

Corruption and Poverty¹

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Our country is in the midst of a social and economic crisis. In the latest World Bank estimates, 19% of the Filipino population are considered very poor. This means that 14.8 million Filipinos try to survive on less than an American Dollar (US \$1.00) a day. Despite economic expansion, however, there has been no improvement in economic conditions. Poor people have not been reaping the fruits of economic expansion, thereby worsening inequality.

The Philippine situation validates the finding in the World Bank report that economic growth does not automatically lead to poverty reduction. Francois Bourguignon, World Bank Chief Economist and Senior Vice-President for Development Economics." Other factors, according to the 2007 world development indicators include health care, education, and the business environment.

Corruption Causes Poverty

Poverty is not just about inadequate income. It is also about access to and the quality of essential public services that are vital to the poor, such as education, health, water and sanitation. All these are denied of 14.8 million Filipinos because of corruption.

Corruption hurts our poor directly by depriving them of sufficient economic opportunities, adequate representation and access to information. It instills in them the fear of harassment. It increases the cost of public services, lowers the quality of such services and most often restricts poor people's relationships with and trust for public officials, as well as the police who extort bribes from them.

Corruption thrives in an environment where the power of individual members of society, measured in terms of access to people in power and financial resources, supersedes the rule of law. The poor lack power and thus lack opportunity to succeed in such a society. They are more vulnerable to extortion and cannot use corruption in their favor.

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Indirectly, corruption hurts the poor because it acts as an impediment to economic growth, reinforces inequality, distorts public expenditure allocation and, through many other channels, is an obstacle to poverty alleviation.

Administrative Corruption

In the Philippines and other poverty-stricken nations, petty corruption in the provision of public services is an experience of everyday life. Money slips to the hands of the bureaucrat as an incentive to facilitate the issuance of a new identity card, as unofficial payment to get the vitamin pills intended for free distribution at the hospital, or as occasional bribe to the policeman to avoid harassment. While this sort of corruption affects society as a whole, it is the poor who suffer from it most. Empirical studies show that the poor give up a greater percentage of their income on bribes than the rich. A governance and corruption survey in Cambodia reveals that lower income households, on the average, spend 2.3% of their income on bribes compared to 0.9% for rich households (cf. diagnostic survey on Cambodia, in The World Bank, 2000b).

In addition, corruption eats into an already tight budget and extra expenditures mean cuts into allocations for basic needs. This aggravates the burden corruption places on the poor since the poor are more dependent on public services than the rich. The poor simply cannot afford to use private hospitals or private schools and therefore are more vulnerable to the demands for "grease money."

In some cases, corruption compromises the effectiveness of aid projects. Food or other forms of assistance intended for the poor get misallocated to the non-poor. Financial assistance is given only when there is an "excess" payment or it "disappears" before reaching the poor. In South Africa, an estimated 10% of the social security budget is lost due to fraud, theft and inefficiency. The key shortcomings lie in weak or non-existent auditing as well as management control and disbursement procedures. This has especially detrimental consequences for the poor since, on the average, one pension drawer supports 7 to 11 people with his pension, making it the most important poverty alleviation project in South Africa. (Camerer. 1997)

The effects of the various faces of corruption are not merely economic. They may also be profoundly moral and social. If rice in a government aid project disappears it erodes the poor's relationship with their community leaders and government officials. If policemen or teachers take advantage of their position to extract bribes they degrade their reputation and eventually lose the people's trust, destroying social capital and decreasing moral standards. Administrative corruption then becomes institutionalized as a way of "getting things done," eventually eroding the rule of law. Bribery becomes a habit and is imitated by other people in the community. Over time, people become lazy in following correct procedures.

Often, opportunities for corruption arise from discrepancies of power between public officials or community leaders who have control over goods or services, and the poor who lack education, knowledge, access to information, the financial resources as well as good connections. The poor are dependent on public officials or community leaders which explains why they are hesitant to speak up about corruption cases. Anyone of them may be heard saying:

I do not speak up because I am afraid that the next time around, when rice is delivered to my village, I will be excluded from the allocation.

Poor people's lack of power also stems from the lack of legal resources and proper representation. Property rights are often not well-established and access to courts depends on the power of the purse. Not having the means to bribe the judge often results in losing a case. In a country with a corrupt justice system, justice becomes a matter of negotiating a price, much to the advantage of the rich and powerful who have virtually no limits imposed on their actions. The poor encounter similar experiences in negotiating for justice. One family recounted its experience:

When we contacted a lawyer to defend our son in court he asked for P10,000 (Rp. 3 million) as a bribe to the judge. We were told by the police officer who handled the case that our son could be set free if we paid P1,000 (Rp. 300,000). We of course could not afford that amount of money.

State Capture

Corruption and poverty are linked through many indirect channels. Corruption adversely affects a country's ability to attract investment, the effectiveness of its institutions, income generation through taxation and hence, in the end, economic growth and poverty alleviation. A study (Gupta, et al., 1998) found that a 1% increase in aggregate growth is associated with only a 1.2% increase of income growth for the poor. Consequently, since corruption hinders economic growth, higher growth in corruption is associated with lower income growth for the poor.

Corruption affects the way money is allocated within the state budget, diverting expenditures away from less lucrative sectors, such as health and education, to high kickback areas such as construction. Budgets for operations and maintenance may also be disregarded in favor of new projects, leaving existing roads, hospitals and other public infrastructure to decay. Lack of precision in public expenditure planning can create opportunities for corruption and diversion of funds. At the same time, clearly allocated expenditures may never reach the intended recipients - a major source of deprivation for poor people. Thus, while corruption hurts society in general it hurts the poor most

since they are more vulnerable and dependent on the quality of governance and state support. (See Corruption, Growth, and Investment for detailed discussion).

Empirical analysis suggests that good governance reduces poverty while improving (or, at a minimum, not worsening) inequality (cf. Knack, 1999). Conversely, corruption feeds inequality.

In a corrupt system power is, to a large extent, based on asset ownership. The more assets an individual or group owns the greater is his/its chance of influencing policy-making. Assets can be used as collateral to borrow and invest, a situation that further perpetuates income inequality (cf. Gupta et al, 1998). Worsening inequality reduces economic growth which, in turn, leads to less poverty reduction. (cf. UNDP, 1997).

Corruption creates incentives for higher investment in capital-intensive projects at the expense of labor-intensive industries, which traditionally employ poorer people. (cf. UNDP, 1997). The more persistent the corruption and the more entrenched the vested interests, the stronger are the distributional consequences of corruption.

Small business enterprises turn out to be more exposed to the need for bribing than big companies. Cross-country data of 22 transition countries from the Business Environment and Enterprise Performance Survey show that small enterprises pay, on the average, more than twice as much of their annual revenue in bribes as large firms do. Moreover, the level of bribery at the household level is strongly correlated with participation in a micro enterprise.

What further disadvantages small businesses is the uneven distribution of risk between the poor and the non-poor, with the poor facing a larger risk premium for investment decisions (cf. Gupta, et al., 1998). This becomes particularly apparent when we compare small business owners' rights against the rights of conglomerates. Small business owners or petty traders are much more vulnerable to changes in regulations or economic shocks. They are also faced with greater uncertainty since they are vulnerable to changing rules (that are promulgated upon the behest of a corrupt elite) and often do not enjoy property rights or legal protection of such rights.

Conclusion

In sum, corruption is a violation of human rights. In fact, corruption is a gross violation of human rights.

Corruption endangers our country's social, economic and political future. If our children come to believe that personal efforts and merit do not count and that success is achieved through manipulations, favoritism and bribery, then the very foundations of society are shaken. If our political institutions lack political independence and our political leaders lack commitment to fight corruption at the highest level, we will continue to stagnate and wallow in poverty.

However, there is time to change all these. The question is: Who will take up the challenge to initiate the process of change? Will those with newly acquired knowledge for change such as those who have completed postgraduate studies, including lawyers, accept the challenge by taking part in electoral processes? They may find it enlightening to consider the immortal words of Plato: "Those who are too smart to engage in politics are punished by those who are dumb and corrupt."

