The relation between administrative corruption & economic growth in low income and medium income countries

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Abstract

Corruption is almost exist in all human societies throughout the history. Any continuation of corruption in different ages made most of researchers and policy makers to consider corruption as an inevitable part of human being challenges (Mukum, 2008).

Administrative corruption is common in most developed and/or under –developed countries.

In other words, there is no country in the world that has not experienced a form administrative corruption. In fact, where there is a government, there will be administrative corruption as well. For this purpose, the present paper will firstly explain and define corruption. Then we will concert relation between administrative corruption and economic growth in low income and medium income countries by using panel data regression models.

According to the results, it was revealed that there is a converse and meaningful relation between corruption and economic growth. Furthermore, there is a direct & meaningful relation between capital stock and labor force with economic growth in low income and medium income Countries.

Keywords: Capital stock, Administrative corruption, Economic growth, Labor force.

Introduction

In the traditional models of growth, countries and even technologies were supposed to be equal. Those models were searching for the roots of growth differences of different countries in the "saving rate" and "rate of the growth of primary factors".

At the second stage, entering other variables such as "human capital", "rate of development of financial sector" and "the nature and quality of macro economic policies" in different countries, economists tried to minimize the unexplained residuals. At this route, even the differences of technology functions in different countries were considered but still the rate of unexplained residuals was noticeable.

At the third stage, researchers began to concentrate their attention on "non-economic factors" which were effecting on growth. Attention to no economic factors was explaining another root for the heterogeneous conditions of countries (Sharif Azadeh, 2003:3).

In this area, other broad studies were made by economists and considerable results were obtained. Subjects such as corruption in administrative bodies, quality of bureaucracy and issues like that were new variables which entered into the literature of economic growth at this stage.

-**Alam** believes that administrative corruption is a deviation from standards, norms and modern bureaucracy measures (Alam, 1989:57).

Soon has defined corruption in this manner: It is a type of non-transparent and illegal activity which might be done overtly or covertly (Soon, 2006:13).

Some of the researchers believe that administrative corruption is an instrument to deviate people from duties or performances which result from their formal duties and activities related to political and economic issues (Okogbule, 2006, 95).

The impact of corruption on economic growth

Topics related to the consequences of corruption created two important schools of thoughts. According to one of these schools, corruption is useful and will increase economic growth but in the other school, corruption is negative and an important obstacle for the economic growth and modernization.

The viewpoint of the first group

They believe that corruption will the increase of economic growth rate . Among the views of this group, the following are presented:

Leff (1964) believes that corruption can help with the economic growth by creating the possibility of a higher rate of investment. He also adds that corruption can make the local innovation become better and at higher level will lead to economic growth. He argues that by innovation and presenting new products, the investors will face opposition in the market, so that corruption can provide necessary supports for the introduction of new produces and reinforcement of innovation (Leff, 1964:15).

Bayley (1966) states: Corruption either in form of bribe or informal payment in the side bribers can lead to the increase of resource distribution in the direction of investment. He adds that the transfer of rare resources through corruption on behalf of ordinary people to a group who are relatively expert and have more information on the grounds of economic growth and perspectives for the creation of wealth can increase investment and wealth production which in turn will bring about economic growth. He argues that in countries where there is a considerable data asymmetry, consequently as a result of this indefinite state, risk of investment is relatively high.

Also he believes that corruption is a factor for the increase of political participation of communities, groups and individuals who used to be in the margin historically or deprived (Bayley, 1966:701).

Huntington: In his view, of the economic growth of a society which has a strict , and more than usual concentrated and healthy bureaucracy is worse than a society which has a strict, more than usual concentrated and unhealthy bureaucracy. Because, from a perspective, administrative corruption can be considered as a way to remove the traditional rules and administrative deterring regulations in the path of economic development (Solasi, 1992, 90-91).

The Viewpoint of the Second Group

They believe that corruption prevents economic growth. They state that forces who think corruption is useful for the economic growth had been considered as unreliable people. Though corruption might have some advantages but its disadvantages are so great such that it neutralize its little benefits. The experience of developing countries shows

that most of public staffs are pursing primarily their interests and incomes in performing their duties rather than economic growth.

In addition, according to Bayley, it was supposed that corruption in the developing countries should be considered as an inevitable instrument to compensate insufficient income and wage, so that it is expected that in the countries in particular African countries, two important developments take place.

1-Correction and noticeable improvement in the rate of compensation of public staff shortages which is the result of economic growth and following that, the bureaucratic corruption and its other forms could be reduced considerably.

2-During many decades, modernization took place in developing countries. Following that, traditional customs went away and families became smaller but regretfully, the desire of public staff to gain illegal income went up. Corruption leads to the wealth accumulation by some of the public staff and officials, politicians and holders of professions. Then the government ability to deal with that was limited. A study in developing countries shows that corruption is an important obstacle in making efforts to fight against poverty effectively and high levels of basic inequalities among communities. Furthermore, corruption is an instrument which is used by dominant political groups of society to restrict spaces and limit the participation of specific social, race and religious groups (Ellis, 1998, 231).

In addition, the surface and short term political and economic advantages of some of the specific types of real corruption are undeniable. However, corruption can permit the inefficient enterprises with weak and inappropriate management to continue wasting rare resources of country. The resources which could be used to produce wealth to fight against poverty and to supply other social needs.

A Review of Research Literature

Tanzi and Davoodi (1997): Vito Tanzi and Hamid Davoodi did a quantitative study in 1997 in collaboration with the World Bank using a regression analysis. In their article, the impact of corruption was studied with their hypothesis on variables of public investment, government income, operational costs and maintaining public capitals and public investment quality. The results of the study indicates that:

1) Corruption will make people deviate from spending their necessary expenditures and spend their assets to buy news and false instruments.
2) Corruption will decrease public expenditure on in education and health.
3) Corruption tends to reduce of income tax and benefit because corruption reduces the ability of government to collect taxes and tariff (Tanzi and Davoodi, 1998, 18).

Keyfer in his studies showed that observable effects of corruption and its consequences in economy are dependent on the politicians' behaviors, which brings about weak economic results. This effect is one of the features of bureaucracy. So the above results will cast doubt on the relation between economic growth and features of bureaucracy of countries since it creates inefficient policies in the area of growth and inefficiency of bureaucracy and as a result it leads to the increase of administrative corruption (Keyfar, 2004:15).

Kaufman and Wai in their studies came to the conclusion that in the changing world of today, bureaucracy adds fuels to the corruptive opportunities by adding official procedures and leave a bad impact on economic growth (Keifer, 2004:32).

In addition, in some countries, the absence of democratic governance causes the massive administrative corruption, weak infrastructures, high costs of business, fall of investment, economic growth, employment, incomes, national, regional and international instability and vast disappointment of citizens (Kaufman et al, 2007:17).

Usman (2008) did his studies aiming at identification of the impact of corruption on the economic growth in Nigeria for 1986-2007. He entered variables such as physical, human capitals and government expenditure and finally concluded that corruption has a negative impact on economic growth. Also corruption has a negative effect on human and physical capitals but corruption has a positive effect on governmental expenditure, i.e. with the expansion of costs and size of government, corruption would increase and thus they concluded that the impact of corruption on the economic growth of Nigeria is in direct and indirect forms (Usman, 2008:17).

Countries under Investigation

In order to estimate the regression model, the data related to economic and non-economic variables affecting economic growth of countries have been used as presented in Table 1.

We choose them because all countries are member of ECO.

Table 1. List of Countries under Investigation in the Research

Income group	Region	Name of Country
Low medium income	Asia	I.R. of Iran
Low income	South Asia	Pakistan
High medium income	Europe and Central Asia	Turkey
Low income	Middle Asia	Kazakhstan
Low income	Central Asia	Turkmenistan
Low income	Central Asia	Uzbekistan
Low income	Central Asia	Kyrgyzstan
Low income	Central Asia	Azerbaijan

In Table (1), countries under investigation in this research are presented in terms of income groups according to the World Bank ranking (2008). Also using the method of the Atlas of World Bank

Research Methodology

This research with regard to its nature is an applied research. In this research data and necessary information have been collected and analyzed based on correlation model. data related to administrative corruption (independent variable) being taken from the internet site of Transparency Organization determine the index of corruption and rate of public corruption. Some of the forms of corruption from the viewpoint of these institutions are: asking for additional amount and bribe when issuing permit for exports or imports, determining tax, obtaining loan and issues like taking side, paying attention to relatives, delivering jobs to acquaintances. This index can choose figures of zero to ten. The more the countries are closer to figure 10, the less is their rate of corruption and to the extent a country is closer to zero, to the same extent the corruption rate is higher.

Also data related to the economic growth (dependent variable), capital assets and labor force (dependent variable) were collected through internet site of World Bank.

Regression Analysis
Base Model

In order to estimate the production function in low income and medium income countries ,we used econometric method and multi-variable regression.

Based on this model, the impact of administrative corruption on the economic growth was fitted and then the proper model was estimated in form of the following linear regression:

$$Y = \alpha_0 + \alpha_1 C(-4) + \alpha_2 K + \alpha_3 L$$

Y= Economic growth of in low income and medium income countries
C=Administrative corruption in low income and medium income countries
K= fixed capital in low income and medium income countries
L=Growth of labor force in low income and medium income countries
a=width from origin
ai=Coefficient of independent variable

Estimation of production and administrative corruption in low income and medium income countries

$$Y = -8/42C(-4) + ./36K + ./12L + ./19\alpha$$

Results:

Using Table No. 1, it is observed that t-statistic of corruption is (3.18) at the level of p=(0/05) significant. So, the hypothesis H0 that indicates the lack of relation between administrative corruption and economic growth at the confidence level of 95% is rejected. So, our research hypothesis is confirmed. With a closer look, it is observed that the coefficient of administrative corruption is estimated to be -8.4 which means if other conditions being unchanged, if there is a one percent increase in the indexes of corruption, then in average we will expect to have -8.4 percent reduction in the economic growth rate in the following three period.

For the capital, t=(3.7) which confirms the significance of the coefficient of capital at the level of p=(0/05). So the hypothesis of H0 that there is no relation between economic growth of low income and medium income countries and capital assets is rejected at the confidence level of 95%. Thus our research hypothesis is confirmed. Having a closer look, it becomes clear that the coefficient is estimated to be ./36 and this means that, if other things are constant one percent increase in the capital asset of, in low income and medium income countries on average we will expect an increase in./36 percent rate economic growth in those countries.

The t-statistic for Growth of labor force (4..6) is at the level p=(o/05) which confirms the significance of the coefficient of growth of labor force . So the hypothesis of H0 which indicates the lack of link between growth of labor force of low income and medium income countries at the level of 95% certainty is rejected. So our research hypothesis is confirmed. Having a more precise observation, it is learned that the coefficient of growth of labor force is estimated to be ./12 which means if other things are constant, and a one percent increase in growth of labor force, on average we will expect an increase in./12percent rate economic growth in those countries.

Table No. 1

Variable	Coefficient	Std.Error	t- Statistic	Prob
K	./36	2.6	-3.18	./0003
LogC(-4)	-8.42	./09	3.7	0.0 008
L	./12	./027	4.6	0.00 ·1
a	./19	0/06	./06	./95
0.90	$R^2 =$	F=98/9 P=0.00	D-W=1.97	

Conclusion:

The primary goal of all economic systems and manging communities' affairs is to achieve economic growth rate. Economists pursue to discover factors which have impacts on growth. In the initial models of economic growth, countries and even technologies were assumed equal but in the following models, technologies, human capital entered into models and

finally economists dealt with non-economic factors. Many broad studies were made in this area by economists and considerable results were obtained. Subjects such as corruption in the administrative bodies were new variables entering the literature of economic growth at that stage.

In this area, we studied the impact of administrative corruption on economic growth. The results of research based on panel data approach indicate a reverse and significant relation between administrative corruption and economic growth of low income and medium income countries, including Iran. Also, there is a positive and significant meaningful effect between capital asset and labor force with the economic growth. of low income and medium income countries In addition, the coefficients of the impact of administrative corruption show a greater impact on economic growth of low income and medium income countries as compared with other variables.

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