



Citizen Nades - The corruption-misery link

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The Foreign Corrupt Practices Act (FCPA) blog touts itself as the world leader for enforcement and compliance news and commentary. It culls reports from every nook and corner of the globe. It sends out bulletins every day, and reading them has become a daily routine.

As usual, there is a search engine. When you key in the word "Malaysia", several reports come springing up – both good and bad, and occasionally, some funnies.

Last week, there was a link provided to the work of Professor Steve Hanke of the Johns Hopkins University, who wrote: "Every country aims to lower inflation, unemployment, and lending rates, while increasing gross domestic product (GDP) per capita. Through a simple sum of the former three rates, minus year-on-year per capita GDP growth, I constructed a misery index that comprehensively ranks 108 countries based on misery."

The amount of misery is arrived at by adding the unemployment, inflation, and bank lending rates, and subtracting the percentage change in real GDP per capita. A higher misery index score reflects higher levels of "misery".

The five most miserable countries in the world at the end of 2014, in order were: Venezuela, Argentina, Syria, Ukraine, and Iran. Argentina and Ukraine moved into the top five, displacing Sudan and Sao Tome and Principe.

The five least miserable are Brunei, Switzerland, China, Taiwan, and Japan. The United States was ranked 95th, which makes it the 14th least miserable nation of the 108 countries on the table.

Naturally, the immediate reaction was to find out how Malaysia fared. We are ranked 101 – one notch below Singapore and six below the US. This puts us in the Top 10 least miserable nations.

Is there a connection between the World Misery Index and perceived levels of corruption? "Historically, corrupt countries have high inflation," says Hanke.

High inflation is one of the elements of the misery index. Two others – unemployment and bank lending rates – are usually driven higher by high inflation.

So when Hanke says corrupt countries have higher inflation, which means there's a link between the amount of corruption in the country and the misery there.

Commentators argue that the correlation isn't perfect. They contend that there are other economic policies and factors at play – personal savings rates, currency reserves, and so on. But by the numbers, the correlation between corruption and misery is there.

In the Philippines, the slogan used by one candidate in the presidential elections four years ago was: "Without corrupt officials, there will be no poor people."

Even the World Bank focuses on governance and anti-corruption (GAC) as it is commensurate with its mandate to reduce poverty — a capable and accountable state creates opportunities for poor people, provides better services, and improves development outcomes.

Michael Johnston in an article in Forbes magazine notes: "Corruption often conjures up images of people getting rich. But in fact, corruption's connections to poverty are far more numerous and pervasive. Corruption delays, distorts and diverts economic growth. It comes in a variety of forms, and while no two countries are alike, there are common dilemmas for all to see."

The links between corruption and poverty, he says, affect both individuals and businesses, and they run in both directions: poverty invites corruption, while corruption deepens poverty.

He theorises that corruption both causes and thrives upon weaknesses in key economic, political and social institutions.

It is a form of self-serving influence akin to a heavily regressive tax, benefiting the haves at the expense of the have-nots, says Johnston.

Trust – essential to financial markets and effective governments everywhere – is difficult to build in poor and corrupt societies.

Inexplicably, the link between poverty or misery and corruption is as visible as daylight.

Poor people and economically strapped businesses have few economic alternatives, and where serious corruption is the norm, they are even more vulnerable to exploitation.

If the enforcement authority officer delays the vegetable farmer at a roadblock and the farmer is compelled to pay up in order to transport produce, it may seem that the money is trivial, but they help keep poor people poor.

Should the misery index be taken seriously or used to measure corruption? Brazil ranks higher than Sudan for misery. Surely, the civil war, the starvation and the lack of clean drinking water in Sudan count for more in the index while Brazil's hosting of the World Cup and it being picked to host the next Olympics push it lower down the ranks.

The index seems restricted to measure inflation, unemployment and lending rates. The level of misery suffered by the people is not reflected and neither do the images of starving children whose bones are visible due to malnutrition.

The bottom line is that the children and women who suffer in Dafur, Donetsk, Birjan or Cardoba do not come under the radar when people drawing up the index do it in the comfort of their heated homes in winter in the United States.