

Impact of Corruption on Income, Inequality and Poverty in Bangladesh: A Review

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Abstract: This essay offers proof that poverty and income disparity are exacerbated by widespread and escalating corruption. The study addresses several ways in which poverty and economic disparity may be impacted by corruption. These results have an important implication: efforts that eliminate corruption will probably also reduce income inequality and poverty. Does corruption actually affect income inequality and corruption? I hope that this aspect will emerge clearly in my research.

Keywords: Corruption, Income, inequality, Poverty, Economic Growth.

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I. Introduction

In nations already struggling with the stresses of economic growth and democratic transition, corruption in the public sector defined as "the misuse of public office for private gain" is frequently seen as aggravating poverty conditions (low income, poor health and education status, vulnerability to shocks, and other characteristics). Alternatively, because of social and income disparities, as well as unfavourable economic incentives, countries with persistent poverty are thought to be the ideal environments for systemic corruption. The government's functions in resource allocation are distorted by corruption. It has been stated that those with better connections in society who typically come from high-wealth groups are more likely to benefit from corruption. Therefore, corruption would have an impact on both income distribution and broad macroeconomic indicators like investment and growth.

II. Research Methodology

This is a qualitative study and the nature of the research is analytical. The study is desk-based through the use of secondary data. The data collection method will be Content Analysis, Case Study and Interview methods. Content Analysis includes the analysis of newspaper reports, books, journals, and different websites. Data and information have been processed, analyzed and presented in text form to address the research question of the study. The responses were cross-checked with further than one crucial replier and/ or by secondary sources. The system of data collection was face-to-face interviews of officers grounded on guidelines of the open concluded questions. Thus, primary data were collected through a structured interview using both closed and open- concluded questions. A random slice system is followed and the total sample size is 50.

III. Objectives of the Study

1. To improve the understanding of the relationship between corruption, poverty and growth.
2. To determine whether corruption upon growth differs between democracies and autocracies.
3. To determine various channels through which corruption can affect income inequality and poverty.
4. To find whether corruption reduces public sector productivity or not.

IV. Research Questions

1. Does Corruption Affect Income Inequality and Poverty in Bangladesh?

V. Sub-questions

1. Does corruption cause growth or vice-versa?
2. Does economic growth is associated with poverty reduction?
3. How Corruption is associated with low economic growth?
4. Can corruption influence the quality of governance?

5. How poor class is affected?

VI. Literature Review

No single study is found titled “**Impact of Corruption on Income, Inequality and Poverty in Bangladesh: A Review**”. Few studies are found on the consequences of corruption on income inequality and poverty in the perspectives of different countries. To understand the relationship between corruption and income inequality and poverty in Bangladesh, I want to review some works related to the consequences of corruption on income inequality and poverty.

Boris Begovic in his paper "Economic Inequality and Corruption (2000)" mentioned that inequality can be one of the factors leading to the equilibrium in which one of the litigants acquires the case by bribing the official, not necessarily, even likely the decisive one. The consequences of corruption due to inequality, practically the effects of economic inequality stemming from the inadequate protection of the property rights of the poor.

Kwabena Gyimah-Brempong in his paper “Corruption, economic growth, and income inequality in Africa (2002)” found that corruption has a negative and statistically significant effect on the growth rate of income in African countries both directly and indirectly. He also said that corruption is appreciatively identified with income inequality, as measured by the Gini measure; a one-point increase in the corruption indicator is associated with a 7-point increase in the gain-measure of income inequality.

Eric Chetwyndet in his paper “Corruption and Poverty a Review of Recent Literature (2003)” The literature points to the conclusion that corruption, by itself, doesn't produce poverty. Instead, corruption directly affects economic and governmental variables, which operate as intermediaries and contribute to poverty.

Hamid Davoodi in their study “Corruption, Income Inequality and Poverty? (2002)” mentioned that high and rising corruption increases income inequality and poverty by reducing economic growth, the progressiveness of the tax system, the level and effectiveness of social spending, and the formation of human capital, and by perpetuating an unequal distribution of asset of ownership and unequal access to education.

All the studies above strongly make a relationship between corruption and income inequality and poverty in the contexts of different nations. However, the current study tends to focus on the effects of corruption on income inequality and poverty from the perspective of Bangladesh.

VII. Conceptual Framework

VII (a). Corruption

“Corruption is defined as the violation of the formal rules governing the allocation of public resources by officials in response to offers of financial gain or political support.”¹

“Corruption is a form of dishonest or unethical conduct by a person entrusted with a position of authority, often to acquire personal benefit.”²

VII (b). Scales of corruption

Corruption can occur on a variety of scales. Petty corruption, which involves small favours between a small group of people, grand corruption, which involves large-scale government interference, and systemic corruption, which is so pervasive that it affects every aspect of society on a daily basis and includes corruption as one of the symptoms of organized crime.

VII (c). Petty corruption

Petty corruption takes place when public servants interact with the general population and occurs on a smaller scale. Examples include the giving and receiving of little, impolite presents, using one's contacts to secure favours, or completing routine government processes quickly. Typically, officers in lower-level and middle-level positions who are grossly underpaid engage in this type of corruption

1 J.S. Nye, 1967, Corruption and Political Development: A Case-Benefit Analysis, APSR, Vol.61(2), P. 417

2. Cartier-Bresson, Jean. 2002, Undated. "Economics of Corruption." Spotlight Corruption Dollar, David and Aart Kraay, P. 34

VII (d). Grand corruption

Grand corruption is defined as corruption that requires significant subversion of the legal, political, and economic institutions and takes place at the highest levels of government.

Similar corruption is typically established in nations with authoritarian or autocratic administrations, as well as in those with ineffective anti-corruption enforcement.

VII (e). Systemic corruption

Systemic corruption, also known as indigenous corruption, is corruption that is predominantly brought on by the transgressions of a group or system. It can change depending on which officers or agents within the system are corrupt.

VII (f). Income Inequality

Income comprises the revenue sources from salaries and wages, interest on savings accounts, stock dividends, rent, and gains from selling items for a profit.³

Income Inequality refers to the gap in income between those who can be considered the rich of the population as opposed to the income of those who can be considered the poor of a population.⁴

VII (g). Poverty

World Bank: "Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low inflows and the incapability to acquire the introductory goods and services necessary for survival with quality. Poverty also encompasses low situations of health and education, poor access to clean water and sanitation, shy physical security, lack of voice, and inadequate capacity and occasion to more one's life."⁵

VII (h). Types of Poverty

The main two types of poverty are given below:

VII (i). Absolute Poverty

Abject poverty, extreme poverty, or absolute poverty refers to a state in which there is a severe lack of basic necessities such as food, clean water to drink, sanitary facilities, health, and information. It is based on both access to services and income.⁶

VII (j). Relative poverty

Relative poverty measures income inequality because it sees poverty as socially determined and depends on the social environment. Relative poverty is typically quantified as the probability that a population's income is less than a given percentage of the median income. In a certain time and place, relative poverty more accurately captures the cost of social inclusion and the equivalence of an event.⁷

Analysis

Data Analysis will appear based on fieldwork. Now I will discuss the qualitative analysis of the study. These are given below:

3. Barro, Robert J. 1996. "Determinants of Economic Growth: A Cross-Country Empirical Study." National Bureau of Economic Research Working Paper, 1998, P.78

4. Karstedt, Susan. 2013, Undated. "The Culture of Inequality and Corruption: A Cross-National Study of Corruption." Department of Criminology, Keele University, p.76

⁵ "Poverty and Inequality Analysis & quit; World Bank Paper, Retrieved 27 May 2011, P.67

6. UN declaration at World Summit on Social Development in Copenhagen in 1995, P.23.

7. Jonathan Bradshaw; (January 2012), Yekaterina Chzhen; Gill Main; Bruno Martorano; Leonardo Menchini; `Relation between poverty and Corruption, Chris de Neubourg, P. 23

VIII (a). Corruption Impedes Economic Growth

The relationship between corruption and profitable growth is complex. The profitable proposition supports the notion that corruption hinders profitable growth in colourful ways.

VIII (b). Corruption discourages foreign and domestic investment

Rent-taking increases costs and creates uncertainty, reducing incentives to both foreign and domestic investors.

VIII (c). Corruption taxes entrepreneurship

Entrepreneurs and innovators require licenses and permits and paying bribes for these goods cuts into profit margins.

VIII (d). Corruption Lowers the Quality of Public Infrastructure

Public coffers are diverted to private uses, norms are waived; finances for operations and conservation are diverted in favour of further rent-seeking exertion.

VIII (e). Corruption decreases tax revenue

Enterprises and conditioning are driven into the informal or argentine sector by inordinate rent taking and levies are reduced in exchange for nets to duty officers.

VIII (f). Corruption Diverts Talent into Rent Seeking

Officers who else would be engaged in productive exertion are compere-occupied with rent taking, in which adding returns encourages further rent taking.

VIII (g). Corruption Distorts the Composition of Public Expenditure

Rent campaigners will pursue those systems for which rent dogging is easiest and most stylish disguised, diverting backing from other sectors similar to education and health.

VIII (h). Bias in Tax Systems

Evasion, poor administration, and exemptions favouring the well-connected can reduce the tax base and progressivity of the tax system, increasing income inequality.

VIII (i). Reduced Economic Growth Rates Increase Poverty

There's substantiation that the absence of profitable growth (or negative growth) increases poverty. These studies show conclusively that income rises with profitable growth and vice versa. It should be noted that profitable growth doesn't inescapably lead to more equal income distribution; an increase in income may profit the better off rather than bringing the poor out of poverty. Income distribution seems to be an important moderating factor in the relationship between profitable growth and poverty reduction.

VIII (j). Corruption Degrades Governance

Particularly in the health and education sectors, this is true. Advanced profitable growth is typically related to improved healthcare, education, and population longevity. However, in highly corrupt environments, lower-income groups lose out on essential services when capital ferocious programs that provide more opportunities for high-position rent taking take precedence over public services like health and basic education, which are particularly beneficial to the poor.

VIII (k). Impaired Governance Increases Poverty

The deterioration in governance banded in this study was accompanied by an increase in both corruption and poverty. Therefore, as seen before, increases in corruption tend to deteriorate governance practices, but the rear

holds as well a reduction in governance capacity increases the openings for corruption.

VIII (I). Reduced Public Trust in Government Increases the Vulnerability of the Poor

Public faith in government institutions may suffer serious collateral harm as a result of corruption that lowers governance capacity. Exploration has revealed that the vulnerability of the poor increases as their lucrative output is impacted by the erosion of trust, a crucial component of social capital.

VIII. Limitations

Some limitations had to face when conducting this research:

1. Lack of available previous studies in this project.
2. Difficulties in getting an appointment for the participant.
3. There is a few relevant study or research work on this respective topic.
4. Lack of time, money and security for data collection.
5. It is a relatively small qualitative study
6. For the reason of less sampling of the study, the real scenario of Bangladesh may not be reflected.
7. As it was a crucial topic, there was a necessity for a long time but only 20 days was a very short time to conduct this research.
8. It is very time-consuming.

IX. Conclusion

The primary functions of government are the allocation of resources, the stabilization of the economy, and the redistribution of income. Corruption can interfere with these vital functions. These processes have various direct and indirect effects on poverty and how income is distributed. According to the Economic Model, corruption raises poverty levels by first affecting the drivers of economic growth. Economic theory and empirical data both show that corruption and economic growth are directly causally related. By discouraging both domestic and international investment, taxing and stifling entrepreneurship, lowering the standard of public infrastructure, lowering tax revenues, diverting public talent into rent-seeking, and changing the mix of public expenditure, corruption hinders economic progress. There is evidence that corruption not only hinders economic progress but also increases income disparity; regression research has revealed a positive association between corruption and income inequality.

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