

Economics of the broken window is applicable to corruption

4th March 2015

The Sirisena presidency and the UNP that championed it have been endorsed by the ballot with the hope that they will take action against the rampant corruption that was felt to be hurting the public welfare under the SLFP-led Rajapaksa presidency.

Two months into the new presidential term, two concerns are being raised. (1) That the progress against corruption is too slow (2) That actions against 'small fish' are unwarranted. This article provides insights from economics on the second concern and on the economic importance of countering corruption.

The second criticism, asking the government to leave the 'small infractions' alone has come into sharp focus recently with the charges against the wife of a prominent UPFA coalition member and minister of the Rajapaksa Cabinet. Since the analysis is not personal let's call her Q. The charge is that Q obtained a diplomatic passport providing false information of her birthdate. Prominent personalities have spoken up in defence of Q. In doing so their main argument seems to be that action against relatively 'small infractions' are unwarranted.

The Theory of Broken Window Policing

The broken window theory on policing basically states that small infractions left unchecked have a snowball effect. They end up in large crimes which are difficult and costly to fight. But when the policeman fights the small crimes – such as the breaking of a window with a stone while passing or vandalising with graffiti, then it snuffs out the oxygen for the large crimes as well. Not fighting the small crime gives the signal that the system is not watchful or doesn't care enough. The theory is supported with much empirical study by social scientists and real world applications.

The Economist of January 27, 2015 cites on this subject: People are twice as likely to steal an envelope with money sticking out of a post box, if the post-box is covered in graffiti. It also notes that applying the broken window theory, amongst other things, helped the City of New York to drop the murder rate from 26.5 per 100,000 people in 1993 to 3.3 per 100,000 in 2013. This was a profound achievement.

This Insight will point out that the broken window theory is applicable for fighting corruption in Sri Lanka today. Some explanations of how corruption spreads and clearing up misunderstandings about the benefits of corruption need to be dealt with on the way.

Corruption can spread like cancer

The simplest complete definition of corruption is that it is “the abuse of entrusted power for personal gain.” As being discovered with regard to crime, corruption is also contagious. Like a cancer cell, it can spread with worsening consequences. During the war with the LTTE in Sri Lanka, a few high-risk individuals were provided with motorcades which shoved aside other road uses and disregarded traffic rules. However, by 2014, despite the end of the war, the practice had spread through the system: dozens of ministers and security chiefs were doing the same.

Historically, the corruption in Sri Lanka’s bureaucracy generally started with the ‘small fish’: the clerks and the junior accountants, who secretly solicited payments to process paperwork. But over time, others soon came in on the take as well and the stakes became larger. Like a cancer, when the small instances go unchecked it can quickly spread to become an uncontrollable problem.

In a well-functioning economy, the profit motive of the private sector creates a strong incentive to research and innovate, which is the engine of economic growth and success. One of the major negative consequences of even petty corruption is that it starts skewing incentives of the private sector away from increasing profits through research and innovation towards increasing profits by taking advantage of those corruption opportunities.

The resulting weakness in research and innovation has a much greater unseen impact on the economy. The South Asian region has amongst the lowest level of spending as a percentage of gross domestic product (GDP) on research and development in the world and Sri Lanka has the lowest level of spending even in the South Asian region.

The spate of Supreme Court judgements in 2008 and 2009 revealing corruption involving large private firms and government bureaucracy, going all the way up to the ex-secretary of the treasury, shows how corruption can spread like a cancer through the whole system. This modus operandi of businesses securing profits in cahoots with corrupt politicians and officials also provides some explanation for the low interest in research by the private sector in Sri Lanka.

Does corruption grease wheels of economics or put sand on them?

Greasing wheels: Just as the Singapore success story is terribly misused and misapplied to justify an authoritarian government, so also the 'efficient grease' hypothesis in economics is misunderstood and misused. The hypothesis is that in a poorly paid and lethargic government department bribes can motivate and improve performance, giving people a better service for a fee, such that everyone is better off. The department for the registration of motor vehicles, in days past, would be a possible example. This hypothesis has some validity to broken down systems of public administration where the economy is in a poor state. But there is no developed economy which operates on the basis of this hypothesis.

Sanding wheels: In fact, as an economy develops, the more potent hypothesis is the one that shows how corruption sands the wheels of economics rather than greasing them. That is, as corruption opportunities get normalised, officials, seeing the benefits, frequently redesign procedures and policies to create problems that they have the discretion to solve, thus increasing the scope and opportunity for corruption.

For example, to paraphrase a frequent mantra of high-level Central Bank and Finance Ministry officials in the last few years in Sri Lanka: "don't worry about the problems you think our policies create, if you are a genuine investor then we can always make exceptions for you, come and talk to us."

Another vivid example of the 'sanding' result in Sri Lanka is probably the long drawn out attempts by the business community and other arms of government to introduce an Electronic Document Interface (EDI) to the Customs Department. This is a critical factor in making Sri Lanka competitive in trade facilitation and enabling the logistics hub concept to succeed.

EDI would speed up processing, reduce workloads, improve documentation, save time and result in much greater efficiency for all parties. But it would also undermine a prevalent and predictable form of corruption that has long existed in the customs department. The attempts to introduce EDI have been long frustrated by the Customs Department for almost two decades and even to date has achieved only limited implementation with regard to select industries.

The Broken Window Theory applies to battling corruption

The theory of broken window policing applies to fighting corruption as well. The city of New York followed the theory and went after the 'small fish' without waiting to catch the 'big fish' first and achieved success. That it applies to the current corruption problem in Sri Lanka can be seen by the arguments critiquing government in the case of Q with which this article began.

Popular author and tutor Upul Shantha Sannasgala has strongly defended Q. His argument is that action against Q is unwarranted, in short, that the broken window should be left alone. But his attempt to substantiate his case in fact helps to show why the argument is wrong.

Sannasgala, as reported in the press, says in defence of Q that 'numerous people falsify documents'. The main example he cites is the falsification of documents to circumvent distance rules in gaining admission to prestigious schools such as Royal College. He is quoted stating that he too prepared false documents to enrol his two sons into Royal College (though they failed to gain admission).

That Sannasgala sees a rough equivalence between Q's falsification of birth records for a diplomatic passport and people falsifying addresses to gain school admission shows the beginning of the snowball effect envisaged in the broken window theory and points precisely to the importance of going after the small infractions.

Newspapers also claim in relation to Q's defence that a record number, approximately 2,000 people, received diplomatic passports under the previous government. Diplomatic passports carry with them certain benefits. Chief among these is that holders can usually avoid security and customs checks of their baggage. That means abuse in the issuing of diplomatic passports can then snowball into smuggling rackets involving gems and drugs and at present, precisely such issues are being investigated as well.

Lessons for government and the public

Sri Lanka was ranked 78 in Transparency International's global corruption index in 2005 but by 2014 it was down to rank 85. Evidence over a long period shows that economic success cannot be sustained in the face of increasing corruption. There is in fact a very strong correlation in the world economies between higher per capita incomes and lower levels of corruption.

Public questioning on the actions against Q shows that Sri Lanka as a society has been corroded by decades of unchecked corruption. Like the city of New York in 1993, the problem is large and the society is highly infected. The broken window theory suggests that counter action should begin at every level and be especially tangible at the first stages of the cancer.

A problem would occur if the 'big fish' are protected while the 'small fish' are prosecuted. But then the criticism has to be with regard to protecting the 'big fish' and the corruption of the policing system in doing so. As long as honest attempts are made to fight corruption there is every reason to chase after the small fish – that is the application of the broken window theory to fighting corruption.

(Verité Research is an independent think-tank based in Colombo that provides strategic analysis to high level decision-makers in economics, law, and media. Comments are welcome. Email publications@veriteresearch.org)