Aspects of Moral Change in India, 1990–2006: Evidence from Public Attitudes toward Tax Evasion and Bribery

M. NAJEEB SHAFIG
University of Pittsburgh, USA

Summary. — Observers have asserted that India’s economic rise coincides with moral change. This study assesses some notable aspects of this claim by using public attitudes toward tax evasion and bribery as indicators of moral values. Using repeated cross-sectional data from the World Values Surveys, I find that tolerance for tax evasion and bribery grew relatively slightly from 1991 to 1996, and then increased rapidly from 2001 to 2006. Double-interaction regression models show tolerance converging by gender and religion, and tolerance diverging between the poor and non-poor. However, the regional patterns are complex. Finally, university educational attainment is associated with decreasing tolerance.
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1. INTRODUCTION

India’s spectacular economic rise has been well documented and debated (e.g., Bhagwati & Panagariya, 2013; Datt & Ravallion, 2011; Dreze & Sen, 2013; Kohli, 1989; Kotwal, Ramaswami, & Wadhwa, 2011). From 1991 to 2006, India averaged a real GDP per capita growth rate of 6%. Despite the population count surpassing the 1 billion mark over this period, national poverty shares decreased from approximately one-third to one-quarter of the population. But has India’s economic rise coincided with moral change? At a 2010 conference, the former President of the Indian Congress Party, Sonia Gandhi, remarked:

The country’s economy may increasingly be dynamic, but our moral universe seems to be shrinking… The principles on which Independent India was founded, for which a generation of great leaders fought and sacrificed their all, are in danger of being negated.

Numerous journalists, politicians, and businesspeople have made similar conjectures, referring to such moral change as “moral decay,” “growing moral obtuseness,” and “ethical deficit” (Economics & Political Weekly, 2009; KPMG, 2011; Mishra, 2010). As evidence, they cite the increasing frequency and visibility of corruption in both business and politics.1

From a methodological standpoint, anecdotes and journalistic accounts are inappropriate for drawing inferences about moral change at a national level. Indeed, it could be that democratic advancement—which has created greater opportunity for dissent, a freer press, and the expansion of social media—has made it easier to detect corruption. During this process, the morals of the larger Indian population—most of whom are not politicians or major businesspeople—may have remained unchanged. Friedman (2005) has even argued that if economic growth is enjoyed equitably, a society should experience moral improvements. Thus the main point is that, despite the assertions it is unclear whether India has really experienced moral change or whether such change is correlated with or caused by economic growth. In this study, I investigate sweeping claims of moral change by documenting the attitudes of Indian men and women toward corruption from 1990 to 2006. I analyze four waves of cross-sectional data from the World Values Surveys (WVS) and follow Ostling (2009) in using public attitudes toward tax evasion and bribery as indicators of certain aspects of moral values.

Public attitudes toward corruption are important for several reasons. As mentioned earlier, Indian politicians, journalists, and businesspeople have frequently used corruption as a barometer for moral values. In addition, a recent study by Transparency International (Hardoon & Heinrich, 2011) found a close link between attitudes toward and actual participation in corruption among ordinary Indians. This finding makes sense because the general public are not only the victims, but also the enablers, of corruption; for example, they facilitate corruption by voting for crooked politicians, consuming the goods and services from shady businesses, and relaxing the social stigma attached to corruption.

Tolerance for tax evasion and bribery are only two of the many aspects of moral values, but they are of special public concern in India and elsewhere because of implications on economic development (Bardhan, 2006; Olken & Pande, 2012). As a free rider problem, tax evasion reduces the public funds available for the development of public goods such as law and order, infrastructure, transportation, education, and health. Bribery causes shirking (if bribes are not offered) and consequently diminishes the efficiency of the sectors producing public goods; furthermore, bribery undermines private sector efficiency by raising the cost of doing business (Freund, Hallward-Driemeier, & Rijkers, 2014).

This study provides evidence of considerable moral change in India during the 1990–2006 period. Descriptive statistics confirm that during this period, tolerance for tax evasion and bribery increased from under 2% in 1990 to nearly one-quarter of men and women in 2006. This rapid moral change coincided with purchasing power adjusted per-capita incomes

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surpassing $1,500 (constant 2005 international $) and economic growth rates exceeding 5%. Time-interaction regression models show convergence between men and women. During the same period, however, rich and non-rich individuals’ tolerance for tax evasion and bribery diverged, as did the opinions of those residing in leading and lagging economic states. In addition, higher educational attainment is associated with growing resistance to or distaste for corruption.

This study makes several contributions. First, it contributes to the broader literature on societal moral change. Bloom (2010) noted that a complete theory of moral change has yet to emerge, and that studies typically focus on industrialized societies. In the spirit of Abramson and Inglehart (1995), the results of this study may be used to test the completeness or generalizability of theories across different economic, political, and cultural settings. For example, this Indian case study can be used to test the common hypothesis that the rates of moral change and economic growth are highly correlated (Friedman, 2005). The 16-year span of WVS-India is unusual for a developing country, and permits a study of moral change that can distinguish between long-term, systematic change and short-term noise.

This study also contributes to the large literature on corruption by explicitly considering moral values. Typically, modern empirical studies on corruption avoid or merely allude to moral values and instead focus on the consequences of moral values, which include outcomes such as bribery paid, taxes evaded, and waiting queue avoidance. Sen (2009) has argued that such “consequentialist” approaches are useful but do not capture the “importance of the character of the actions themselves and the motivation behind undertaking them—not just what happens at the very end.” 2

Lastly, this study contributes to the growing body of research on the nuances of India’s recent economic rise. For example, Deaton and Kozel (2005) analyzed income data over the 1993–2000 period and concluded that official rates of poverty reduction are exaggerated. Similarly, the United Nations Human Development Report (2013) noted India’s stagnation in several key areas, and ranked Pakistan ahead of India on gender equality. If we accept that increasingly tolerant attitudes toward corruption is objectionable, and facilitate economic growth (the “sand the wheels” argument), or both. Theoretically, therefore, the net effect of collective moral change on economic growth is ambiguous. There is scarce empirical literature on the effect of collective moral values on economic growth. Rather, researchers typically adopt the consequentialist approach by examining corruption levels and economics growth. This study makes a contribution by explicitly considering moral values and economic growth rates over time.

2. LITERATURE REVIEW

There exists some literature on the complex relationship between aspects of moral change and economic growth (Bloom, 2010). Though not explored in this study, other aspects of moral values may include attitudes or empathy toward slavery, women, child labor, minorities, homosexuality, the environment, animals, and violence (Bloom, 2010). For the purposes of a short survey of the literature, I focus on corruption-related aspects of moral values, and divide the literature into three categories: the effect of individual moral values on individual acts of corruption; the effect of collective moral values on large-scale corruption and economic growth; and the effect of economic growth on individual moral values.

(a) Individual moral values and individual acts of corruption

Economic theories of individual moral values have typically used a rational choice framework (Becker, 1993). A simple framework may consider the case of two people who are confronted with a public official’s bribery request. A key assumption is that the two people are identical in all aspects except moral values. Notably, the moral person incurs psychic disutility (or guilt) from paying the bribe; the less moral person may be either amoral (i.e., indifferent about bribery) and not incur psychic disutility, or immoral and gain psychic utility (or joy) from paying the bribe. Therefore, holding all else constant, the moral person will not offer a bribe if the psychic disutility of paying the bribe is larger than the monetary utility from paying the bribe. In contrast, the amoral/immoral person will always prefer to pay a bribe because the monetary utility always outweighs the psychic disutility. In short, moral values determine a person’s psychic disutility of engaging in a corrupt act; in turn, the psychic disutility determines whether a person ultimately engages in a corrupt act. There are notable extensions of this basic framework (e.g., Frank, 2004).

Empirical tests of individual moral values and actions are usually conducted using laboratory and field experiments (e.g., Brodbeck, Kugler, Reig, & Maier, 2013; Bertrand, Djankov, Hanna, & Mullainathan, 2007; Mazar, Amir, & Ariely, 2008). Other empirical studies have examined the correlations between moral values and individual characteristics such as education (e.g., Justesen & Bjørnskov, 2014; Trux, 2011). This study will consider differences in individual moral values such as gender, education, and regional development over the 1990–2006 period.

(b) Collective moral values, large-scale corruption, and economic growth

Some theoretical research has addressed the effect of growing shares of people with amoral/immoral values on economic growth (Etzioni, 1988). In a review, Aidt (2009) suggested that declining moral values and rising large-scale corruption may either inhibit economic growth (the “sand the wheels” argument), or facilitate economic growth (the “greasing the wheels” argument), or both. Theoretically, therefore, the net effect of collective moral change on economic growth is ambiguous.

There is scarce empirical literature on the effect of collective moral values on economic growth. Rather, researchers typically adopt the consequentialist approach by examining corruption levels and economics growth. This study makes a contribution by explicitly considering mean collective moral values and economic growth rates over time.

(c) Economic growth and individual moral values

Theories that examine the link between economic growth and individual moral values typically draw from evolutionary perspectives, and propose that individuals must revise moral values in order to cope with the inflation, industrialization, urbanization, and migration that accompany economic growth (e.g., Ostling, 2009; Rothstein & Uslaner, 2005). In particular, theories predict that such dramatic life changes lead to fewer relationships (with extended family and neighbors) and thereby diminish the social stigma (in this case, the psychic cost) of engaging in corrupt acts.

The empirical literature in economics is limited and generally presents correlations between economic growth and changes in moral values (e.g., Ostling, 2009). This study contributes to this literature by examining economic growth and changes in individual moral values over a duration that is unusually long for a developing country case-study.
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