CHAPTER 7

CONCLUSION-OBSERVATIONS-AND
INTERPRETATIONS
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7-1. CONCLUDING REMARKS

Corruption has been with us since the dawn of government. It is also anonymous and immeasurable. According to Caiden et al. (2001), "corruption is rooted in the very human vices of greed and lust for power... [It] is colorless, shapeless, odorless, collusive, secret, stealthy, shameless... It often leaves no trail but leaves impressions in human minds".

Corruption is endemic across the globe. No matter where you live, no matter where you do business, corruption is facts of everyday life in many societies. Corruption is an insidious scourge that affects us all. Until the early 1990s, corruption was hardly mentioned in official circles, although everybody knew it was there. It took great efforts and perseverance by many people to raise awareness of the corrosive effects of corruption on societies, and to put the fight against such a plague on the global agenda.

It is now widely understood that corruption undermines economic performance, weakens democratic institutions and the rule of law. It also disrupts social order and destroys public trust, thus helps organized crime and other threats to human security.

No country -rich or poor- is immune to this evil phenomenon. Both public and private sectors are involved. And it is always the public good that suffers. But corruption hurts poor people in developing countries disproportionately. It affects their daily life in many different ways, and tends to make them even poorer, by denying them their rightful share of economic resources.

Corruption puts basic public services beyond the reach of those who cannot afford to pay bribes. By diverting scarce resources intended for development, corruption also makes it harder to meet fundamental needs - such as food, health and education. It creates discrimination between the different groups in society, feeds inequality and injustice. Corruption discourages foreign investment and hinders growth. It is, therefore, a major obstacle to political stability, and to successful social and economic development.

Accordingly, societies have come to realize the extent to which corruption and bribery have undermined their welfare and stability. Governments, the private sector and civil society alike have consequently declared the fight against corruption to be of highest priority.

Some scholars also believe that corruption might have some positive effects on the political and socio-economic development in countries. The efficient grease hypothesis argues that corruption could increase economic growth because it acts as grease money, which enables firms to avoid bureaucratic red tape. Therefore, the only benefits from corruption would appear to be of the "grease-the-wheels-of-
bureaucracy" kind. It is argued that corruption helps to overcome bureaucratic rigidities and helps maintain allocation efficiency when there is competition between bribers. In other situations, small side payments to officials could speed up bureaucratic processes and hence promote economic growth. If this argument were valid, it would be an argument for the second best. The argument, however, is flawed both conceptually and empirically.

Lui (1985)² in support of this view showed that in a queuing model, corruption could be growth enhancing. In this respect the different of the size of bribes by different firms may reflect their different opportunity cost with respect to bureaucratic delay, so buying lower red tapes could increase efficiency.

In contrast, the second view rejects the notion that corruption could be efficiency enhancing. According to Shleifer and Vishny (1993)³, Kaufman and Wei (1999)⁴, the crucial assumption of the efficient grease model is that the red tape and regulatory burden can be taken as exogenous, independent of the incentive for officials to take bribes. The opposite view asserts that because the bureaucrats have discretionary power with given regulation, regulatory burden may endogenously set by corrupt officials such that they customize the nature and amount of harassment on firms to extract maximum bribe possible. In this model firms that pay more bribes could still

face higher, not lower effective red tape. Consequently, corruption could lower economic efficiency instead of improving it.

Mauro (1995)\textsuperscript{5}, Hines (1995)\textsuperscript{6}, Kaufmann and Wei (2000)\textsuperscript{7}, and Tanzi (1998)\textsuperscript{8} have also shown the negative effects of corruption on economic growth, on business development, on driving firms to the unofficial economy, on public expenditures, and on domestic and foreign investment. An empirical analysis conducted by Ades and Di Tella (1997)\textsuperscript{9} has lead them to conclude that corruption acts mainly as "sand-in-the-machine," neither does their research uncover any benefits associated with corruption in countries mired in red tape.

Kaufmann (1998)\textsuperscript{10} also shows that there is a positive relationship between the incidence of bribery in a country and the time that managers of international firms have to spend with bureaucrats. If the "grease-the-wheels" argument were valid, higher levels of bribery would be associated with higher levels of bureaucratic efficiency requiring fewer managerial efforts. The evidence presented by Kaufmann could indicate that once bureaucrats recognize the potential for enhancing their income through petty corruption, they enact regulations that require increased interaction between the managers and the bureaucracy. Thus, even if bribery speeds up individual

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\textsuperscript{7} - Daniel Kaufmann, and Shang-Jin Wei. "Does 'Grease Money' Speed up the Wheels of Commerce?" International Monetary Fund, 2000, Working Paper No. 0064
transactions, the number of required transactions in the presence of bribery may increase sufficiently to offset the efficiency with which each transaction is carried out. Petty corruption, moreover, rarely exists in a vacuum and small payments often lead to demands for larger payments. In turn, these lead to other distortions in the economy aimed at safeguarding the positions of those who benefit from petty corruption.

However, the aim of the research that was to investigate the political and socio-economic factors and consequences of corruption, and analyse the solutions of the problem of corruption, and bring out the priorities for remedial and preventive measures, has analysed a number of causes and consequences of corruption, and has also provided a synthetic review of recent studies that estimate empirically some of these links. In addition, though data limitations of research imply that the results must be interpreted with caution, evidences are established to show corruption may have considerable adverse effects on economic growth, investment, privatisation, poverty, government expenditure, resource allocation, political stability, legitimacy of government, political competition and civil society.

7-2. MAJOR FINDINGS

The causes of corruption are as varied as the phenomenon itself. Corruption results from the presence of a number of factors. The present study with a synthetic review of recent studies on corruption reveals that the causes of corruption are usually complex and rooted in a country's policies, bureaucratic traditions, political development and social history. Corruption
tends to flourish when standards are lax or poorly defined, regulatory institutions and enforcement practices weak, and government policies generate economic rents.

Therefore, the incidence of corruption is a result of the strength of incentives, the range and scale of opportunities, the availability of means and the risks of punishment. Corruption thrives on bad governance where controls are weak and decision-making is dark, arbitrary and lacking in accountability mechanisms. It is therefore more likely to flourish in dictatorships than democracies and where there are extreme inequalities of wealth and power.

The socio-economic and political consequences of corruption have been enormous in terms of a country’s socio-political and economic development. What has been conclusively demonstrated is that corruption has negative consequences on economic growth, administrative efficiency and political development.

Corruption poses a serious development challenge. In the political realm, it undermines democracy and good governance by subverting formal processes. Corruption in elections and in legislative bodies reduces accountability and representation in policymaking; corruption in the judiciary suspends the rule of law; and corruption in public administration results in the unequal provision of services. More generally, corruption erodes the institutional capacity of government as procedures are disregarded, resources are siphoned off, and officials are hired or promoted without regard to performance. At the same time,
corruption undermines the legitimacy of government and such
democratic values as trust and tolerance.

Corruption undermines economic development by
generating considerable distortions and inefficiency. In the
private sector, corruption increases the cost of business through
the price of illicit payments themselves, the management cost
of negotiating with officials, and the risk of breached
agreements or detection. Although some claim corruption
reduces costs by cutting red tape, an emerging consensus holds
that the availability of bribes induces officials to prepare new
rules and delays. Where corruption inflates the cost of business,
it also distorts the playing field, shielding firms with connections
from competition and thereby sustaining inefficient firms.

Corruption also generates economic distortions in the
public sector by diverting public investment away from
education and into capital projects where bribes and kickbacks
are more plentiful. Officials may increase the technical
complexity of public sector projects to conceal such dealings,
thus further distorting investment. Corruption also lowers
compliance with construction, environmental, or other
regulations; reduces the quality of government services and
infrastructure; and increases budgetary pressures on
government.

Corruption is also a global problem and exists everywhere.
It exists in the private and the public sectors, in rich countries
and poor countries. Corruption takes place in all kinds of
businesses, local as well as international. Thus corruption is not
only a national, but also an international problem. However,
incidence of corruption varies among societies, and it can be rare, widespread or systemic. When it is rare, it is relatively easy to detect, isolate, and punish to prevent the disease from becoming widespread. When corruption becomes widespread, it is more difficult to control and to deal with. But the worst scenario is when it becomes systemic. When systemic corruption takes hold of a country, the institutions, rules and peoples’ behaviour and attitudes become adapted to the corrupt way of doing things, and corruption becomes a way of life. Systemic corruption is very difficult to overcome and it can have a devastating effect on the economy.

However, tackling corruption is a crying need of today’s Iran. At the same time, it is understood that total eradication of corruption is not possible. But that does not mean in any way that corruption cannot be effectively contained. What has been realized is that in order to drastically reduce corruption fundamental changes must be brought about without any delay or hesitation. The new trend in the fight against corruption is putting an emphasis not only on efficiency but also on transparency and accountability of the public sector.

Experiences of some countries like Philippines, Uganda and Ghana have clearly indicated that corruption networks are extensive and cover within their realms public servants of all types. What is more alarming is that a rather cozy nexus exists among public servants and politicians in power to share the booties of corruption. Almost all efforts to contain corruption in these countries have been unsuccessful. On the other hand, experiences of Hong Kong, Malaysia, Korea and Singapore demonstrate in no uncertain terms that given political will and
the institution of appropriate anti-corruption mechanisms incidence of corruption can be drastically contained.

Therefore, some countries have succeeded in tackling this problem; others have not. Why did some succeed while others failed? Most likely the unsuccessful countries lacked sufficient political will and local mechanisms such as effective programs and infrastructure to prevent corruption. In some other instances the momentum needed to curb corruption has not insufficient. Local ability to combat corruption might have been constrained either by a lack of resources, a lack of skills, or insufficient efforts. However, corruption is a system and it can only be combated with a system.

Consequently, any serious strategy to attempt to reduce corruption will need action on at least five fronts:

1. Honest and visible commitment by the leadership to the fight against corruption, for which the leadership must show zero tolerance;
2. Promote strong coordination among governments, the private sector and civil society to increase efficiency and sustainability in anti-corruption and good governance efforts;
3. Policy changes that reduce the demand for corruption by scaling down regulations and other policies such as tax incentives, and by making those that are retained as transparent and as nondiscretionary as possible;
4. Reducing the supply of corruption by increasing public sector wages, increasing incentives toward honest
behaviour, and instituting effective controls and penalties on public servants; and

5. Somehow solving the problem of the financing of political parties. Societies can do much to reduce the intensity of corruption, but no single action will achieve more than a limited improvement—and some of the necessary actions may require major changes in existing policies.

Accordingly, corruption is a complex phenomenon that is almost never explained by a single cause. If it were caused by a single cause, the solution would be simple. Because of the complexity of the phenomenon, the fight against corruption must be pursued on many fronts. It is a fight that cannot be won in months or even in a few years. On the other hand, corruption is not likely ever to be fully eliminated but the objective is to minimise it so that it becomes an exception and not the rule, by turning it from a low risk and high return activity into a high risk and low return activity.

According to the plan of the research, the obtained data from primary and secondary sources were analysed and was observed that overwhelming evidences indicate the negative political and socio-economic consequences of corruption on society. Therefore, some socio-economic and political issues like economic growth, investment, privatisation, poverty, government expenditure, resource allocation, political stability, legitimacy of government, and political competition were examined and found that corruption affects them all negatively.

The research also revealed that the effects of corruption on economic sector are more harmful and touchable than other
sectors. On the other hand, the negative effects of corruption on citizens’ trust of the government, the legitimacy of the state and other above mentioned factors are noticeable.

In addition to the main question of the research and in order to better understanding and evaluating the issue of corruption in Iran, an opinion survey was conducted based on the objectives and questions of the research. Questions of the research and the major observations of the opinion survey are as follows:

7-2-1. Questions

1. What is the elite attitude towards corruption in Iran?
2. When has corruption reached dangerous proportions for the country?
3. How is the issue of tolerance with regard to corruption, that is willingness to pay bribe?
4. What is the elite attitude about the issue of corruption in the public sector?
5. What is the elite opinion about the main factors behind corruption in the country?
6. What is the elite opinion about the major political and socio-economic consequences of corruption in Iran?
7. What is the elite opinion about the main ways of preventing corruption in Iran?

7-2-2. Observations

1) Results of evaluating the first question of the research shows that corruption is the second biggest problem in the country after unemployment. The highest average mark 5.63
out of 6 belongs to unemployment and the average mark of corruption is 5.41. On the other hand, 81% of the respondents marked unemployment with most extreme mark-6. At the same time, 76% characterise corruption as being one of the most acute problems in the country.

2) Results of assessing the second question of the research reveals that corruption has become widespread about 15 years ago in the country. On the assessing when corruption reached dangerous proportion for the society, 56.3% respondents selected the forth option (others-indicate) and mentioned about 15 years back which refers to the reconstruction period after Iran-Iraq war and after starting the Socio-economic Development Plans in Iran. 27.2% of respondents have considered that corruption reached dangerous proportion for the society 10 years ago, 12% have selected the 6 years ago and 4.5% have considered the 3 years ago.

3) Results of evaluating the third question of the research shows that 36.7% of respondents have positive feeling about offering bribe, while 62% have negative feeling about it and don’t approve it. Since the respondents of the question are educated people, negative feeling about offering bribe is expectable on one hand, and more than 36 percent positive feeling about corruption are noticeable on the other hand.

4) Results of assessing the fourth question of the research shows that 41.2% of the respondents believe that corruption happens sometimes in the public sector. 6.3% believe that there is no corruption there and 5.7% have evaluated always. Therefore, results of the related questions of the survey for
assessing the fourth question reveal that corruption is available in the public sector.

5) According to the survey, results of evaluating the fifth question of the research show that the main cause of corruption is lack of an independent and efficient media with an average mark of 4.83 out of 6, and lack of trust among people and official has got an average of 3.21 mark as the least important factor. Therefore, this can be concluded that existing a strong and free press can be helpful to reduce corruption in the society.

6) Results of evaluating the sixth question of the research shows that the major political and socio-economic effect of corruption in the country are on poverty. In this connection, respondents consider poverty with an average mark of 5.57 out of 6, and civil society with 3.1 which is less affected by corruption.

7) Results of evaluating the seventh question of the research shows that downsizing the government, reduction staff in public sector and decentralisation of the government can be the most important remedial and preventive measures of corruption in Iran. Mentioned measure received the maximum average mark 5.41 out of 6 and financing the political parties by government received the minimum average mark 4.1. However, the average marks for all measures mentioned in the survey are near to each other and reveal that all are important for preventing corruption in the country.
7-3. RECOMMENDATIONS

Corruption is clearly a double-edged sword. If corruption is reduced, the process of the political and socio-economic development in the society will increase. A useful conclusion that has emerged from the current discussion and ongoing debate on the corruption issue is that corruption is a symptom of deep-seated and fundamental economic, political and institutional weaknesses and shortcomings in a country. To be effective, measures against corruption must therefore address these underlying causes and not the symptoms. Emphasis must thus be placed on preventing corruption by tackling the root causes that give rise to it through undertaking economic, political and institutional reforms.

Corruption is reduced by greater competition between separate political jurisdictions and stronger competition for political leadership. This implies that corruption is lower in decentralized political systems compared to centralized systems. Various studies do indicate that democracies generally appear to have less corrupt than totalitarian systems. Corruption is reduced when information is more easily disseminated to the public. That is why a free press is such an important protector against greater corruption. The press is more effective in better educated societies, and various studies have shown that corruption is lower when education is greater. Education also helps cut corruption by improving political institutions.

Combating corruption should focus on the reform of systems. It requires an economic approach, coupled with great political sensitivity. Therefore, anti-corruption enforcement
measures such as oversight bodies, a strengthened police force and more efficient law courts will not be effective in the absence of a serious effort to address the fundamental causes. Another observation that may be useful to bear in mind is that corruption is most prevalent where there are other forms of institutional weaknesses, such as political instability, bureaucratic red tape, and weak legislative and judicial systems. The important point is that corruption and such institutional weaknesses are linked together and that they feed upon each other. So, getting rid of corruption helps a country to overcome other institutional weaknesses.

The main conclusion to be drawn is that undertaking reforms (both economic and political) by reducing institutional weaknesses offers the best hope to overcome corruption. Corruption will not disappear because of reforms. But reforms will bring it under control and minimize its adverse consequences so that the country can proceed with its efforts to become a prosperous, modernised and developed.

Finally, to combat corruption, both hard and soft controls like legislation, regulation, top management commitment and support, commitment from government, commitment from employees and citizens, or use of internal and external audit are required. The strength of these controls depends on the individual or organisation utilising them and their attitude and commitment. Thus, the efforts to fight against corruption is recommended at several levels:

1. At the personal level, it requires complete rejection and zero tolerance of corruption;
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2. At the social level, the fight is rooted in an attitude that values ethical conduct and is steeped in the culture and customs of citizens, government and civil institutions;

3. At a pragmatic level, fighting corruption requires a strategic approach and perfect tools in the various spheres of social, economic and government activities that combine a good measure of prevention and surveillance with detection and repression;

4. At the institutional level, there is a requirement for unfailing vigilance at all times and on all fronts; and

5. At the political level, there must be leadership as well as willingness to adapt and to confront new challenges with determination.

7-4. SPECIFIC SUGGESTION

The present study on corruption in Iran and the experiences of other countries show that establishing an Independent Organisation Against Corruption (IOAC) can be an effective and efficient measure for preventing corruption.

However, fighting against corruption every now and then is an ineffective and inefficient way that people have been experiencing for a long time in Iran. Thus, establishing an 'Independent Organisation Against Corruption' as an important remedial measure can be both effective and efficient to prevent corruption in the country. This independent organisation can professionally fight against corruption. The existence of such an organisation will increase the experiences and skills to combat corruption. Therefore, this independent organisation should be
able to identify, inspect, control and prosecute the cases of corruption in the country.

The 'Independent Organisation Against Corruption' must be established according to the law. Its financial resources, independent, and accountability against society and public opinion should be clear. The political and financial independence of this organisation is vital. This organisation must not be dependent on the executive part of the government in Iran. Only the real independent and freedom will help this organisation to be both effective and efficient to fight and prevent corruption in the country. The top officials of this organisation should be appointed by a special committee including the executive, parliament, judiciary and civil society.

The mentioned organisation should be able to play the following roles in the society: (a) Inspection, probing and prosecuting; (b) Education, public awareness and informatics to public opinion; (c) Participation in legislating; (d) Supporting the people who disclose the corrupt practices and (e) Enabling the civil society to control the government performances through the access to information, etc. An autonomous standing committee to be formed with judges, senior public officials and leading citizens to oversee the activities of the 'Independent Organisation Against Corruption' (IOAC) as well as authorize investigation in ministries, corporations and other agencies by a statutory appointed and protected public prosecutor.

7-5. SUGGESTION FOR FUTURE RESEARCHES

The focus of this study was to study and clear up the socio-economic and political impact of corruption and bringing
out the priorities for remedial and preventive measures for corruption. However, there is no comprehensive study on the practical modalities for reducing corruption, especially in Iranian context. Such a study would require a very wide coverage of economic, social, political and institutional factors.