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Corruption and Development

It is difficult to offer a precise estimate of corruption in Pakistan though everyone suspects that it is fairly wide-spread. One rough way to estimate it is to examine those economic transactions which pass through the hands of civil servants, politicians and other influential groups in society and in which there is a distinct scope for corruption. These roughly amount to Rs.1,000 billion a year, broken-up into Rs.340 billion of tax collections, Rs.100 billion of development expenditure, Rs.20 billion of defence procurements, Rs.200 billion of loans from nationalized banks to private sector, Rs.40 billion of loans from DFIs and over Rs.300 billion of transactions by government corporations such as PIA, WAPDA, KESC, PTC, Railways etc. If the average margin of commissions/kick backs/corruption is 10% - 20% (which many may regard as an underestimate), then a crude estimate of corruption in Pakistan will range between Rs.100 billion to 200 billion every year, or 5% to 10% of total GNP.

The reason this should shock us is not because Transparency International has already ranked us as the most corrupt society in Asia and no.2 in the entire world. The reason we should worry is this : the budget deficit is largely a deficit of dishonesty. If corruption did not exist, we could either wipe off this deficit or even turn it into a surplus. Incidentally, this is not an indictment of any one government. The cancer of corruption has continued to spread more and more in the last few decades.

It is often argued that corruption has always existed in every society and we need not be so harsh on ourselves. But we must note three critical differences between corruption in Pakistan and corruption in many other countries. One, corruption often distorts our decisions and priorities : it is not a downstream phenomenon after good decisions have been taken upstream in national interest. Two, corrupt money often goes abroad and is not recycled within the country to grease the wheels of investment and production. And three, most important of all, no one gets punished for corruption. There is no accountability after a lot of noise is made in the system about cooperative scandal or Mehrangate or about several other scandals.

There are no easy technocratic solutions for such wide-spread corruption. In the last analysis, it requires a broad-based political movement and a moral regeneration of society. Unfortunately, the world has not discovered a substitute for a clean, honest government. But if such a government exists and if the political will is there, several steps can be taken.

First, stuck-up loans of Rs.123 billion can be recovered by immediately publishing the list of defaulters and freezing all their assets till these loans are paid. To remove this

malaise permanently, let nationalized banks handle only treasury functions and not lend to any private party which should be the function of private banks. Besides, speedy privatization of these nationalised banks will certainly help.

Second, better tax collections are possible only through a progressive documentation of the economy and transactions through cheques and cash registers which should be made mandatory. A fairer taxation system, proper tax payments by the ruling class and strict punishments for tax evaders must be a part of this package.

Third, it is best to privatise most public corporations, through the stock exchanges of the world not through government negotiations. This can help wipe off the entire domestic debt and save the budget from Rs. 120 billion of interest payments alone.

Fourth, a permanent judicial commission, consisting of eminent retired judges, is absolutely essential so that public cases can be pursued against alleged corrupt people.

Finally, we need more open, transparent procedures, less secrecy, and more control over the raw politics of money through land reforms, agricultural income tax, control over smuggling and drug trafficking.

But the unanswered question persists : who will take these steps if they hurt the ruling class itself?