CHAPTER 1

INTRODUCTION AND BACKGROUND

1-1. OVERVIEW

Corruption has been an omnipresent and universal phenomenon which has co-existed with human society for a long time. Studies show that it is an ancient practice that has been traced back to pre-biblical times and made itself known in the ancient civilizations of China, Greece, India and Rome. In this regard, Thakur (1979)\textsuperscript{1} opined, “a review of penal codes utilized in various ancient civilizations clearly demonstrate that bribery was a serious problem among the Jews, the Chinese, the Japanese, the Greeks, the Romans as well as in the New World”. But over the recent decades, the issue of corruption, the abuse of public office for private gain, has attracted interest among academician and policymakers.

In countries developed and developing, because of accusations of corruption, governments were unseated, prominent political leaders have lost their official positions, and in some cases, political classes have been replaced. Scott (1972)\textsuperscript{2} in this regard believes that “corruption which previously had been mentioned only with caution, now seemed to acquire the formidable power to bring down regimes, cripple administration, and sabotage economic growth”. Recent researches (by the World Bank and others) have also demonstrated clearly that corruption slows down the economic development of countries, disables social services, retards the

establishment of civil society and disables business competitiveness.

Therefore, as evidence shows the cost of corruption to a nation is very high. It lowers investment, hinders economic growth, and undermines political stability, and human development by limiting access to basic social services as well as increasing the cost of their delivery. Elliott (1997) believes, “when corruption is pervasive and uncontrolled, thwarts economic development and undermines political legitimacy. Less pervasive variants result in wasted resources, increased inequity in resource distribution, less political competition and greater distrust of government”. He also adds, “creating and exploiting opportunities for bribery at high levels of government also increases the cost of government, distorts the allocation of government spending, and may dangerously lower the quality of infrastructure. Even relative petty or routine corruption can rob government of revenues, distort economic decision-making, and impose negative externalities on society, such as dirtier air and water or unsafe buildings”.

It is also believed that, in developing countries corruption might initially have some positive effects. Foreigners may be enticed to invest resources in a country if corrupt politicians give them special consideration or if laws pertaining to the regulation of commerce are overlooked. But studies offer that the negative effects of such corrupt activities quickly out-weight such short-

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2. Ibid
term positive effects, particularly if the corruption becomes entrenched and eventually institutionalised.

Iran, the area of the research, is a developing country which has begun its economic development plans about five decades ago. During a decade before the victory of Islamic Revolution in 1979 in Iran, the extreme increase in price of oil caused all economical programs to be changed. Foreign income of selling oil ended up with squandering and importing luxury and consumer goods. Expensing this amount of money in cities increased the volume of governmental organizations. Moreover it developed assembly industries and promoted villagers to immigrate to cities. Little by little, the manner of consuming and following “west” luxurious lives crept into Iranian society. Foreign products were welcomed by people. Importing and distributing foreign products was expanded thereafter. Along with the increase of prices of merchandise and inflation, the unproductive service activities were replaced with productive activities. Middle level of society, which had been formed many years ago, enlarged abruptly. Although the income of the people seemed to be increased, their distribution was done unfairly. The gap between the poor and the rich became wider and wider.

This transition period caused the increasing cost of government and resultantly corruption became more contagious in the society and among the officials of Monarchy. Collective hatred towards corruption of Monarchy in Iran was a significant cause that brought about the Islamic revolution of 1979. William H. Sullivan, the last US ambassador to Iran observed ‘the high
level of corruption among the officials of Monarchy as an important factor of collapsing Shah’s regime in 1979 in Iran⁵.

Islamic Republic of Iran was established when the Iranian ejected ‘Shah’⁶ from the power in 1979, and immediately after, the new constitution based on Islamic ideologies and values came into effect. Therefore, a corruption-free country expected to be established in the new era. In the first decade of the new political system in Iran, the level and prevalence of corruption was very low and there was no concern about it. But by the end of Iran-Iraq war in 1988 and beginning the development plans, the problem of corruption reappeared in the society and became people’s major concern, which still preoccupies their daily life.

In this connection, Transparency International Corruption Perceptions Indexes (CPIs) show that corruption is very high in Iran. According to evaluations by Transparency International, Iran is placed in a group of countries with a high index of corruption. On a descending scale of 10 to 0 (with 0 representing total corruption and 10 total lack of it), Iran scored 2.9 in 2005. According to this scale, in 2005 Iran is placed on 93rd place among 151 countries. (Appendix 1)

Increasing level of corruption in the country resulted that Iran’s supreme leader ‘Ayat-Allah Ali Khamenaei’ to issue a decree in ‘eight articles’ in 2001 about the problem of corruption in the country and asked officials to be more serious in combating and preventing it. Emphasising on lucid economic activities, avoiding of rent seeking, avoiding of monopolisation,

⁶ - Mohammad Reza Shah came to power in 1941 and after 38 years reigning, ejected by revolutionary people in 1979, through which Islamic Republic was established for the first time in the history of Iran.
resurrect the investment and employment are some specifications of the mentioned decree. The supreme leader in his decree which is known as a governmental decree, also asked to establish a special staff along with a comprehensive programme to fight corruption. Immediately after, a special committee was established to take the necessary measures against corruption. The president, the head of judiciary system, and parliament speaker were the members of this committee.

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. Corruption has become a highly topical international and development policy issue. It has also become a meeting place for research works pursued by different academic disciplines.

The present research which is limited to the period of the post-revolution of 1979 in Iran, intends to investigate the political and socio-economic causes and consequences of corruption and analyses the situations of the problem of corruption and bringing out the priorities for remedial and preventive measures of corruption in Iran.

Therefore, the research is arranged in seven chapters. The first chapter is introduction and background. The second chapter covers concept and nature of corruption. The third chapter deals with perspectives of corruption and other factors in society. The fourth chapter reviews the political and socio-economic issues of Iran. The fifth chapter deals with the socio-economic and
political causes and consequences of corruption. The sixth chapter is about the remedial and preventive measures of corruption with review of specific international trends. The seventh chapter presents conclusions, observations and interpretations.

1-2. DEFINITION OF CORRUPTION

This chapter deals with definition of corruption briefly, but the next chapter has details.

The Webster New World Dictionary defines “corruption” as; “the act of making, becoming, or being corrupt,” while “corrupt” is defined as 1. orig., changed from a sound condition to an unsound one; spoiled; contaminated; rotten; 2. deteriorated from the normal or standard; specif., (a) morally unsound or debased; perverted; evil; depraved. (b) taking bribes; venal...7.

The World Bank, the United Nation, the Council of Europe, the Organization for Economic Cooperation and Development (OECD), the European Community and a number of international anti-corruption organizations defines corruption as ‘an abuse of official position for one’s own benefit or for the benefit of another’8.

Therefore, corruption is in its simplest terms, the abuse of power, most often for personal gain or for the benefit of a group to which one owes allegiance. It can be motivated by greed, by the desire to retain or increase one’s power, or, perversely enough, by the belief in a supposed greater good. And while

politicians or civil servants most often apply the term ‘corruption’ to abuse of public power, it describes a pattern of behaviour that can be found in virtually every sphere of life. The challenges facing corruption analysts begin with how to define it. Most people know corruption when they see it. The problem is that different people see it differently.

However, by corruption, the researcher means “the abuse of power for private gain.” There are many kinds and types of corruption; petty corruption can be distinguished from grand corruption, while political corruption, bureaucratic (or administrative) corruption, and judicial corruption can be distinguished from one another. Likewise, corruption in the private sector can be included or excluded from the definition of corruption, depending on the purpose and the context of the term’s use. This thesis does not restrict its study on corruption to a specific kind or type of corruption. It also discusses with some limitations the political corruption, but at other times examines bureaucratic corruption or petty corruption as well.

1-3. STATEMENT OF THE PROBLEM

Studies reveal that corruption is a complex multi-faceted social phenomenon with innumerable manifestations. It takes place as an outcome of deficiencies in the existing public administration apparatuses and systems as well as cultural, economic, political and social factors. It hinders economic development, reduces social services, and diverts investments in infrastructure, institutions and social services.
In this line, Stapenhust and Langseth (1997)\textsuperscript{9} believe, “in a corrupt environment, resources may be directed towards non-productive areas—the police, the armed forces and other organs of social control—as the elite move to protect themselves, their position and their material wealth. Resources otherwise available for socio-economic development will be diverted into security expenditure. This, in turn, can cause the weakening of market institutions, as rent seeking, rather than investment, becomes the major objective of policy makers”.

Some observers have also argued that, corruption can have positive effects under certain circumstances, by giving firms and individuals a means of avoiding burdensome regulations and ineffective legal systems. But this argument ignores the enormous discretion that many politicians and bureaucrats have (particularly in corrupt societies) over the creation and interpretation of counterproductive regulations. Instead of corruption being the "grease" that lubricates the "squeaky wheels" of a rigid administration, it fuels the growth of excessive and discretionary regulations. The argument that bribery can enhance efficiency by cutting down on the time needed to process permits is also questionable.

In this connection, Kaufmann and Wei (2000)\textsuperscript{10} investigated that, available empirical evidence refutes the grease and "speed money" arguments by showing a positive relationship between the extent of bribery and the amount of time that enterprise managers spend with public officials.


Responses from more than 3,000 firms in 59 countries surveyed in the World Economic Forum's Global Competitiveness Survey for 1997 indicate that enterprises reporting a greater incidence of bribery also tend—even after taking firm and country characteristics into account—to spend a greater share of management time with bureaucrats and public officials negotiating licenses, permits, signatures, and taxes. And the evidence also suggests that the cost of capital for firms tends to be higher where bribery is more prevalent.

Therefore, the present research is "to investigate the political and socio-economic causes and consequences of corruption in Iran and analyse to better understand and provide knowledge about the problem of corruption and bringing out the priorities for preventing this phenomenon".

1-4. SIGNIFICANCE OF THE RESEARCH

Studies show that corruption is an ancient practice that has been traced back to pre-biblical times and made itself known in the ancient civilizations of China, Greece, India and Rome. But, if corruption has been an age-old phenomenon, deep-rooted evil and an universal malady afflicting each and every society in one form or another at one time or another, then why there is so much concern at the present time with corruption?

The most important reason why corruption has become great concern at the present time is that its effects can be seen in all walks of the life of the people. In this connection, Alatas
(1990)\textsuperscript{11} has commented, “corruption is trans – systemic and it inheres in all social systems- feudalism, capitalism, communism and socialism. It affects all classes of society; all state organisations, monarchies and republics; all situations, in war and peace, all age groups; both sexes; and all times, ancient, medieval and modern”.

The second reason that has made corruption more important to study is its prevalence as a global issue. In this regard, Heywood (1997)\textsuperscript{12} opined, “corruption has spread to new areas, and no state any longer seems safe, not even the most mature democracy”. He adds, “Corruption also by attacking some of the basic principles on which democracy rests – notably, the equality of citizens before institutions (that is, the idea that individuals should be treated with fairness and respect by government officials) and the openness of decision making (that is, crucially, accountability)- corruption contributes to the delegitimation of the political and institutional systems in which it takes root”.

The growth of both the Internet and media and also the birth of a new organization dedicated to publicize and battle corruption, ‘Transparency International’, which founded by Ex-officials of the World Bank as nongovernmental organization in Berlin, and also establishing several major international bodies, the Organization of American States, the World Bank, the United Nations, and the Organization for Economic Cooperation and Development (OECD), all have forced corruption out into the open and have helped keep it front and centre in the public eye.


Ultimately, according to the studies, some of the important and negative effects of corruption which imply its destructive role that make the study of corruption necessary are as follows:

Corruption undermines economic growth, by diverting resources to inefficient or unproductive sectors or actors; by reducing income tax and other revenue sources; by increasing the cost of doing business; by reducing the quality of contracted works; and ultimately undermines investor confidence and contributes to capital flight.

Corruption undermines poverty reduction efforts, as fewer resources will be available for social programmes; through poor targeting of beneficiaries, both in terms of the overall effectiveness of services, and making services accessible to more citizens on an equitable basis;

Corruption undermines the safety, environmental health and the sustainability of cities, health and zoning regulations are ignored; and by weak enforcement of environmental protection policies and regulations, may even compromise the needs of future generations;

Corruption threatens political stability, particularly in the case of systemic corruption. The loss of public confidence in the rule of law, justice and governance institutions can lead to political instability and even civil strife.

1-5. BACKGROUND OF THE RESEARCH

During the last decade corruption has become a highly topical international and development policy issue. It has also become a meeting place for research pursued by different
academic disciplines. The amount of research into corruption has expanded rapidly, taking many different directions. The subject can be sub-divided into various categories: effects of corruption, causes, methods of control, practice in specific countries, need for reform and reform methods.


Consequently, in recent years an increasing number of scholars have analysed the corruption in the world. Nevertheless, work on this important topic has been in Iran and research shows that any work on the political and socio-economic impact of corruption has not yet been done.
The present research is the first of its kind. Hope that this study breaks the taboo of studying corruption in Iran and other researchers who want the country to become prosperous and developed by getting rid of the disease of corruption, enter into this sphere before corruption become more contagious throughout the country.

1-6. OBJECTIVES OF THE RESEARCH

Evidences show that corruption is going to be widespread in Iran so that government's anti-corruption efforts have been criticised as being insufficient to stop its growth. Transparency International Corruption Perceptions Indexes 2003, 2004 and 2005 also place Iran in a group of countries with high index of corruption. (Appendix 1)

Therefore, the main aim of the research is to *investigates the political and socio-economic causes and consequences of corruption and analyse the situation of the problem of corruption and bringing out the priorities for remedial and preventive measures of corruption in Iran.*

Beside the general goal of the research and in order to enhance the research work, the following specific objectives will also be examined in the present research:

1- Assessing the elite attitude towards corruption in Iran;
2- To evaluate when the phenomenon reached dangerous proportions for the society;
3- To assess the issue of tolerance with regard to corruption, that is, willingness to pay bribe;
4- To evaluate the elite attitude about the issue of corruption in the public sector of Iran;
5- To evaluate elite opinion about main factors behind corruption in the country;
6- Assessing the elite opinion about the major political and socio-economic consequences of corruption in the country;
7- And eventually, to assess elite opinion about main ways of preventing corruption in Iran.

1-7. QUESTIONS OF THE RESEARCH

The main question of the research is as follow:

What are the political and socio-economic causes and consequences of corruption and priorities for remedial and preventive measures of this phenomenon in Iran?

According to the objectives of the research, the present research is also probing to find the answer for the following 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?

1-8. METHODOLOGY OF THE RESEARCH AND DATA COLLECTION

As literature suggests, corruption is perhaps one of the most sensitive areas of research, which faces a considerable methodological problem in terms of evidences and subsequent analysis. However, one of the key issues to any research work is its methodology and steps which are applied to collect the relevant data and analyse it to reach proper conclusions. The steps that are designed in the methodology must be appropriate to answer the questions or test the hypotheses of the research. In its most general form, the methodology should include the explanation of the research activities - data collection and data analysis. Therefore, this part explains how and why the researcher has obtained data and also describes the approaches that are used in the study in order to reach to the objectives of the research.

Data for this research was obtained from both secondary and primary sources. Primary sources were derived from questionnaire and related governmental reports and surveys. Secondary sources included published and unpublished academic and non-academic materials were used. Newspapers, journals, books, magazines, and the like data have also been utilized. In the present research, both methods of data collection have been utilized with the same emphasis and they have created valuable information for the research. Figure 1-1
shows the sources of primary and secondary data collection of the research:

Figure 1-1: Sources of primary and secondary data collection of the research

SOURCE OF DATA COLLECTION

PRIMARY SOURCES OF DATA
- Governmental Reports
- Interview
- Questionnaire

SECONDARY SOURCES OF DATA
- Internet
- External Sources

Published Sources
- Books
- Journals
- Magazines
- Newspapers

Unpublished Sources
- Theses

Listing of required information
- Framing the questions
- First draft of questionnaire and pre-testing
- Final draft of questionnaire
- Distribution of questionnaire
- Collecting questionnaire and analysing it
As shown in figure 1-1, to collect the relevant data through secondary sources, the most emphasis has given to library (external sources) and the Internet as another source of secondary data collection. To collect the data from the websites, only those data were picked out that original sources of those data could be found out. For this research the valuable websites like the World Bank, the United Nation, International Monetary Fund, Transparency International Organisation, the Organization for Economic Cooperation and Development (OECD), and some other international anti-corruption organizations have been used. External sources including published sources like books, Journals, Newspapers, Magazines, etc. and unpublished external sources like theses and related reports which were available in libraries have been used.

1-9. SCOPE AND LIMITATIONS OF THE RESEARCH

This study focuses only on Post-Revolution Iran. The study investigates the political and socio-economic causes and consequences of corruption during the mentioned period and tries to bring out the priorities in remedial measures for curbing corruption in Iran.

The research, no doubt, suffers from certain limitations due to the nature of Iranian administrative and political system. Iran, being a theocratic state tends to reflect certain autocratic tendencies that prevent the scholar to have access to certain sources as well as to opine freely on certain politically sensitive matters. However, utmost care is taken to maintain the objectivity in the study within the permissible limits. Limitations of the research may be listed as follows:
a) Population of the survey are Ph.D. and postgraduate Iranian students in India who are the representatives of the entire elite.

b) The findings of the research are also based on the ability of the respondents to inquire of the researcher and if the respondents haven’t given their true information it leads to marginal error.

c) Corruption is still a taboo in Iran and is not an easy issue to be dealt with and many obstacles hinder any research work.

d) Inadequate literature on corruption in Iran is also a problem.

e) Refusing the politicians, experts and even common citizens to comment explicitly about corruption is an important issue that made the issue of corruption more complicated to study.

f) Disclosing Bill of the name of the corrupt people has not been passed yet in the parliament of Iran and this hinders the research too.

1-10. SUMMARY

The overall scheme of the research has been presented and discussed in this chapter. After an introduction it has briefly defined corruption, described the problems under the study, significance of the research, background, objectives, questions, methodology and limitations of the research.