

CHALLENGES OF RISING INEQUALITIES AND CORRUPTION IN GROWING ECONOMIES LIKE INDIA

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[Abstract: The World Economic History bears testimony to the fact that in the early stages of economic development, there is an increase in economic inequality which further leads to corruption. The emerging economies of Asia, Latin America and Africa are passing through such a phase. Western developed economies, too, passed through the same phase of economic growth. The US achieved maximum economic development during the late 19th century when foundations were laid for its Steel and Oil industries, and, with the opening of its Canal, Rail and Road Systems. A lot of municipal investments were made. While the entrepreneurial classes and political elites made their fortunes and lived in splendour, the workers and peasants led a miserable existence. Corruption had become a 'way of life'. However, following an economic shock in 1893 and with the rise of the educated middle class, the political classes closed their ranks while the entrepreneurs took to philanthropy with the twin objective of earning respect and creating an enabling environment abroad to access international markets and resources. Within the US, the levels of inequalities and corruption started coming down, so much so that today the US citizens associate day to day corruption and inequalities with the developing worlds. This paper, while taking an overview of the growing economies, particularly India, explores if and how such economies can reach such a threshold where rising inequalities, and ensuing corruption, can be contained while maintaining growth.]

Despite remarkable economic growth, the present situation in India is characterised by a pervasive detachment from the way things have worked out¹. India's recent growth has created billionaires to equal Vanderbilts, Carnegies, Rockefellers and Morgans of America. India has 6.9 per cent of world's 1000 or so billionaires, while its gross domestic product is only 2.1 per cent of world GDP. The total wealth of Indian billionaires is more than a fifth of the nation's GDP, equalled only by Russia. By comparison, the wealth of China's billionaires is less than 3 per cent of its GDP². There has been significant reduction in poverty, though the number of poor has exceeded the total population of India since getting independence in 1947³. There has been significant accretion of the Indian middle class⁴. Not surprisingly, a debate is generated—whether it is the institutions provided by the Constitution that have

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¹ Hussain, Dr Abid, a Background Paper on "Some Ideas on Governance".

² Sinha, Jayant and Ashutosh Varshney (2011), "It is time for India to rein in its robber barons," *Financial Times*, January 6.

³ Sardana, M.M.K. (2010), "Democracy, Development and Growth: The Indian Experience," ISID Discussion Note DN2010/04, October.

⁴ Panda, Bijayant 'Jay' (2011), "India's Gilded Age," *The Times of India*, April 30.

failed or whether the men who work these institutions have failed. Probably both.⁵ A large number of suggestions are available to steer the economy and the nation towards the stated objectives of removal of inequalities and upholding of individual rights otherwise anti-democratic forces would get encouraged.⁶ In furtherance of such suggestions several constitutional amendments have been made and a large number of institutions have been reoriented and created. Rule specific laws are being substituted by rights specific laws (RTE, RTI, Food Security Bill). Such socio-economic legislations require a paradigm shift in the matter of interpretation of Article 14, Article 21 and Article 19(1) (g) of the Constitution. Courts have come from formal equality to egalitarian equality to the concept of deprivation.⁷ Latest in the series being the Supreme Court's order dated 12th April 2012 which mandates 25 per cent free seats to the poor children (up to the age of 14) in government and private aided and unaided schools (but not in unaided minority institutions) uniformly across the country. However, the Indian polity continues to exhibit serious widening of inequalities, widening dispersion and sustained deprivation. Besides, the spectre of corruption in all walks of life seems deeply entrenched. India's economic boom has developed a split personality. Driven by energy, skill and ambitions, India's entrepreneurs are scaling new heights, but the underbelly of corruption in business and government has also surfaced with alarming clarity.⁸

Such a state of affairs is not unique to India but obtains in all the emerging economies like Brazil, Russia, China, South Korea, etc., which are geographically dispersed and are governed by different ideologies and regimes. The people at the very top of all the emerging economies are benefiting most, but the transition is also pulling tens of millions of people into the middle class and lifting hundreds of millions out of absolute poverty.⁹ A large number continue to remain trapped in poverty and despair while the business barons have hijacked natural resources and

⁵ *Op. cit.* 1

⁶ *Ibid.*

⁷ Law Resource India (2011), "When an Institution No Longer matters, we no longer matter," Speech on the occasion of Law Day 2011 by Shri S.H. Kapadia, Chief Justice of India.

⁸ *Op. cit.* 2

⁹ Freeland, Chrystia (2012), "Some See Two New Gilded Ages, Raising Global Tensions," *The New York Times*, January 22.

have been restraining competition in collaboration with the ruling elites. All this is reminiscent of the era of President Ulysses Grant (1869–76) of US whose Cabinet was packed with men who would invite indictments for all sorts of corrupt practices.

The causal mechanism that perpetuates inequality and corruption is universal: Unregulated capitalism generates both rapid growth and burgeoning inequality.¹⁰

A historical survey of the economic history of the world, from Bismarck's Germany to Japan after World War II to East Asia in the 1970 and 1980s, seems to testify to the fact that corruption and inequality are natural by-products of the early stages of market-based capitalism. This is supportive of Kuznet's curve which explains that inequality first rises and then falls with the level of development and skills of the human resource capital.¹¹

The world economic history also bears testimony to the fact that inequalities and subsequent corruption in the present developed economies tapered off after reaching an optimum threshold because of the straightening forces that developed after the threshold limit was crossed.

It would be instructive to go through the transitions that the American economy went through to reach the present day scenario where it is ranked among the lowest 10 per cent corrupt countries worldwide; and to most Americans corruption is something that happens to less fortunate people in poor nations and transition economies.¹²

Conventional histories of nineteenth- and early twentieth-century America portray its corrupt elements as similar, and at times equal, to those found in many of today's modern transition economies and developing regions. As late as the 1950s, cash-filled envelopes floated in the hallowed halls of the US Senate. Some of the greatest

¹⁰ "Is this India's gilded age?" *Mostly Economics*, 2011.

¹¹ Dehejia, Vivek H. (2011), "Escaping India's Gilded Age," *The Indian Express*, April 15.

¹² *Ibid.*

US universities were funded by individuals infamous for their roles in extracting public resources through allegedly corrupt political influence.¹³

Corruption within the United States appears to have followed something of an arc, beginning at a high level with a small increase and ending with a spectacular decrease. Rise in corruption across the nineteenth century can be explained by the increasing scale of both government and the economy. Vast increases in the budgets of local governments greatly increased the potential benefits of corruption. But the decline in corruption between the mid-1870s and 1920 was not associated with declining returns to corruption. Besides, the size of the government continued to increase. However, excessive corruption and inequality led to corrosion of political process beyond the threshold, so much so that it threatened to delegitimize capitalism and the market system. There were pressures from the growing and skilled middle class who had become vociferous in raising concerns in the media for the potential voters who are coerced—against their will—to hand over power and accept defeat from those adhering to corrupt practices. With the passage of time and the swelling of educated middle classes, the news media also asserted its freedom of detaching itself from the apron strings of the scheming politicians and corporate houses to determine their own free course. In the nineteenth century many activities were made legally actionable under the law with a view to bringing about competition and fair practices. Rules had replaced discretions in many areas, such as patronage. With the Press becoming comparatively free and facilitating free expression of political views, the corrupt activities were more likely to be reported everywhere in the United States. Voter expectations about corrupt behaviour changed and revealed that corruption was more likely to lead to a political defeat.¹⁴

The growing phenomenon of inequality and corruption in an environment of economic growth will take a while to run its course in all developed economies before a threshold is reached to stem the rot. The period required to reach such a

¹³ Glaeser, Edward L. and Claudia Goldin (Eds.) (2006), "Corruption and Reform: Introduction," a selection from a published volume from the National Bureau of Economic Research titled *Corruption and Reform: Lessons from America's Economic History*, University of Chicago Press.

¹⁴ *Ibid.*

threshold would depend on many interacting social forces in a particular country which would throw up leaders that come from different strata to cohere such forces to counterbalance the forces that seek to create inequalities that further create opportunities for corruption.

As mentioned in the earlier paragraphs, India, like many other emerging economies, is passing through that phase when growth is taking place along with widening inequalities and growing corruption. Characteristically, India's political system includes within itself a diverse society at equally diverse stages of development which pushes back the desired threshold point into the realm of indeterminate. Even in such a complex system, in the subsets, it is possible to discern that a threshold is within reach. Indian electorates, chastened by growing and mobile middle class and impacted by exposure to media and internet have aggressively championed good governance by voting to power a set of politicians, irrespective of their party affiliations, who have a comparatively cleaner image and also a development agenda at hand in their regions. Such regional leaders have not been hamstrung by the coalition politics prevailing in their states. Not surprisingly, such state leaders have a decisive say even at the Central level where good governance has been floundering on the bedrock of indecision and lack of courage in order not to risk an upheaval in the coalition Government. Resultantly, none of the credit for the arrests and charge sheets against prominent politicians and businessmen and bureaucrats has gone to the Central Government. Instead, it is seen as having resisted action until coerced by the activists, the media and the Supreme Court.¹⁵

In the recently contested elections in UP, Uttarakhand and Punjab, national parties like the Congress and BJP have not lived up to their stature and upward middle class voters have rejected their politics of caste and religion in preference to the promise of a better future for the voters. However, the hold of money power in these elections and more prominently in the recent Rajya Sabha elections has been seen to persist. In fact, the Election Commission had countermanded the Rajya Sabha

¹⁵ "The Gilded Age Summary & Analysis," *The Gilded Age*, shmoop.com

elections from Jharkhand after the votes had been cast because it was perceived that money power was used to influence the voters (state MLAs).

India is thus at a stage when forces leading to the threshold are steadily gaining strength in some pockets but in larger parts of the country the stage is yet far distant. Excessive corruption and inequalities corrode the political process and threaten to delegitimize capitalism and the market system, thereby creating pressure for reform and re-distribution of wealth. In India the political establishment has been quick to talk of 'inclusive development' as a political strategy to press ahead with economic growth and development. It is pragmatic to realise that without the natural redistributive tendency of a well-functioning and regulated democratic polity, the combination of crony capitalism and either repressive authoritarian or quasi-feudal paternalism is a deadly cocktail. Developing and emerging economies like India have to find a way to share the fruits of development more equitably and to curtail corruption, without at the same time cooling the engines of growth.¹⁶ Prime Minister Manmohan Singh called for a re-look at the rules of economic engagement by addressing the issues of deficit in global and domestic governances without letting to go of the benefits of globalised economy.¹⁷ Such strategies termed as 'strategy towards inclusive growth' get reduced to sustaining the ruling political parties in power and at the same time become mired in rhetoric by those opposed to policy change. Rather than causing social change, the social welfare policies get to subserve short-term electoral strategies. An essential feature of approaching the threshold for turnaround is that political parties, in emerging economies like the political parties in US at the beginning of Progressive Era and at the end of Gilded Age, have to have a common agenda of reform which can only emerge when public opinion in favour of such reforms becomes overwhelming, which no political group seeking to rule through the mandate of public can ignore.

Social change in America was made possible during the Progressive Era through a sustained and well researched campaign by journalists who exposed waste, corruption and scandal in the highly influential new medium of national magazines.

¹⁶ *Ibid.*

¹⁷ PM Manmohan Singh's speech at UN General Assembly on September 24, 2011.

Their exposures shook the American consciousness leading to enactment of enabling legislation to address the phenomena that reflects the dark side of growth. The captains among the entrepreneurs took on to philanthropy and charity in a professional way to channelize the forces seeking change into constructive programmes with a view to bringing out durable social change forcing a bipartisan agenda for rooting out corruption and containing inequalities.¹⁸

Such enabling boundary conditions should, on the theoretical plane, emerge much faster in the vibrant democratic environment, with the growing educated and upward mobile middle class and pervading impact of information and communication technology. However, the positive forces are not being cohered to bring about the desired directional changes. The electronic and print media have shown occasional sparks in exposing alliances between business, government and bureaucracy leading to capture of natural resources, flouting of regulatory processes and encouraging of non competitive practices but their campaigns have not been sustained till the logical end to ensure the end of such practices. Most of the Indian mass media is made vulnerable by the fact that a major share of its revenues comes from corporate advertisements. Further, the line between the media and big business has begun to blur. RIL virtually owns 27 TV Channels. But the reverse is also true. Some media houses now have direct business and corporate interests. For example, *Dainik Bhaskar* has 17.5 million readers in 4 languages across 13 states. It also owns 69 companies with interests in mining, power generation, real estate and textiles.¹⁹ The 24 x 7 news cycle (electronic media) is far disconnected from a persistent investigative journalism which would stir up the conscience of the Indian nation forcing the legislative and other institutions to bring about legislations to root out corruption and end inequalities. Nevertheless, it is largely due to the impact of media on civil society that baby steps have been taken in the form of Right to Information Act, MNREGA, etc. There is perceptible pressure to implement effective redistributive social policies which get skewed during the implementation stage thereby losing sight of the intended objective of ending inequality.

¹⁸ *Op. cit.* 11

¹⁹ Roy, Arundhati (2012), "Capitalism: A Ghost Story," *Outlook India*, March 26.

It appears that in emerging economies like India, the time span for reaching the threshold would vary from country to country and until then the resultant conflicts arising out of growth-related inequalities and corruption would have to be tackled by the leaders in these countries with judicious redistributive policies. If the crisis in a particular region or country becomes unmanageable, it would be a shock to the system as US went through economic depression of 1870s before it set itself to enter the Progressive Era, such regions and countries may evolve a consensus to tackle the dark sides of economic growth.

While emerging economies like India, China, Brazil, Russia, etc., are yet to come out of the first phase of their gilded stage (growth with corruption and inequalities), world economy is being reshaped by technology revolution and globalisation which is creating another (second) gilded age and a new plutocracy—the so-called “one per cent”—in the West. The first phase of the gilded age of emerging economies and the second phase of the gilded age of the developed economies are intricately linked and are unfolding simultaneously.²⁰ The resultant economic transformation is even more dramatic than in the Gilded Age (1865–1900 of US). Now, billions of people are taking part across much of the globe, not just the inhabitants of the West. We are thus in a multispeed world, when the entire world is industrialising and is interacting in a way not previously experienced and thus presenting challenges which are unique to its times. The gilded age of (inequality, corruption and growth) of emerging economies like China, India and parts of Latin America and Africa are industrialising and urbanising, just as the West did in the 19th century, and with the added impact of technology revolution and a globalised economy. The combined power of globalisation and technology revolution has turbocharged the economic transformation of the emerging markets. This has resulted in much more rapid growth in countries like China and India, because the policies and technologies in the West (pursuing second phase of gilded age) have allowed a lot of medium skilled

²⁰ *Op. cit.* 9

jobs to be done in these countries and thus the gilded age of the developing world is proceeding much faster than it did in the West in the 19th century.²¹

The superimposing effect of the two phases also magnifies the strains and conflicts arising out of the attended inequalities and corruption. Now that television and the internet can bring to vivid life the economic gap between a factory worker in, say, India and the things the middle class takes for granted in the West, even economic growth of 7 per cent or so might feel too slow. The same set of information and communication technology brings to life the spectre of shining India and the other India(s). That will be especially true when the rich in developing countries live a life of 21st century plutocratic splendour, including perks like a private jet or medical care that would have dazzled a Rockefeller or a Carnegie.

The stage of technology revolution associated with the second phase of gilded stage in the West is replacing blue collar factory workers with robots and white collar clerks with computers. The West is also participating in the gilded age of emerging markets like India. Those owning industries in the West now can either outsource their jobs to India/China and/or deploy many of the urbanising peasants of these markets. Thus, the plutocrats of the West are reaping the benefits of the first phase of the gilded age of the emerging economies and the 21st century technology revolution in the West. Such multiple effects hit the middle class in the West, which is being buffeted between two gilded stages at the same time. Their plight is further aggravated because of the continuing financial crisis.

Similarly, India's gilded phase is also being superimposed by the second gilded phase of the West making the transformation faster and effect of inequalities and corruption glaring and pervading. The political and social pressures are resultantly high because the rewards of conclusive shift are unequal.²²

At this stage of geographical divisions of the world, for the nations seeking to smooth the rough edges of development and growth with rising inequalities and

²¹ *Ibid.*

²² *Ibid.*

corruption, escape valves are no longer available as was the situation during industrial revolution of the West, when they could immigrate to the colonies and/or access their cheap resources through brute force. Even with such safety valves, the inequities created by industrialisation and urbanisation were to result in World Wars.

Thus, at this stage, the emerging and developed economies while keeping the gains of globalisation intact have to run their courses in accordance with the specific socio-economic and cultural milieu, at the same time devising area/region specific economic exchanges so that the gains of development are shared by the maximum number of people in their regions. Developing of appropriate economic exchanges for countries like India whose regions, on the usual economic parameters, are at vastly different levels of development is a challenge. In fact, if one views the situation in such countries as India through the lens of the gilded age, one would perceive that different regions are being impacted by layers of gilded ages of varying intensities simultaneously and thus the challenges before the leaders in such countries are enormous. Accordingly, the time span for such countries to reach the optimal threshold when inequalities and corruption would be overshadowed would be much longer. Such a time span can be shortened by the opportunities offered by information and communication technology, growing and skilled middle class and the electorates, being egged on by good governance to vote for right candidates overcoming the 'high on words' promises of the political class. In some regions and among many groups, enabling conditions for moving towards the threshold are perceptible but the momentum to raise the potential is not yet strong enough to realize that when people are empowered to vote out those who thrive on corrupt practices, then politics can be beneficial to development. Until then the set of tools available for economic analysis, as noted by the Asian Development Outlook 2012²³, will be targeted towards managing the potential conflicts resulting from Development. According to the assessment made in this report, the nation states would have to have efficient fiscal policies aimed at: spending more on education

²³ "Special theme: Confronting rising inequality in Asia," *Highlights—Asian Development Outlook 2012*.

and health, especially for poorer households; developing and spending more on better targeted social protection schemes, including conditional cash transfers that target income to the poorest, but also incentivize the build up of human capital; reducing or eliminating general price subsidies (such as on fuel) and compensating the impact on poor by targeted transfers; and, broadening the tax base and strengthening tax administration for greater and more equitable revenue generation. The nation states would be required to intervene to improve regional imbalances by improving transport and communication networks between developed and poor regions; creating growth centres in lagging areas; using fiscal transfer to poorer areas in order to accelerate investment in human capital and improve access to public services there; removing barriers to within country migration. Besides, the Asian Development Outlook 2012 suggests encouraging structural transformation to create a greater number of productive jobs, and maintaining a balanced sectoral composition of growth between manufacturing, services and agriculture; supporting development of small- and medium-sized enterprises; removing factor market distortions that favour capital over labour; establishing or strengthening the labour market institutions; introducing public employment schemes as a temporary bridge to address pockets of unemployment and underemployment.

Such prescriptions as above are nothing new; in fact intensely democratic countries like India have policies and programmes based broadly on the above lines, yet it appears that somewhere the delivery system is faltering and the achievement of the intended objectives has been eluding our grasp. From the tenor of Asian Development Outlook 2012 Report it appears that the economic exchanges, as being practised by the different nation states, are not enough to effectively curtail and control both inequality and corruption. Therefore, there has to be something beyond the economic exchanges that has to be brought in to sharpen the effects of such economic exchanges. Such an enabling environment can only be brought about by the Institutions and men governing such institutions. Even in the US, the Progressive Era could come about because of the realisation by the political and business classes that they had to overcome their greed in order to perform 'responsibly' towards the

people and the country. Such an environment can only occur when different segments of society including the educated middle class and the press are able to perform in an equally responsible manner freeing themselves from the 'apron strings' of vested elements.

According to the above yardstick of the American experience, the necessary conditions in countries like India are not sufficient. Even the corporate houses have not demonstrated the ability to stand up to the vision of creating a space for India which would finally become an instrument to subserve India's Foreign Policy and, on a long-term basis, establish India's supremacy in International Trade and Business. Their counterparts in the US took to corporate philanthropy in the early 20th century with the twin objective of gaining respectability among the rising middle classes in the US and also to open systems abroad to further their business with appropriate controls by setting up endowed foundations. Amongst the first foundations to be set up in the US were the Carnegie Corporation, endowed in 1911 by profits from the Carnegie Steel Company; and the Rockefeller Foundation, endowed in 1914 by J.D. Rockefeller; founder of Standard Oil Company. Rockefeller Foundation has supported/provided seed money to organisations like the U.N., the CIA, the Council of Foreign Relations, New York's Museum of Modern Art, etc.²⁴ The idea of these foundations, so ordinary now, was in fact of the business imagination. There were no tax-paying legal entities with massive resources and unlimited brief to parlay economic wealth into political, social and cultural capital and thus turn money into power on the international plane. A small percentage of profits were channelized to have a say in the world systems. This mode of pedalling in systems across the world has been continuing since; efforts have been made by such entrepreneurs who have gone beyond the call of duty of their mainline enterprise. For example, Bill Gates Foundation has qualified itself in designing education, health and agricultural policies for governments all over the world. When the foundations were taking shape in the early 20th century, US capitalism had begun to look outwards, for raw materials and overseas markets. To facilitate the creation of synergetic systems globally, the concept of global corporate governance was mooted. Towards integrating business

²⁴ *Op. cit.* 19

and corporate interests with the Foreign Policy Issues, these foundations set up the Council on Foreign Relations (CFR) which included a score of US foreign secretaries as its members. Members of CFR have gone on to occupy the office of the President of World Bank several times. Given that the World Bank has more or less directed the economic policies of the Third World, it bears testimony to the fact that US Corporate philanthropy has turned out to be most visionary business of all time. Such foundations have been able to create elite think tanks and clubs, whose members overlap and move in and out through the revolving doors to trade in power.

In 1973, a trilateral Commission on the lines of CFR in US was set up to create an enduring bond of friendship and co-operation between the elites of North America, Europe and Japan. It has now become a penta-lateral Commission because it includes members from China and India. Indian Members of this Commission are Tarun Das of the CII, N.R. Narayana Murthy, ex-CEO of Infosys; Jamshyed N. Godrej of Godrej, Jamshyed J. Irani of Tata Sons; and Gautam Thapar of Avantha Group.

The Aspen Institutes have been regionally created from amongst the local elites, businessmen, bureaucrats, politicians, etc. Aspen institute, India, includes Tarun Das, Gautam Thapar and several others.

In 1936, the Ford Foundation was set up with the avowed objective of deepening democracy and good governance. The Foundation also subserves the objective of standardising business practice and promoting efficiency in free market besides encouraging Centres for Study of Democratic Institutions, including funding of Universities and foundations in diverse fields of Arts, Science and Culture.

Thus, the US philanthropists set themselves the task of creating and training an international cadre that believed that capitalism was in their own self-interest.²⁵ The US philanthropists took a visualising step in the early part of the 20th century to establish hegemony of their interests in the world at large on a long-term basis and took away the negative effects of development away from the shores of their

²⁵ *Ibid.*

country to far beyond. The American corporations, even in the economic meltdown, are influencing the world economy generally as before.

The Indian corporate and industry leaders, taking a leaf from the successful corporate philanthropic model, have an opportunity to develop an indigenous model that seeks to address local disparities and cohere with the government in this regard to add strength to the Indian economy. Also, it will aim to carve out particular niches for themselves by matching the US philanthropic institutions aiming to have an effective say in shaping the future as Indians would wish. The skilled and growing middle class has tremendous potential and the leaders in the corporate and the government work out arrangements to give a free play to their creativity. In case of failure, the blame should entirely rest upon the leaders in government and the corporate in equal measure as they would be at the receiving end if rising inequality and growing corruption are not addressed in an optimal time span which allows them opportunities of managing the conflicts with ameliorating economic exchanges, which have proven limitations.