

EURASIAN JOURNAL OF ECONOMICS AND FINANCE

<http://www.eurasianpublications.com>

OPENNESS OF ECONOMY, FOREIGN INVESTMENT INFLOWS AND THE PHENOMENON OF RENT SEEKING CORRUPTION

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Abstract

Rent seeking behavior has been amongst noticeable obstacles in path of economic growth and development for developing communities. Due to this the study aims at testing the hypothesis that the Rent seeking behavior among bureaucracy is being influenced by the openness of economy as well as inflows of foreign investment significantly. Model estimations imply that reforms may have an insignificant impact upon curtailing the rent seeking behavior among bureaucracy in a time series setting therefore this research will use two statistical econometric models to show the effect of corruption on the foreign direct inflow received in Pakistan. In order to pretest the impact of all the mentioned variables on rent seeking behavior generalized least square was used because its results were unbiased, consistent and the problem of Serial correlation was solved by using it. In order to quantify rent seeking behavior among bureaucracy different aspects of misuse of public offices appearing in form of petty and grand corruption were used using the variables informal sector, tax evasion, judicial outlay, G.D.P and F.D.I as percentage of G.D.P. All of the variables had proper signs aligned with the theory and all of the variables appeared to be significant except judicial outlay proving that the judiciary has been incompetent and ineffective. The robust regression showed all the same signs except in it every variable was appearing to be significant. Rent seeking corruption has been highly affecting Pakistan in adverse ways and this paper will show how many factors like judiciary is not playing effective role in limiting corruption and also how the economy is being affected by rent seeking behavior.

Keywords: Rent Seeking Corruption, Foreign Direct Investment, Economic Growth, Judicial Outlook, Generalized Least Square, Robust Regression

1. Introduction

This part will show the overview of the economy with regards to institutional quality, bureaucratic quality and the performance of judiciary in curbing the problem of rent seeking corruption with respect to Pakistan. An overview of how different regimes have molded the bureaucratic structures and how rent seeking corruption is backed up by the government is provided under the heading of system succession, regime durability and institutional efforts for bureaucratic accountability.

Next the performance of judicial accountability and how judiciary has played an insignificant role in curbing the problem of rent seeking corruption is discussed under the

heading of judicial outlook, conviction rates and rent seeking corruption in Pakistan. Also this part will show that how rent seeking corruption has affected the macroeconomic indicators of Pakistan and how drastic effect it has caused to the foreign aid inflows in Pakistan. This introductory part will mostly cover the rent seeking corruption in regard of Pakistan.

1.1. An Overview of Bureaucratic Quality and Governance Matters in Pakistan

Bureaucracy is one of the main and key component of a democratic society, it is considered as the backbone of the government and the whole country. Pakistan's colonial heritage shows that it has adopted lots of its political culture from its earlier colonial power. The political culture of both political institutions and bureaucratic institution is highly influenced by its colonial heritage. Amid the nineteenth and twentieth hundreds of years, frontier overseers grew compelling and profoundly concentrated bureaucratic foundations, these institutions were regulated under the name of Indian Civil service (ICS) and their purpose was to administer the country, the major purpose of the these institutions was never to amass power but to legitimize and fortify the power of bureaucratic state.

The strong established bureaucratic institution which Pakistan inherited has been one of major strengthening power of the country since its freedom. During its existence, since the past 6 decades the bureaucratic institutions have outperformed the democratic institutions.¹ In Pakistan the role of military has been widespread and plays a pivotal role in governance so in regard of this civil service has been a common tool of the government to curtail the involvement of military in field's judicial and political processes.

The bureaucratic quality of Pakistan over the years has been good, since the procedure of selecting the individuals for bureaucracy is very tough, the exams for Civil services are considered to be one of the most competitive ones as each individual is selected after going through a rigorous and demanding selecting procedure, the best lot every year is selected after passing exams and a viva but over the years there has been a lack of proper bureaucratic reforms and therefore as time passed by accountability decreased, efficiency decreased too and overall a sizeable increase in rent seeking corruption can be seen. If we talk about governance, Pakistan has been lagging behind in this field since its existence; the concept of democracy in Pakistan has not been a vintage one. Pakistan has to go through its obstacles by going through many military regimes over the years. Over the year each military government has taken the help of bureaucracy to help legitimizing its regime be it Ayub Khan, Zia ul haq or Pevez Musharaf. The matters of governance hence haven't been a smooth sailing one due to changes in its structure whenever a regime is being changed. The real essence of a good governance in a society can be achieved if there is harmony in the society, The presence of security enforced by proper rule of law and lastly an economic stability which results in improved standard of living for the general public, all this is done by devising policies also as we being a developing country the concept of ruling of the elites is still highly prevalent in our country.²

Pakistan governance has mostly been an elitist ones and the power of constitution has been jumping in between the hands of military and bureaucracy. Since the 19th century most of the philosophers and researchers have drawn up to a conclusion that the governing power has been limiting in fewer and fewer hands. Geraint Parry said that Elites have strong powers and mostly they are not accountable to any institution. Whereas there is other elites who value morals and ethics highly and therefore play every part in maintaining harmony in society (McGee, 2009).

¹The objective of the bureaucracy is to help in legislation and decision matters, they help in legitimizing the power of the executive body.

²In view of these targets, the common administration structure still gives a decently sorted out arrangement of determination, preparing, arrangement and advancement of officers, built not with respect to inventiveness and proficiency however dependability and rank in the framework.

1.2. Bureaucratic Inefficiencies, Red Tapism and Rent Seeking Behavior in Pakistan

Rent seeking is manipulation of economic environment for making money instead of through trade and wealth production. Tollison states that rent seeking is totally uncreative, and it wastes the resources by annihilating its value (1988 cited in Shughart *et al.* 2003, p.442). Rent seeking behavior lately has been prevalent in each and every department and in many different forms be it petty or be it grand corruption. Most common form of rent seeking behavior in Pakistan economy has been lobbying or bribing so to attain private gains. From few decades Pakistani state administration is affected by settled in primitive elites, civil administrators and the military. They all see that the rent seeking corruption would help them achieving their ultimate cynical desire of amassing large piles of wealth.

In Pakistan bureaucratic rent seeking corruption is taken as being a part of the system and hence many government officials are highly involved in this practice. In Pakistan only 60% of the population is literate, which by world standards is very low and out of these literate people very few percentage of people can understand and read proper English, seeing this view, the bureaucrats are indulged in red tapism.

This red tape phenomena is highly prevalent in bureaucracy and it highlights the inefficiencies that are pertinent to bureaucracy. The bureaucracy in Pakistan at times has seen up to be highly indulged in this behavior and this has led to slower growth of the country.³ The concept of red tapes prevalent in the Pakistan bureaucracy has highly affected the growth rates of Pakistan. It has been a major source of loss of foreign financial investment in Pakistan. Lately the relationship of Pakistan with China has seen a major setback because of this behavior. A lot of Chinese investors are willing to invest their money in Pakistan but this red tapism and the inefficiency of bureaucracy is a major hurdle faced by the investors, this behavior has resulted in a lack of insecurity in the minds of foreign investors and therefore the foreign financial investment has not been on an increasing trend in Pakistan. In the event of Pakistan where legislative issues is a capacity of Patronage, administration stays tormented with institutional decay and their agreeability for the most part originates from coercive (if there should be an occurrence of dictatorial administrations) and debatable (if there should arise an occurrence of fair administrations). This red tape behavior has not only hampered the institutional and bureaucratic quality but it also has resulted in a sizeable increase in the level of rent seeking corruption in Pakistan.

1.3. System Succession, Regime Durability and Institutional Efforts for Bureaucratic Accountability

The history of Pakistan has showed us that leaders like Ghulam Mohammad and Iskandar Mirza played a pivotal and upfront role in protecting the political base of Pakistan. The reason for this was that Pakistan after their independence inherited a failed state but some systems like that of the civil service were beneficial as they had moral integrity in it but over years that was lost too. As time passed the ongoing changing military laws and doubtful political setup affected the structure of Bureaucracy. The ruling governments of Pakistan failed to comprehend the importance of a free and clean bureaucracy for a country's economic growth; they continuously abused their power and indulged in matters which yielded private gains. These practices then brought up the phenomenon of rent seeking corruption in Pakistan since the bureaucracy was being commonly used to provide private gains by illegal ways (Shafqat, 1999).

The Inexperienced government officials oblige help and backing of the civil servants serving under them to accomplish their individual diversions and accordingly the thought of great administration is exceedingly compromised which needs legitimacy based, professionally

³Red tapism is a practice in which people have to adhere by strict formalities and rules and regulations, these are rigid conformities and are considered to be redundant and hinders the decision making process. Red tape by and large incorporates rounding out paperwork, acquiring licenses, having numerous individuals or panels favor a choice and different low-level decides that make directing one's issues slower, more troublesome, or both (Banarjee, 2011).

able, effective and non-fanatic common administration (Islam, 2004).⁴ This has driven the common administrations to be over staffed. There are around 2.4 million normal common hirelings for a populace of 170 million, or one common hireling for each 67 residents. In Comparison to our neighbors India which has one common worker for each 110 nationals.

A bureaucratic has certain limitations in terms of the governance concerns and pressure given by external ruling parties. All the political regimes find viable and suitable for their own needs to alter the bureaucratic structure in a way which they desire. The first dictator Ayub Khan formed a 1962 constitution with the help of his fed bureaucratic advisors. This constitution expanded the power of the bureaucrats. Then after the tragedy of 1971 Bhutto came into power and setup a new bureaucratic system, he integrated the bureaucratic system into one big unit but again the problem of preferred selection of bureaucrats remained in civil service. When Zia came into power the accountability measures of the civil service again hit a big time low since Zia appointed his own personal people on high Positions and he also institutionalized this practice by setting up quotas. Zia kept total power in his own hands, practically bureaucracy was docile. After Zia a democratic system finally established its footing, the civil service in Pakistan at that time was still very powerful institution but still the problem of preferred people filling up the positions remained and this process continued in each and every regime (Kalhan, 2013).⁵ The problem of a proper accountability bureau still remained. Analyzing the regimes a conclusion can be drawn that there has not been a proper system developed to judge the accountability of the bureaucratic institution. The bureaucratic quality is lagging and so is the institutional performance, there is absence of checks and balances and each and every ruler has had his own incentives with bureaucracy, no proper reforms have been done over the years and therefore because of outdated system the bureaucrats have been highly involved in rent seeking corruption.

1.4. Foreign Aid, Institutional Intervention and Rent Seeking Behavior in Pakistan

Foreign aid is more effective in a stable political environment; because a stable government have effective economic policies that enhance the aid productivity. Citizen have the ability to accumulate a capital, save invest and innovate the new ways of production with the help of foreign assistance (Javid *et al.* 2011). Pakistan has been facing many economic problems, its economy has faced high instability coupled with high rate of inflation, the balance of payment is showing a high negative sign and the level of unemployment and poverty is rising.⁶ The economic conditions and accountability levels in these countries are very low; due to this the financial investment mostly erodes away in the form of corruption. Foreign aid can result in political instability as the aid money is kept a side and not spent for economic purposes; this creates anger in the civilians. Also political scientists state that foreign aid hampers the political accountability process since now the recipients of aid are answerable to the countries from which they took aid, the sovereignty of the country is set aside since external influences are in mind while running the government. As the aid donors assume powerful part that may not be something worth being thankful for on the grounds that the givers really don't know precisely the arrangement of the recipient nation and this by and large leave an adverse effect on the

⁴During the initial three decades of Pakistan the bureaucracy was somewhat efficient as they used to attract the best talent but now it is highly dominated by private and business sectors. Military governments enlisted significant number of their officers into the common administration and when democratic regimes where in running the culture of nepotism was pervaded all around as the induction of bureaucratic individuals were done on the basis of biasness, as certain individuals were preferred over others because they were the puppets of the rulers.

⁵Merle Fainsad has listed out five types of bureaucracies that link the relationship of bureaucracies towards the flow of political authority (Fainsad, 1996 cited in Kalia, 2013, p.161).

⁶Economic literature provides two broad views towards foreign aid, first is that the foreign aid is beneficial to countries which have scarce resources, it can boost up economic growth and can help in running of the economy. The second view states that's mostly the foreign direct investment does a greater bad than good since most of the recipient of foreign aids are developing countries.

financial development.⁷ There lies another big problem of debt that comes with foreign aid, even if the governance is taken care of and the rent seeking corruption is curtailed still the burden of debt remains on both the government and as well as the civilians. The estimates of Solow growth model done by the state bank of Pakistan shows that's if the governance of a country is increased then the output for a given level of capital stock also increases, so this shows that whenever the governance of Pakistan would increase then the level of investment in the country would increase too (Shahbaz *et al.* 2010). The increase in governance would have widespread effects, firstly it will result in an increase in productivity, secondly the level of consumption for each individual would increase and lastly the levels of investment in the country would increase too. In Pakistani context if the government pays attention to the institutional quality then the foreign aid would be used effectively and the economic would show positive results in the long run.

1.5. Judicial Outlook, Conviction Rates and Rent Seeking Behavior in Pakistan

Pakistan judicial outlay over the years has not been really high, the judicial independence in Pakistan has certainly been a failed phenomenon, highly levels of political influences within the judicial system has led to judicial corruption. Judiciary is one of the major components of an efficient institution, it keeps checks and balances and assures that everything is going according to the books and hence its efficient working should be of utter most importance for the country.

The commitment of the lawyers in 2007 to reinforce the supreme justice and maintain judicial independence has been lauded all around the world but in reality over the years the judicial system has not shown improvement with regard to judicial independence in a democratic setup Judicial independence is a complex phenomenon it doesn't base its footings on maximum autonomy but it arises from a dynamic web of relationships and the interdependencies. Pakistani military has played a key role in all aspects of running of country and their interests are somewhat widely accepted by many other institutions as well and judiciary is no exception. These interests' results in the legitimization of the authoritarianism regime (which is what happened in Zia and Musharraf's regime) and now these practices are embodied in the judicial system.⁸

The judicial system of Pakistan in itself has justified the stance of authoritarianism by labeling it as the necessity of time whereas when a government regime comes into play the judiciary goes by the stated laws. Not all the blame should be given to the judiciary, the Pakistani civilians have somewhat institutionalized corruption, they say that it is a part of the system and hence pay no heed to it. Corruption is widespread in Pakistan and rent seeking bureaucratic corruption is of major notice, the embezzlement of funds, bribery and lobbying are done on daily basis and the judiciary has not taken any firm step to stop it. The judiciary now has to take a strict notice of it but for this to happen the accountability of the judicial system should first be installed. The judicial independence is an interdependent relationship; it's a web in which each and every institution has to pitch in its commitment to solve the problem of corruption once and for all. The wafaqimohtasib reports (Federal Ombudsman) of maladministration are reported every year but little attention is paid to such reports. The judicial accountability of the bureaucracy is by far not done properly, courts for these purposes are still to be formed and hence rent seeking corruption has established strong footing in Pakistan.

⁷Pakistan has very weak governance since its democratic structure is in a very nascent stage therefore Pakistan needs to work on its governance by paying greater attention towards institutional quality, by doing so the effectiveness of foreign aid would be ensured.

⁸Pakistan like many countries is in a gray zone which means it is oscillating between democratic and authoritarianism. Pakistan judicial independence has always suffered a blow because of authoritarianism regimes and hence has now created an imbalance in the judicial system, this imbalance still exists in democratic setup and for this to finish the focus an accountability of judicial system has to be looked upon so to reinforce the legitimacy of democratic setup (Kalhan, 2006).

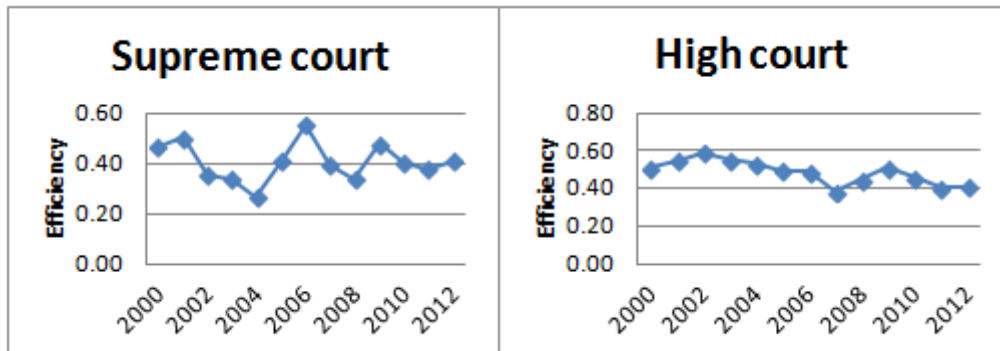


Figure 1. Judicial Performance
Source: Pakistan Bureau of Statistics

Figure 1 shows that the position of Supreme Court has been a fluctuating one, in some years its efficiency goes up whereas in others it goes down but the maximum it could go up was till 0.55 which for a country like us is a very bad figure. If we look at the high court it again shows a poor picture and as compared to Supreme Court it is in a much worse situation since over the past decade the efficiency of high courts is facing downward trend. The judicial outlay measure of Pakistan has also shown the same weak picture of the Pakistan judicial system.

The efficiency has been calculated by dividing disposed off cases with total received cases and over the past ten years on an average the efficiency of has been very low as highlighted in the chart. In the diagram the efficiency is measured between zero and 1 where zero represents high inefficiency and 1 represents high level of efficiency the data on the cases was taken by Pakistan Bureau of Statistics.

1.6. Openness of Economy, Foreign Pressures and Rent Seeking Behavior

The economic literature says that the higher the openness of an economy then higher the rate of growth and development in that country (Egger and Winner, 2005). The imports are restricted on very set grounds of religious, security and health, overall the Pakistan economy has opened up. Pakistan still has to abide by the laws set by the world trade organization (WTO) and on those ground Pakistan major instrument of control is tariff. The Pakistani government now has also tried to easy up the paperwork required for trade and therefore the future prospect of Pakistani economy seems to be a promising one. Studies have shown that openness of economy leads to a more competitive environment, it results in higher productivity, specialization and economies of scale.

Pakistan is trying to open up its economy but still the level of rent seeking corruption and overall corruption in economy is not translating these effects into economic growth. Therefore for Pakistan to achieve a good sound level of growth then the trade liberalization should be coupled with the increase in institutional quality or institutional reforms (Khan *et al.* 1993). Pakistan are following a tariff based system that is given to it by the international players and according to that policies Pakistan has suffered from high levels of inflation in previous years.⁹ The developed countries are bringing up the issue of the standards of labors which is going to hamper the export levels of Pakistan. Keeping this view in mind the Pakistani government should take a bold and initiative step in which it should try to restructure the industry of textile and agriculture (Khan *et al.* 1993).

Pakistan government wants to diversify its export base but no certain measures have been taken to do so. WTO states that the agriculture sector of Pakistan should undergo trade liberalization, in view of Pakistani small scale poor farmers this policy is going to be a disastrous

⁹Now due to trade liberalization and compliance with the WTO practices now Pakistan faces a very big challenge in from of protection of the environment and abiding by the international labor standards.

once since trade liberalization would allow more foreigners to come in and exploit the poor farmers market, the government then would have no role in market and therefore the poor farmers would suffer heavily. The developing countries like Pakistan whose export is agriculture based want the WTO to come up with the practice of diminishing the role of trade liberalization in Pakistan and increasing the level of tariffs on imports when the domestic producers face high competition but the big players of WTO like US, EU are opposing this idea. The Criticism of high level of us influence in WTO is well known around the world. US tries to establish rules and regulations which helps its own trade base. Tariff restrictions and the whole sale dumping laws are still exercised to deny access to the developing countries like Pakistan. US is one of the main trading partner of Pakistan and Pakistan has faced a lot of anti-dumping laws and quotas while trading with them. The foreign big countries are trying to minimize the profits of the agriculture sector of developing countries and Pakistan is not an exception. The foreign pressures has drastically affected the openness of trade in Pakistan and coupled with the level of rent seeking corruption Pakistan is still facing a low level of economic growth.

1.7. Study Objectives and Research Concerns

This study aims at testing the proposition that how bureaucratic corruption is widespread in Pakistan and how it has affected to overall economy. Pakistan has been facing the problem of high levels of corruption since its existence and it has become one of a big chronic issue which needs to be resolved now. Corruption is widespread in Pakistan and is effecting each and every institution. This study will largely focus on the rent seeking corruption that is prevalent in the civil service of Pakistan. The study aims to show that why the Rent seeking corruption has been highly prevalent in Pakistan and why rent seeking corruption has been at large a major part of our daily life dealings. The study will try to point out some policy recommendations of solving this chronic issue at a macro level base.

There are very few researches that are providing solution of the increasing bureaucratic corruption in Pakistan, the institutional quality in Pakistan has been not a good one and no major factor that is causing this problem is being identified in mathematical terms, this paper will make use of the mathematical data and will try to provide a solution using the quantities tools that is using the mathematical equations and different models. Variables like judicial outlay will show how it has been a major player in causing the increase in rent seeking corruption and also will highlight the insignificant role played by the judiciary in curbing the problem of growing bureaucratic corruption and falling institutional quality.

2. Proposed Framework of Analysis and Modeling Choices

This section would highlight the variables that are used in this model and how the variables are being quantified, the dependent variable used is the rent seeking corruption and 5 independent variables are used to find the relationship with the dependent variable, to back this research literature review is used in this section and it is checked that whether the sign are coming to be consistent with respect to the researches that are being consulted.

2.1. Departmental Accountability, Conviction Rates and Rent Seeking Behavior in Pakistan

No matter how efficient measures you take, how strict the laws you make still there would remain a certain level of corruption in the economy that is because of an innate human desire to apply shortcuts so to reach its goals. Accountability is considered to be the base of a good humane society; it is one of the most necessary component so to save a country from total anarchy and chaos. Accountability governs and maintains a level of stability and security in the society as well as the economy. Data have proven the fact that accountability results in stability and growth since the countries which have proper accountability have shown massive scale growth Accountability has to be present in every level but my researches circumscribe the level of accountability to just public service. If I break down the public accountability it will encompass

three broad categories which include democratic accountability, professional accountability and legal accountability.

In the developing countries like Pakistan the level of corruptions are rampant because the governance and accountability system is molded according to the vested interests of the elected governments. Many organizations are corrupt and inefficient because of the presence of bureaucratic red tapes and inefficiencies. The trust of the general public in the institutions in developing countries is not present hence they take shortcuts by giving bribe to certain higher hierarchical level individuals so to get their work done. It is seen that the institutions have to play a major role in solving the problem of rent seeking corruption in the economy and the most important role in this regard has to be played by the judicial system of the country as they help in increasing the level of accountability and transparency (Dye and Staphenurst, 1998). Over the years many accountability stats of Pakistan have portrayed a same dismal position. In Pakistan many different types of bodies are made to counter corruption but all of them have been too outdated, redundant, inefficient or simply inconsistent to counter the problem of bureaucratic corruption. Transparency and accountability are one of key factors for economic growth in a country and Pakistan should focus on them. The traditional measures like audits, legislative reviews to hold accountability of bureaucrats have been inefficient.

Firstly, if we look at democratic accountability it comes forward to be as a macro level phenomenon and is a mix of both administrative and political accountability. It follows a simple hierarchy in which the government which includes bureaucrats and ministries are directly accountable to the elected political leadership. If we talk about civil servants they are directly accountable to the minister of their particular departments. Secondly comes professional accountability and it is by large a micro level phenomenon which is based on how credible are certain professional towards their work and towards the public. The professional might include government doctors, engineers and other technical specialists working for the government and for the public. The accountability of professionals is judged upon ethical and cultural norms whose foundation is laid down by the general public. Lastly comes the legal accountability which has been made in accordance with special judicial system whose purpose is to cater the public service inefficiencies and corruption. This type of accountability is mostly prevalent in developed economies where the public is well educated and well aware of its rights and a democratic political system is present. The purpose of this type of accountability is to hold the civil service individuals accountability for their corruption and unlawful use of their power. This type of accountability has been a recent phenomenon and it is certainly very difficult to measure therefore it is not very widespread and certainly not present in Pakistan.

In developing countries petty and grand corruption has become a way of life, the higher hierarchical individuals involve in grand corruption whereas the lower ones are busy in petty corruption (Lambsdorff, 2002). To counter the accountability of bureaucratic corruption in Developing countries many agencies were made the first one being the federal investigation agencies but it itself proved to be inefficient and was itself engulfed in the web of corruption. When this did not worked the government came up with plan to audit the civil services, the laws were kept very tight so that the institution itself doesn't indulge into corruption but these institutions then started practicing political victimization so the public lost trust in them. Many other anti-civil corruption agencies were made but all of them showed very low rate of accountability and a high rate of inefficiency, the two major reasons for their failure were that firstly the government itself lacked the intent to solve the problem of bureaucratic corruption and secondly all the commissions just gave recommendations but the implementation process was lagging behind.

The corruption is at rise because of lack of standardized framework and presence of complex paperwork, the paperwork is gibberish to public whereas the civil servants see this as an advantage and hence indulge in red tape. There are some departments that cover the basis of maladministration and checks maladministration claims but they are very limited and their implementation process is weak. These ombudsman reports have shown that departments like Wapda, Nadra and Sui Gas are involved in high amounts of maladministration since the number of complaints filed against these departments has been relatively high and most of the complaints are issued due to sending of wrong or excessive amount of bill. The ombudsman

should play a pivotal role in handling the corruption cases and as well as helping in proper efficient public service delivery but in reality their institutional power is very limited and the process itself faces a lot of delays and distortions.

Pakistan has formed a National Accountability Bureau that caters the corruption cases, but overall the inefficiency of NAB is increasing over the years and the conviction rates of NAB are very low compared to what should really be. Another drawback of NAB is that it omits the accountability of armed forces and judiciary also it is highly known for settling issues outside the courts so NAB has been an ineffective institution. If we see the level of conviction rates of civil servants in Pakistan the results are appalling, if we look at Punjab over the years of 1985-2000 in these 15 years only 112 civil servants were charged for corruption which is a very low number and the conviction rate on an average has been just 20% which shows that the accountability has been poor. The lack of accountability shows that the civil servants have taken the corruption as a part of their daily life since they have no fear of getting caught therefore they indulge in such kinds of malpractices. A typical trend of loss of integrity is been common in the civil service department, the civil servants are lacking ethical rules and are much away from discipline and proper code of conducts. A sense of belonging to the public should be installed in the minds of the public servants and that could be only done if special lectures on ethics, morality and discipline in life be given to those high grade officers. The political leadership should also play a keep role in taking proper step in catering this problem of corruption; the accountability measures should be improved and refurbished since the previous ones proved to be inefficient. A proper accountability index for the bureaucrats should be formed and it should be released after every 3 months, also proper and strict punishment should be given to those civil servants who indulge in corruption and mal practices so the others should learn from them and hence not involve themselves in these corrupt practices.

2.2. Judicial Outlook, Conviction Rate and the Phenomenon of Rent Seeking Behavior

Corruption is widespread and pervasive through ought the globe but its extent varies all around the world, corruption is seen as one of the biggest obstacle towards economic growth and development and it is reported that the public service corruption which can also be referred to mostly as rent seeking corruption in Pakistan case is the biggest hurdle towards economic success. It is seen that the judicial system of low developing countries is very fragile and weak and most of its benefits are limited to a certain set of people with social networks and high access to capital. The judicial system of developing countries is mostly inefficient as it suffers from delays, slow processing and misuse of power. Legal experts say that Pakistan has a very weak judicial system because it lacks transparency, its processing's are slow and it is very badly administered. Recent studies have shown that many of the economists in earlier studies failed to take in to account the role of bureaucrats and institution in economic growth and development; they failed to highlight the importance of institutional quality for the growth of economy. A recent study done on Africa has tried to highlight the importance of bureaucratic corruption and it's clean up strategy (Mbaku, 1996).

Judiciary is a very major institution of a country, it keeps checks and balances and makes sure that the running of the country is smooth and fair but in case of developing counties the judiciary has been vulnerable and corruption is profoundly found in it (Pinheiro, 1996). It is clear to see that the whole structure of Pakistan is engulfed in corruption and its roots are so deep and big that Pakistan in 2012 was ranked as 139th in the scale of corruption free governance which is very poor One of the main reason for the presence of high level of corruption in developing countries is the fact that the accountability in these countries is very poor, the judiciary is not transparent and the public service officers lack the mentality of working on these shortcomings since their personal gain is also involved in it. Studies have shown that the chance of detecting corruption in judiciary decreases as the corruption becomes more systematic since then people can find easy ways to get the corruption undocumented. (Buscaglia, 1999). The judicial system of Pakistan follows a hierarchy in which the top position is held by the Supreme Court and at last comes the district and session courts, there are other special courts as well but mainly big and chronic matters are handled by the Supreme Court and

the High Court. Studies show that a higher rate of conviction and the severity of the punishment decrease the incidence of rent seeking corruption in public offices, also factors like low wages, low employment benefits and dissatisfaction results in an increase in bribe taking. The efficiency of these courts matters a lot and hence there working should be proper and efficient. If we evaluate the Efficiency of these courts over the previous decade the result has shown a very poor picture both for the supreme court and as well as the high court.

Rent seeking corruption was a pioneer economic instrument whose purpose was to cater the problem of public sector corruption. It pointed out that bureaucrats are involved in corruption that is mostly in forms of bribe, lobbying or getting external benefits (Ehrlich and Lui, 1999). These sorts of corruption was found out to be highly widespread in the developing countries due to lack of proper and stable institutions, also studies have shown that developed democracies are facing the rent seeking problem on a very minimal scale mainly due to established institutions and high accountability. Rent seeking corruption is a very big issue in the developing countries, the use of public service offices for personal gains and corruption has been widespread in developing countries and same is the case for Pakistan. This type of corruption is mostly linked with bureaucratic corruption and the inefficiencies caused by this sort of corruption. The government has to weigh the benefits and costs of curbing this corruption (Heidenheimer and Johnston, 2011). One of the major reasons for high level of bureaucratic corruption is the lack of accountability and the ease with which the officials can get away with malpractices. To curb this problem Pakistani government has established many anti-corruption agencies and the wafaqimohtashib is one such agency for federal ombudsman. It collects the complaints against malpractices and then try to convict those who are found guilty. Over the years the performance of wafaqimohtasib has been a poor one, the conviction rates has been very low and one big reason for this is that the people heading wafaqimohtasib themselves once served in the public offices, due to this they try to veil the malpractices in some way or another. This shows that the accountability of bureaucrats is very low, hence the courts are not serving their purpose of keeping checks and balance. The judicial system has been highly insignificant in solving the problem of bureaucratic corruption.

2.3. Openness in Economy, International Mobility of Capital and Phenomenon of Rent Seeking Behavior

Trade openness is one of the key component for growth of a country. In this globalized world trade openness has become a necessity rather than a want, the world economies are interconnected in a web and therefore each and every country has to play its role accordingly. The countries prefer doing trade with those countries which have economic freedom and liberal trade policies. The investors assess a country's position before investing his funds in that country and for that purpose many indexes are made, and one of them is transparency international (Kapuria-Foreman, 2007). Transparency international gauges the perceived level of corruption in the country that is prevalent in the public and political institutions, the values show that how much the public official use their power or private gains and the higher the value the lesser the corruption in the economy. Studies have shown that there is a strong negative correlation between the level of corruption and the foreign direct investment which a country receives. The investors prefer countries which have stable and fair public offices, if they perceive that the level of corruption in the economy is low then they will invest in that economy. Also it is seen that capital mobility is only affected if there are proper capital controls but studies have shown that a certain level of capital control works against the economy and institutions like IMF and World Bank have lost credibility in the eyes of developing countries (Palley, 2009).

The government has to play an important role in for seeing that the institutional credibility is a very major source for better economic performance of a country. If the institutional quality will increase then the level of corruption in the economy will decrease therefore overall the flow of capital in the country will increase. The corruption is thought as a misuse of the tax payers money and the loss that is caused by such actions account to 0.15-0.30% of the total GDP. For a country to grow it needs to attract a lot of investment be it in form of in country or out of country and to attract investment a country must create a safe investment climate. The

capital mobility should be easy in a country, capital mobility is the movement of the funds from one country to another in pursuit of earning higher returns and profits, for a country to have high rate of capital inflow it needs to provide higher returns and incentives for a higher profit as compared to other countries. The economy of Pakistan has shown an increase in domestic dissaving with respect to capital mobility and coupled with weak institutions Pakistan has seen a capital outflow from out of its territorial boundaries.

The Economic growth of country depends on the resources which it has and the level of capital inflows which a country gets from other countries for development purposes. Pakistan comes under the category of developing countries and in cases of a developing countries its capital outflows outweighs its capital inflows therefore the foreign direct investment in the developing countries is low. If there is high capital mobility in the country be it be financed by domestic investors or by foreigners it always results in growth and capital efficiency since the domestic savings increases. If there is high internal capital mobility in a country then it has widespread positive affects since it result in an increase in regional parities, better income distribution and a balanced society but this never happens in Pakistan since the government mostly favors the province from which it got its power, currently the Punjab province is getting the lion share of investment and this is resulting in an increase in regional disparities. These types of misallocations are done by the help of bureaucrats and they are then compensated accordingly for diverting the funds according to the ruling parties' desires.

The savings and investment relationship is oh high value when gauging the level of capital mobility, in this globalized arena it is seen that the movement of capital is more fluid and the relationship between savings and investment is low because most of the domestic investment is financed by external investors. Liberalizations of the Pakistani economy has also played an important role in the mobility of capital, In 1990 Pakistan had went into a financial liberalization which is believed to have increased the capital mobility in the country (Jadoon *et al.* 2010). The study conducted by Apergis and Tsoumas (2001) states that a strong relationship between savings and investment results in a high level of capital immobility internationally but then there are other studies which state that there are other macroeconomic factors as well which affect the level of mobility in a country such factors include size of economy, performance of financial markets, exchange rate regimes. This globalized arena has resulted in a convergence of countries financial market and therefore this has resulted in the changes in financial sectors. For Pakistan as it is a developed country to cope up with these changes was difficult since it has a weak institution coupled with a weak financial market.

Pakistan has opened up its economy and its financial market is also doing well but if we look at the role of institutions it has been very weak, the institutions are involved in rent seeking corruption and they favor only those projects which can provide them personal gains. A lot of investors are willing to invest in developing countries because these countries have high amount of untapped resources but they are reluctant to do so because of high level of red tape behavior in bureaucracy. Filling up a large and intricate paperwork and going through a lot of paperwork hassle limits the investors. Also most of high value investment tenders are given to those investors which can benefit the government and as well as the bureaucrats in some way which might not be beneficial for the whole economy but will be providing private gains to both parties. Due to this partial behavior and the presence of high level of rent seeking corruption most of the Pakistani investors are now moving their funds into other countries, almost 27% of the Pakistani capital is going out of the country and this is resulting in financial droughting in Pakistan which is posing a great threat for the sustainability of the country's financial market and the economy. Though the economy of Pakistan over the years has not done very badly but the presence of weak financial institutions and the lack of security and trust in the government has led to a high level of capital flight from the country.

The rent seeking corruption is mostly seen as a principal and agent relationship in which both of the parties gain private gains illegally, in it an agent acts on someone else behalf who is considered to be the principal (Rose-Ackerman, 1978). In a developing country like Pakistan low relationship between savings and investment is seen and there is a very high level of capital mobility internationally, it is seen that the devaluation of the currency will result in capital inflow and hence increase in the level of investment. Also if developing countries want to

attract more capital than it has to open up its economy with certain restrictions on imports so to save the domestic market and it should develop the financial markets so the domestic markets can easily integrate with the international markets. Studies show that developing countries government borrow high amount of investment from other countries and due to high level of corruption and low level of accountability a lot of the investment erodes away in the form of corruption. To make this process of evasion more smooth the government seek help from the public officials who then themselves get a cut from the money which they government receives, so this is a vicious cycle of corruption which goes on and on and hence it has resulted in adverse growth of Pakistani economy.

2.4. Data Needs and Data Collections Preferences

After analyzing my topic and consulting literature review I listed down a set of variables which I found to be affecting the rent seeking corruption in Pakistan. After running a pool of regressions I was able to list down a final set of variables which were highly significant and relevant to my research. In this research paper I have selected 5 independent variables and one dependent variable. The purpose of this research is to find how many factors affect the rent seeking corruption in Pakistan. The data technique which is applied in this research paper is time series and the data has been taken for the years between 1995 and 2012. Cross sectional data was not used since the effect on economy had to be taken just for Pakistan and the data taken was to be on a macro scale hence many different reliable sources were used to collect the data. Studies have shown that rent seeking corruption has a wide array of effect on the growth and capital inflow so data on certain variables that show growth and capital were taken.

My research objectives were to find those variables that have a very significant effect on rent seeking corruption so I choose the 5 major variables which include the informal sector, tax evasion, foreign direct investment as a percentage of GDP, GDP and lastly judicial outlay. The dependent variable was the rent seeking corruption and it was taken from the wafaqimohtasib annual reports. The reports listed down all the mal-administrative complaints that were filed all around the year, the filling could be done on their website and also by going on to their offices that were present in many big cities of the country. There was a list of received cases and the disposed of cases, I took the value of the received cases because it showed a proper picture of the rent seeking corruption. The complaints were filed against issues like bribery, cheating, misuse of power, delays and lobbying and these are directly related to rent seeking corruption and the quantification of the complaints were in numbers.

The independent variables were five and firstly if we talk about the economy the two major variables that portray the picture of the economy on a broader canvas are the GDP and foreign direct investment as a percentage of GDP. The data for both the variables was taken from the world development bank and the data was taken from the years 1995-2012. Since these are very common macro-economic variables so it was easy to find the data on these variables also no value was missing hence there was no need to interpolate the data. These variables are a great indicator of the economic growth in a country, since we had to see that how the rent seeking corruption has affected the growth and development in the country so these variables were best fitting in this model as they gave the clear idea of the growth and development in a country.

The studies have shown that one of the major reason for the high level of bureaucratic corruption is the lack of accountability and inefficient judicial system therefore to gauge the level of judicial system of a county I took the data of judicial outlay in the country. The data was taken from economic survey of Pakistan and it represents the position of the judicial system in the country, it represents how efficient the judiciary in a country is, the values ranges between 0 to 100 where values close to zero represent a very inefficient and corrupt judicial system whereas a value close to 100 represent efficient and fair judicial system. My research has highlighted the point that how important is an independent and fair judiciary for curtailing the chronic problem of overall corruption particularly rent seeking corruption in our case, there were many sources from where the data of judicial performance could be taken, sources like the world governance indicators but they had incomplete or missing data also they didn't show the true picture

therefore in the end I took the judicial outlay data since it showed a bigger and more clearer aspect of the judiciary.

The size of the informal sector was calculated by using the data generated by Arby and Hanif (2010) in the paper the size of the informal economy in Pakistan. They had calculated the size through two different methods the ARDL and MNC. We chose the ARDL because it's the accurate out of the two. The calculated data had missing values from 2009 onwards which we interpolated, so we had to interpolate only 3 years values hence it didn't had a significant effect on the value of our model.

Tax evasion is a very big tool that is used as a source of corruption and most of the times it is being done by using the help of public servants who can use their discretionary power so to carry out this task therefore I calculated the tax evasion in Pakistan. For the tax evasion in Pakistan I looked at the purchasing power parity (PPP), GDP per capita of all the countries In the WDI. I selected four from these countries which had the PPP closest to Pakistan's PPP mostly they were the developing countries just like us. I took their tax-to-GDP ratio and calculated the median for each year. Then I subtracted the tax-to-GDP ratio of the Pakistan from the median; this gave us the percentage by which Pakistan's tax compliance was lagging.

2.5. Specification of Competing Models and Modeling Choices

The econometric model which I choose was the General Least Square method (GLS). It was used because it solved the problem of serial correlation in the model and it was used because there was certain level of correlation between the data. It was preferred over Ordinary Least Squares (OLS) because OLS yielded inefficient and insignificant results. The GLS estimates were unbiased, consistent and efficient and therefore this technique was preferred as the model estimation. In the model the results were coming out to be highly significant and the signs of the variables were also in correlation with the theory. The significance level was kept at 5% and then accordingly the significance of each variable was judged. The dependent variable was rent seeking corruption and the independent variables were informal sector, tax evasion, foreign direct investment as a percentage of GDP, GDP and judicial outlay.

The process of generalized least square method works very efficiently because it gives proper and smart weight to the variances and hence the process minimizes the sum of the squares of the residual errors. The general square model is mostly used to solve the problem of non-linearity equations by taking their differences and making them into a linear equation. Solving non-linear equations is an iterative process using Newton's method. The speed of convergence is dependent on the quality of an initial guess for the solution. The non-linear least-squares method is often referred to as a bundle adjustment since all of the values of an initial guess of the solution are modified together (adjusted in a bundle). This technique is also occasionally referred to as the Gauss-Newton method.

$$\begin{aligned} B_{GLS} &= (X'X)^{-1}X'y \\ &= (X'PPX)^{-1}X'PPy \\ &= (X - 1X)^{-1}X - 1y. \end{aligned}$$

For competing model robust regression was selected. In robust regression same set of independent and dependent variables were used. It is a regression which is used to find the relationship of many independent variables with one dependent variable, robust regression is a part of least square regression but it is not strictly limited to the assumptions which are given to least square regression. Mostly the regressions are highly affected by the outliers value which are present in the data set but in case of robust regression the outlier values don't have a significant effect in the computing of the model, in my data set there were some values which were outliers and hence I used robust regression to solve the problem of outliers, the result yielded a highly significant values with proper signs.

$$\text{Rent Seeking Corruption} = f \left(\begin{array}{l} \text{Foreign Direct Investment as \% of GDP, Informal Sector, Tax Evasion} \\ \text{Judicial outlook, GDP} \end{array} \right)$$

Model in Functional Form

$$\text{Rent Seeking Corruption} = B_0 + B_1 (X_1) + B_2 (X_2) + B_3 (X_3) + B_4 (X_4) + B_5 (X_5).$$

X_1 = Informal sector, X_2 = Tax evasion, X_3 = Juridical outlook, X_4 = GDP, X_5 = FDI as % age of GDP

$$\text{Rent Seeking Corruption} = B_0 + B_1 (\text{Informal Sector}) + B_2 (\text{Tax Evasion}) + B_3 (\text{Judicial outlook}) + B_4 (\text{GDP}) + B_5 (\text{FDI as \% age of GDP})$$

The betas show the values of each of the variable, it will show the relationship of the variables with the dependent variable, betas would represent the amount with which the value of rent seeking corruption would be affected by that certain variable, suppose if all other variables are kept constant and if B_1 value increases by one then the rent seeking corruption would increase or decrease by the value of the beta and if all other betas are zero then still there would be a constant remaining value which is represented by B_0 .

This study aims at testing the proposition that whether economic growth in the economy has a significant or insignificant impact on the level of rent seeking corruption in the economy. The economic growth in the society has been estimated by variable of GDP and FDI as a percentage of GDP both of these variables have quantification of percentage. The data for both the variables has been taken from year 1995 till year 2012.

Studies have shown that a high level of economic growth results in a low level of corruption, as the institutions start performing better and hence the rent seeking corruption also goes down therefore in the above equation the sign is predicted to be negative because as the growth of economy would take place the level of rent seeking corruption in the country will go down.

This study also aims at testing the proposition that whether the performance of judiciary and the level of accountability in the economy have a significant or insignificant impact on the level of rent seeking corruption in the economy. The performance of judiciary has been estimated by the variable of judicial outlay, the quantification of this variable is in number and the values of the variable range from between 0-100. The data of the variable is taken from the time period of 1995 till 2012.

It is seen that higher the accountability then lower the level of rent seeking corruption in the economy therefore in the above stated equation the sign of judicial outlook variable is predicted to be negative.

3. Findings and Analysis

This part will show the estimated models that have been chosen and the models chosen to study the relationship include general least square model and robust regression. The mathematical form of the model is explained in part 2.5 whereas in this part the results of the models will be analyzed and then interpreted accordingly and their significance and relationships would be supported by researches that have been consulted. After interpreting the results a firm conclusion would be drawn and some policy guidelines would be given to solve the problem of rent seeking corruption in Pakistan. The statistical data used to estimate the model is Stata 12.

3.1. Generalized Least Square and Robust Regression for Rent Seeking Behavior

The results that are listed below show two types of models that are used to see the effectiveness of the variables; the first model uses the Generalized least square command, whereas the second uses the robust regression. Both the models have same specification for dependent and independent variables; Rent seeking corruption in Pakistan. Results of both the regression are listed below in a tabular form (I) and (II) of Table 1 the values of the coefficients and the z values are being listed in the tables and then the analysis would be done accordingly.

Table 1. Regressions

Regressors	Generalized least square (I) 1995-2012	Robust regression (II) 1995-2012
	Regress and Rent Seeking Corruption (Number of maladministration disposed of cases)	
Informal Sector (Percentage, The value represents the percentage of G.D.P accounted by informal sector)	774.8803**	277.1599***
	(2.50)	(6.16)
Tax Evasion (Percentage, Median of selected countries tax to G.D.P ratio - Pakistan tax to G.D.P ratio).	2250.087**	1143.23**
	(2.10)	(4.76)
Judicial Outlay (Number between 0-100 where value close to 0 is inefficient and close to 100 is efficient)	-185.4311	-251.6716***
	(-1.51)	(-17.66)
Foreign direct investment as a percentage of Gross domestic product. (Percentage)	-1874.223***	-1503.666***
	(-3.50)	(-22.97)
Gross domestic product growth rate. (Percentage)	-3054.302***	-2505.269***
	(-2.57)	(-16.54)
Constant	11726.53	26617.35***
	(1.06)	(15.56)
Observations	15	13
Goodness of Fit		
Prob >F		0.0000
F		518.68
Prob>Chi ²	0.0000	
Chi ²	46.38	

Notes: *Significant at 10% level; ** significant at 5% level: *** significant at 1% level.
Values in parenthesis represent the z values.

The values in the parenthesis show the z values whereas the values with asterisks show the values of beta coefficient, the asterisks on the coefficients show the level of significance of each of the variable on different significance level.

3.2. Analysis of Findings

The above chart shows the findings of our model and the findings of the model are perfectly aligned and supported by theory, the signs are in accordance with what the theory has predicted therefore this model is appropriate for analysis purposes. The results of the above models show that each of the variables is appearing to be significant some being highly significant whereas only one variable that is judicial outlay comes out to be insignificant and in this part the reason for the insignificance of this variable would be mentioned.

3.2.1. Impact of Foreign Investment Inflows upon Rent Seeking Behavior

As stated earlier the foreign investment inflow is calculated by taking the foreign direct investment. Studies show that the relationship between rent seeking corruption and foreign direct investment comes out to be negative because as the level of rent seeking corruption increases then the confidence of investors decrease. Investors know that most of their investment will erode away in from of corruption and hence their profits would go down. Our model predicts the same sign of both the variables that comes out to be negative which are aligned with the theory. In both the models this variable is coming out to be highly significant at 1% level of significance. This shows that foreign direct inflows have a significant impact on rent seeking corruption, if the foreign direct inflows increase then the level of rent seeking corruption will decrease because now investors will have trust in the bureaucracy, they will know that their money would be used for appropriate purposes and they will get a decent amount of returns for their investment. Also foreign direct investment will increase only if the red tape behavior would decrease in the country, the red tape behavior results in delays of investment and sometimes loss of profits therefore foreign direct investment is highly affected by it. If the foreign direct investment would increase over the years it will have a trickledown effect on the institutional quality as supported by studies the foreign direct investment will only increase if the institutional quality will increase therefore it will result in the reduction of rent seeking corruption in the economy. Overall the increase in foreign direct investment will result in an overall reduction in widespread corruption all around the country.

3.2.2. Judicial Outlook, Conviction Rates and Rent Seeking Behavior

To measure the performance of judiciary I took the variable of judicial outlay, it was measured in a scale of 0-100 where 0 represent inefficient judiciary and 100 represented efficient judicial system it is the ratio of the cases that are disposed of over total number of cases. Both the model predict that if the level of judiciary would increase then the rent seeking corruption will go down so the sign is coming out to be negative. The more transparent the judicial system the lower the level of rent seeking corruption, also if the accountability and conviction rates are high than the level of rent seeking corruption would go down because now the cost of rent seeking corruption would outweigh the benefits caused by it. In the model generalized least squares (I) the judicial outlay comes out to be insignificant at all levels and the reason for that is that in Pakistan the judicial system itself is highly corrupted and there is no proper accountability of the cases of bureaucracy, for bureaucratic accountability the judiciary itself is highly nonexistent, complaints are filed in wafaqimohtasib but no proper court is present for accountability of bureaucrats and hence the role of judiciary is insignificant in curbing the problem of rent seeking corruption.

The judicial system that is prevalent in Pakistan is politicized, it is highly influenced by political pressures and hence there is lack of judicial independence. The people in Pakistan have lack of trust in judiciary since they know that the judicial proceedings are going to corrupt, delayed, the decision would be partial and dependent on external pressures. The judiciary is unable to circumscribe the proper property rights and due to this many of the investors hold back their money since they know that their investment will not be protected. One of the reasons for incompetent and inefficient judiciary is that most of the hiring's not done on merit, the use of contacts and the interference of political parties in selection of judiciary results in increase in incompetency in judicial system. Most of the cases are pending from years and many big cases are exempted or the decision is given in favor of parties which use their power and capital to bribe the judges. The judiciary is one of the key institution of a country and hence its working should be really efficient, transparent and fair.

3.2.3. The Parallel Economy Growth and the Phenomenon of Rent Seeking Corruption

The growth of a country is one a key factor for success and development in the long run. The growth in this model is measured in very crude form of gross domestic product per year which shows the outputs and goods produced in a given year. One of the major reason that the growth of developing country such as Pakistan is low is because of the high level of bureaucratic corruption in Pakistan. Rent seeking corruption has crept up in our institutional affairs and has become a way of life. This institutional corruption has become one of the most lethal obstacle in the path of economic growth. Therefore its effect has to be taken into consideration. The model results of both the models show that the higher the growth rate the lower the level of corruption which is what the theory also supports and the reason for it is that growth increases productivity and then a chain of higher productivity results in more efficiency and to increase efficiency the accountability of also increases and hence the level of rent seeking corruption decreases. The GDP in both the models appears to be highly significant at 1 % level, it is significant because it is one of the major factor for curbing the spread of corruption, it is seen that the developing countries like Pakistan have a low GDP growth only because they are facing high levels of corruption in each level be it grand or petty and mostly the institutional rent seeking behavior has had a drastic effect on macro level indicator such as the GDP. Developing countries like Pakistan have a greater potential to reach high levels of GDP because its economy has a lot of untapped resources but they are unable to reach the high growth of economy because of high levels of corruption that has become a part and parcel of our life now. The neo-classical growth model also predicts this convergence only if the countries are highly motivated and the governments induce high levels of investment in the economy and that will only happen if the general public believes that the government is not corrupt and their money will be utilized appropriately. The economy grows and it brings in a lot of perks that includes a better institutional system, better documentation, higher accountability and higher living standards and all of these factors directly impact the level of rent seeking corruption in the economy.

3.2.4. The Undocumented Economy and the Effect of Tax Evasion

Studies show that higher the undocumented economy higher the level of corruption because the illegal transactions increase. To measure the undocumented economy the informal sector was used because it is mostly undocumented in Pakistan. To get their transactions undocumented these people seek the help of bureaucrats and public officers which then in return misuse their power and are rewarded accordingly, so a patron client relationship is formed in which both parties are benefited at the expense of the economy and that too in an illegal way. The Informal sector showed a positive relationship with the rent seeking corruption which is aligned with the theory also the significance of this variable comes out to be really high, that is 5% in first model and 1% significance in another which in case of Pakistan makes sense, since a high level of informal sector is present in Pakistan and this sector is working illegally, to save themselves from being documented or getting caught this large chunk of informal sector seeks the help of bureaucrats and other public officers and hence they are involved in rent seeking behavior. The use of contacts in public office and the high incentives for bribery has resulted in an increase in the rent seeking corruption.

Next if we look at the tax collection we will see that Pakistan has a very high tax evasion and coupled with a low tax base and high amount of tax avoidance. All these Factors hamper the growth of the economy and result in increased level of corruption. The bureaucrat's officials are contacted in case of tax evasion, they use their discretionary powers to help people evade their taxes or at times avoid the taxes and in return they are paid for their services and this is a form of rent seeking corruption. If we look at the tax evasion link in this model we will see that the higher the tax evasion the higher the level of rent seeking corruption and this is what the theory also says. The tax evasion also comes out to be a significant variable at 5% level in the first variable and 10% significance level in the second model, so this shows that tax evasion is a very significant variable that is directly resulting in an increase in rent seeking corruption in

Pakistan, since bureaucrats are the one who have the power and the knowledge to help in getting the tax evaded.

3.3. Conclusion and Policy Recommendation for Control of Rent Seeking Corruption

Rent seeking corruption is a rising phenomenon in developing countries and its one of the major factor that is highly effecting grand corruption. Studies have shown that in developing countries like Pakistan this corruption has resulted in a lot of damages to the economic growth and development. Rent seeking corruption is highly prevalent in public offices and bureaucrats are mostly involved in it. In case of Pakistan bureaucracy is a very powerful institution, it's an institution that helps in running the government and forming a proper legislation and if this institution is itself suffering from high levels of corruption then the country is trapped in a low economic growth also referred as poverty trap.

The situation of Pakistan in respect of corruption is very adverse, over the years there is no influential step taken to curb the problem of corruption, corruption is now being taken as a part of life and hence become a norm in institutions. Pakistani government now has to take very strong steps to solve the problem of corruption and it has to start this by coming up with high level of institutional reforms, the institutions of Pakistan need to be reformed and mostly the high level institution of bureaucracy, bureaucratic reforms are a dire need of the situation and they can be done by implementing new policy reforms, first of all a major reason that is for rents seeking corruption is the low salaries given to the bureaucracy, the bureaucrats come after following a strict selection criteria and are given positions and very high level hence the salaries which they should be given should be very high so that they have no temptation or desire to earn money from illegal means such as rent seeing corruption. Secondly there is an abyss of moral, social and economic integrity rapaciously abating the overall effectiveness and efficiency of the bureaucratic framework; this further mollifies the overall robustness of the already centralized bureaucratic body. Due to all the mentioned issues a proper training lectures and workshops on ethics and moral integrity should be held on monthly basis so that the moral issues are addressed accordingly.

Also the level of accountability and checks and balances on the bureaucracy should be increased, a proper court should be made under the branch of special courts that will only deal the cases that are related to the malpractices of bureaucrats and public servants. The cases should be disposed of quickly and the interference of other political parties should also be kept out of picture. The punishments given to these bureaucrats should also be severe so that they should become an example for everyone. The performance of each and every bureaucrat should be reviewed on quarterly basis and the increments should be given to those whose performance is very high and up to mark, this will result in an increase in productivity of the bureaucratic institution and also will induce a sense of better working in bureaucratic body. Also it is seen that most of the anti-corruption agencies are headed by retired public servants or military people and this then leads to a low level of accountability of the people because the contacts and sources come into play therefore the heads of accountability agencies should be civilians and should come from a totally new body which will be under no political pressure and would be totally independent.

In an automated world Pakistani bureaucracy is still outdated and is using complex and unstandardized procedures which are used in a way to carry out rent seeking corruption, so the Pakistani government should implement new reforms in which the bureaucracy should be made automated, hence the procedure of record keeping and documentation would become much transparent and easy. This technique would result in the minimization of corruption since the record keeping would become easier and there would be a decrease in red tape behavior which is a big source of corruption in rent seeking corruption. Still due to all the institutions being highly influenced by the political parties this modernized institution for accountability should be governed by a private firm as the private firms will only earn if they work efficiently since their purpose is to maximize profits. Also this private institution would only be accountable to the ministry of information technology and would be free from any external influences. This would

be only done if strict limitations would be made on the discretionary powers given to senators, ministers and MNA's.

All in all the government has to take up a big initiative to curb the problem of corruption, they have to show will and urgency to solve this issue. A large scale reforms should be done as that would be beneficial for the country and the economy as well.

4. Limitations of Study

The limitations of this study is that the still there are many other variables which affect the level of rent seeking corruption but there data was not available or very difficult to find. The dependent variable rent seeking corruption had missing value from year 2011 and 2012 because in these given years the office of wafaqimohtasib was not working also the variable of informal sector had missing values from 2009 onwards, the time period of the study has to be restricted from year 1995 till 2012 because this was the only time frame where the number of missing values in all the variables was very less. secondly since my research type is a time series one and I was relying on secondary data so a questionnaire could not have been filled to get appropriate responses that would be used to analyze the missing other factors. Another major limitation was that the data set contained many missing values in between and if I had interpolated the missing values then the academic credibility of my paper would have been lost or hampered. Due to many missing values present in the dataset in the end the number of observations of my model was only 15 which in regard of the study is not a big number. So the observation number of this model has been a limitation because the date was unavailable. If the size of observations been higher than the reliability of the model might have increased and the error of the model would have decreased more, but still the reliability of the model and error term came out to be low due to proper use of statistical models and an appropriate selection of variables.

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