

Is Corruption Supporting or Dragging Incomes and Labour Productivity in BRICS Nations?

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The BRICS nations are well known to be consistently high growth nations for over more than a decade and a half now. Since the beginning of the new millennia, their growth rates have not only been more than that of the world average, they were also one of the first nations to recover from the aftermath of the North Atlantic Financial Crisis of 2008-09. This has enabled them to quickly rise up the world GDP ranks, with China already emerging as the second largest economy in the world, and the other three nations (Brazil, Russia and India) also not being far behind. This spectacular performance of the BRICS nations does not seem surprising, given the fact that all the five nations that make the BRICS group, have all the ingredients that are well recognised for fostering faster growth. High natural resource richness, gradually reducing economic restrictions, democratic political setup, governments committed to economic growth are among the few such factors.

But one another feature that is also true of the BRICS nations, which surprisingly has received little attention, is that all five of them are one of the most corrupt nations of the world. Besides, their corruption levels show no sign of abatement with their growth process, even during the 2000-2010 decade which was the golden era of their growth, although most theoretical and empirical studies on the corruption-growth linkup point towards a negative or inverse relation between the two. Their Transparency International's Corruption Perception Index has been consistently below 50 (out of 100, with 100 indicating the least corrupt and 0 indicating the most corrupt) and their corruption rank has been consistently above 50, since the inception of the series in 1996. Worse still, some studies even point towards an intensification of corrupt activities in these nations in recent years, in terms of the monies or kickbacks and the cadres of officials involved.

In such a scenario, it becomes imperative to study the role that corruption is possibly playing in their rising incomes and productivity levels. It needs to be discerned whether these nations are growing owing to the support provided by corruption in quickly and easily getting around rules and regulations and thus hastening investment, and inducing a greater work effort on part of the labour, or the other way round. Such a study is important to fully understand the growth process in general, and of the BRICS nations in particular. Besides, the BRICS nations also serve as an ideal ground for testing the corruption-growth link theory, as they can act as representatives of many different nations simultaneously. Like some of the most advanced nations, they are extremely resource rich, derive bulk of their output from the secondary and tertiary sectors, and are among the top ten nations of the world in terms of the GDP (except for South Africa). Simultaneously, akin to some of the most politically, economically and socially oppressed nations, the BRICS nations were also subjected to colonialism, communism, apartheid, and/or military dictatorship in the recent past. They are also alike many nations which are now trying to liberalize, globalize and privatize. But like many economically restricted economies of the world, they continue to lie in the 'Mostly Unfree' to 'Moderately Free' categories of the Index of Economic Freedom. Besides,

like some of the most backward nations of the world, the BRICS nations have continued poor levels of development, especially India. Yet, the BRICS nations as a separate group has never been tested in any corruption-growth linkup study.

In this context, the present study attempts to identify the role that corruption has played in their rising incomes over the 1996-2015 period. In this direction:

At first, besides the direct impact that corruption may have had on output by acting as an additional input in the production process by assisting in getting around cumbersome rules and procedures, this study also attempts to discern its indirect impact through affecting the efficiency of the other production factors (something which has not been studied previously in any such study for any nation). For the purpose, three different types of production functions are estimated.

Secondly, corruption is looked at differentially, both from the perspective of mere levels thereof, and from the point of the knowledge, training, skills, and experience embedded in acts of corruption (again something which has never been considered before). Afterall, corruption is also a human act and like all other human acts, corruption also involves an accumulation of knowledge, skills etc. overtime with greater practice, experience and exposure on the ways of getting around rules and regulations and handling and manipulating officials. This fact about corruption needs to be reckoned with.

Thirdly, for carrying out empirical analysis, both panel data and time series data analysis (for each of the BRICS nation separately) have been conducted, after duly testing for stationarity in both the cases. Time series investigations have rarely ever been carried out in any corruption-output linkup study. For panel data, both consolidated BRICS panel and an exclusively India-China panel have been investigated separately to confirm the OECD's Asian Paradox hypothesis. Incidentally, the two BRICS nations of India and China also happen to be Asian giants.

On this basis, it is obtained that corruption is indeed supporting the rising production or income levels in Brazil, India and China, by acting as a direct input in the production process. On the other hand, in four out of five BRICS nations (except for Russia) the corruption present in the system so much adversely impacts labour productivity that it renders the contribution of labour to output either zero or negative. But once the effect of corruption is removed, labour's contribution becomes more than that of even capital. This can in part be the reason responsible for obtaining insignificant labour coefficients in many studies involving estimates of production function, which has led many to arrive at the conclusion of a jobless growth. By contrast, in Russia, corruption induces a greater work effort on part of the labour.