed in 2009, was rejected by then-Minister Jairam Ramesh because "the proposed mining area was part of the core zone of the Singhbhum elephant reserve and critical to wildlife conservation" (Hindustan Times, 2017). However, in 2012 Natarajan approved the proposal, an action which was in direct violation of the Forest (Conservation) Act of 1980. In September 2017, Natarajan's house and offices were raided by the Central Bureau of Investigation and a First Information Report (FIR) complaint was launched against her. The CBI pointed to evidence revealing "criminal conspiracy" between Natarajan and Umang Kejriwal, the managing director of Electrosteel Casting Limited.

The problem of corruption stems not from a lack of laws, but from their weak and irregular enforcement. There is also a significant gap in understanding between the government

and the people. As Jairam Ramesh put it, “People don’t see the environment as a luxury, but government gives greater priority to corporate interests. The corporate sector is extraordinarily influential. They get away with almost anything” (Ramesh as interviewed by Christian Schwagerl). The lack of corporate responsibility for industry-related issues like pollution exemplifies the environmental divide between corporations/politicians and the people.

Under the guise of promoting business and stimulating the economy, large corporations have been allowed to pollute India’s land, air and water with barely any consequences. Shockingly, although pollution in India is on the rise, the number of reports filed against people or corporations for violation of “Green Laws” is declining. Among such laws are the Air (Prevention and Control of Pollution) Act of 1986 and the Water Prevention and Control of Pollution) Act of 1974. According to records released by the National Crime Records Bureau, in 2016 there were only 25 cases registered under the air pollution act and 11 cases registered under the water act (Times of India, 2017).

Poor enforcement of environmental regulations on a small scale, such as crop and garbage burning, construction sites that generate dust and other pollutants, and car exhausts all contribute to air pollution. (Irfan, 2018). However, a significant amount of India’s air pollution can be traced to coal-fired thermal power plants and industrial waste. Despite government regulatory measures limiting such emissions and the establishment of institutions to uphold environmental standards, pollution remains rampant and woefully unmitigated.

There are State Pollution Control Boards (SPCBs) in every Indian state and they are charged with ensuring that all operations within their particular state are in compliance with the Environment (Protection) Act of 1986. SPCBs are supposed to function as advisors to the state



on matters relating to pollution and pollution control. However, in the past decade alone there have been multiple instances of corruption in these institutions. In 2012, surprise inspections of two regional SPCB branches in Karnataka confirmed that large checks were being written out in exchange for license renewals and no-objection certificates. Prior to the raid, there had been several complaints lodged against these branches from industrialists and others, claiming they were forced to pay bribes in order to access basic government services (The Hindu, 2012).

Additionally, the methods for hiring and promotion at SPCBs in certain states are questionable. Often there is significant overlap between political party leaders, their close associates, business leaders and those who are appointed as chairpersons of SPCBs. In 2013, *The Hindu* published an article exposing the unsatisfactory qualifications of several SPCB leaders. For example, in Uttar Pradesh, Waseem Ahmed Khan, son-in-law of Shahi Imam Ahmed Bukhari, was appointed chairman at the behest of Bukhari, a political leader in the Samajwadi Party. However, he was removed only 6 months later after a BJP party leader issued an adjournment notice against Khan for failing to stop the illegal slaughter of cows in UP.

In Sikkim, Ms. C. C. Sang Darpa was chairperson of the SPCB from 2005-2009 despite having only a tenth standard education. The appointment of unqualified individuals to important environmental protection offices is a clear violation of both Supreme Court guidelines and green laws, according to which “chairpersons should be qualified in the field of environment or should have special knowledge of the subject” (The Hindu, 2013). Another issue threatening the integrity of public officials in India is “revolving door” politics, defined as “the exchange of labor between upper echelons of government and business” (Clark, 1).

## **The Revolving Door and Campaign Finance:**

When lobbyists become politicians and vice versa, competing interests in the public and private sectors converge, having a detrimental impact on democracy. In India, lobbying occurs in the form of elaborate presentations made by corporate executives to ministers and civil servants. Within the Indian Law Journal there is no formal definition of lobbying meaning that these encounters take place between well-connected individuals outside of any kind of organized structure (Titus, 2007). The lack of oversight around such interactions allows corruption to flourish, as it did during the 2G spectrum scam. The 2G spectrum scam involved the distribution of frequency allocation licenses needed to operate in a particular telecom zone by government officials on a “first come first serve” basis in order to give certain companies an advantage (India Today, 2012).

In the dissertation entitled *Bribes, Campaign Donations and Revolving Doors: Endogenous Types of Special Interest Money* Simon Weschle examines the nexus of money and politics. Weschle paid particular attention to the circumstances under which Indian politicians accept bribes for the purpose of personal enrichment while still in office and found that politicians who felt a certain degree of “re-election potential” were more likely to accept such bribes. On the other hand, politicians who won by a narrower margin were more likely to accept money from special interests groups in order to finance reelection campaigns. In summation, “this points to marginal candidates investing special interest money to maintain their job, while more secure incumbents have sufficient leeway to enrich themselves” (Weschle, pg 56).

Although a lucrative field in many respects, politics has very high financial barrier to entry. The Association for Democratic Reforms is an Indian watchdog organization that conducts

audits of political financing. Their most recent report in conjunction with the National Election Watch is entitled, *Analysis of Donations Received by National Political Parties- FY 2016-17*. The report looks specifically at donations over Rs 20,000 , which, at the time of the report, was the largest donation a political party could legally accept from a single entity (the limit has since been lowered to Rs 2,000 ). The report revealed that in 2016-17, donations over Rs 20,000 received by the Bharatiya Janata Party (BJP) totaled Rs 532.27 crore. Far and away, the largest donor was the Satya Electoral Trust, who donated Rs 251.22 crore, which is 47.2% of BJP's total contributions above Rs 20,000.

The use of large trusts to make enormous contributions to political parties severely limits transparency in political finance. As such, the proliferation of such large contributions also undermines democracy, because the vast majority of smaller political parties don't have anywhere near the amount of corporate investors that the BJP has. Therefore, how can the smaller parties be expected to compete with campaigns funded by such large (mostly corporate) donations? Electoral trusts are organizations which raise funds through private citizens or companies. The two largest contributors to the Satya Electoral Trust are Bharti Airtel Ltd and Delhi Land & Finance Ltd.

Due to a recent amendment to the Foreign Contribution (Regulation) Act of 2010, both domestic and foreign companies can now make political finance contributions. Interestingly, the currently ruling BJP who passed the amendment was found to have accepted contributions from Vedanta Resources, a London-listed mining company between 2004 and 2012, a time during which foreign contributions were still illegal (Al Jazeera, 2018).

**Conclusion:**

Just as the theory of trickle-down economics provides that benefits such as tax cuts for the wealthy will “trickle-down” to the masses, I believe that trickle-down corruption starts at the very top but does not stay at the top. It impacts everyday people in almost every aspect of their lives. There are innumerable ways in which corruption makes it more difficult for the citizens of India to go about their lives in a sustainable, healthy, democratic manner. From consumer markets to national politics to the environment. Its detrimental effects are far reaching.

Consequently, the people of India have been pushing back against corruption by way of protests, education, political activism and by simply refusing to concede bribery demands from corrupt officials. I believe that the common man can stand up to corruption by leading a moral and honest life that is fair and transparent in every way because if we want to enact change, we need to start with ourselves. When we point a finger at someone, there are still four fingers pointing back at us.

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