

Corruption and Economic Growth: an International comparison

Economics and Legal Studies; Oklahoma State University

Jamie Hays and Dr. Lee Adkins

Abstract

Two variables were used in the research of this subject, Gross Domestic Product and corruption. Gross Domestic Product (GDP) is a measure of the monetary value of all goods and services produced in a country. GDP can give a clear idea of a country's wealth and future success. The second variable, corruption, is measured by the freedom from corruption within a country. Corruption is also a measure of the economic and personal freedom resulting from the way a government is run. Our research goal was to find a correlation between GDP and corruption. When looking at corruption numbers, it was our belief that a corrupt country would not have the ability to grow as sufficiently as non-corrupt countries. Essentially, that a corrupt country would result in lower GDP growth. We wished to prove that a country's change to less corruption would yield higher growth rates of GDP.

Methodology

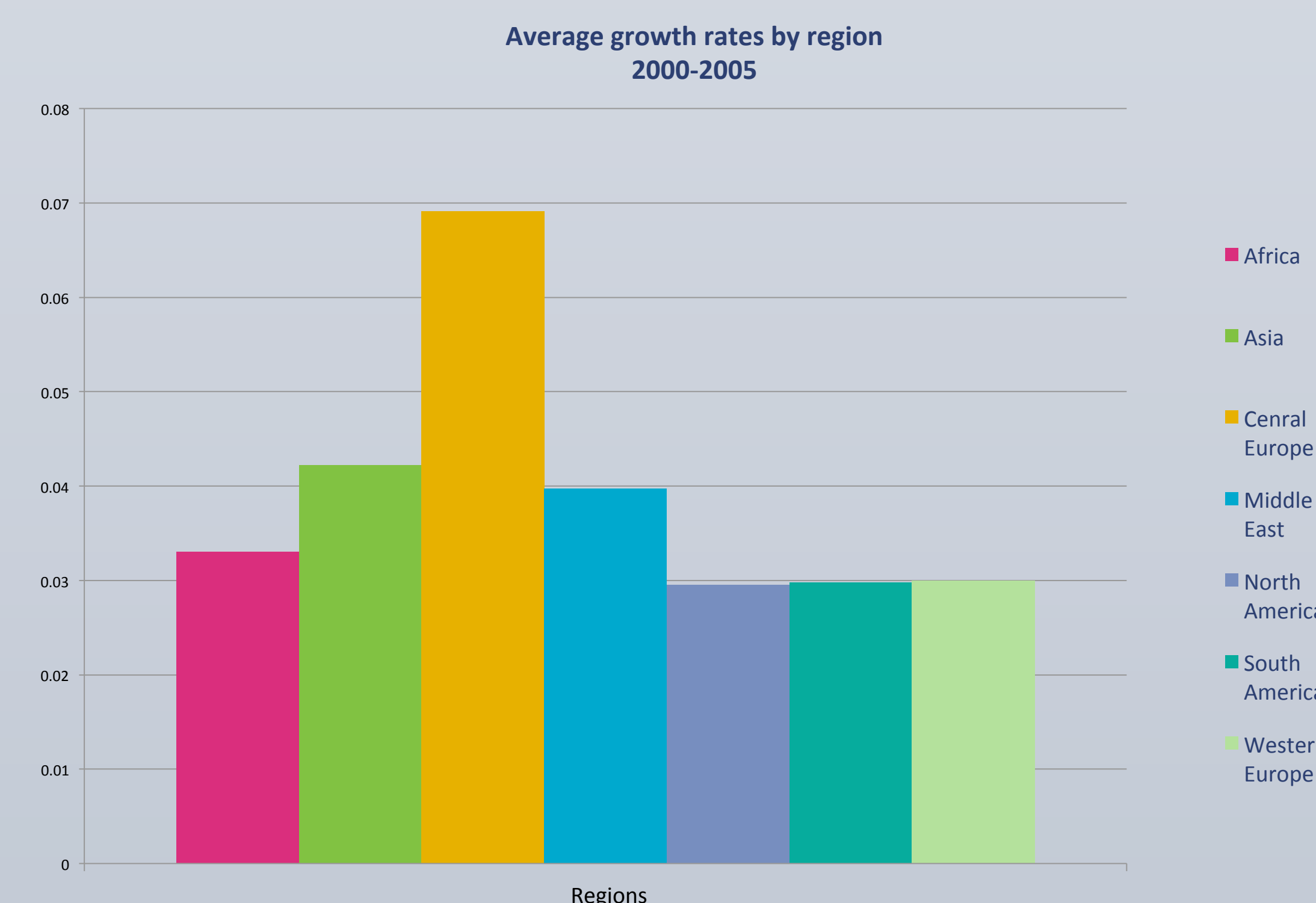
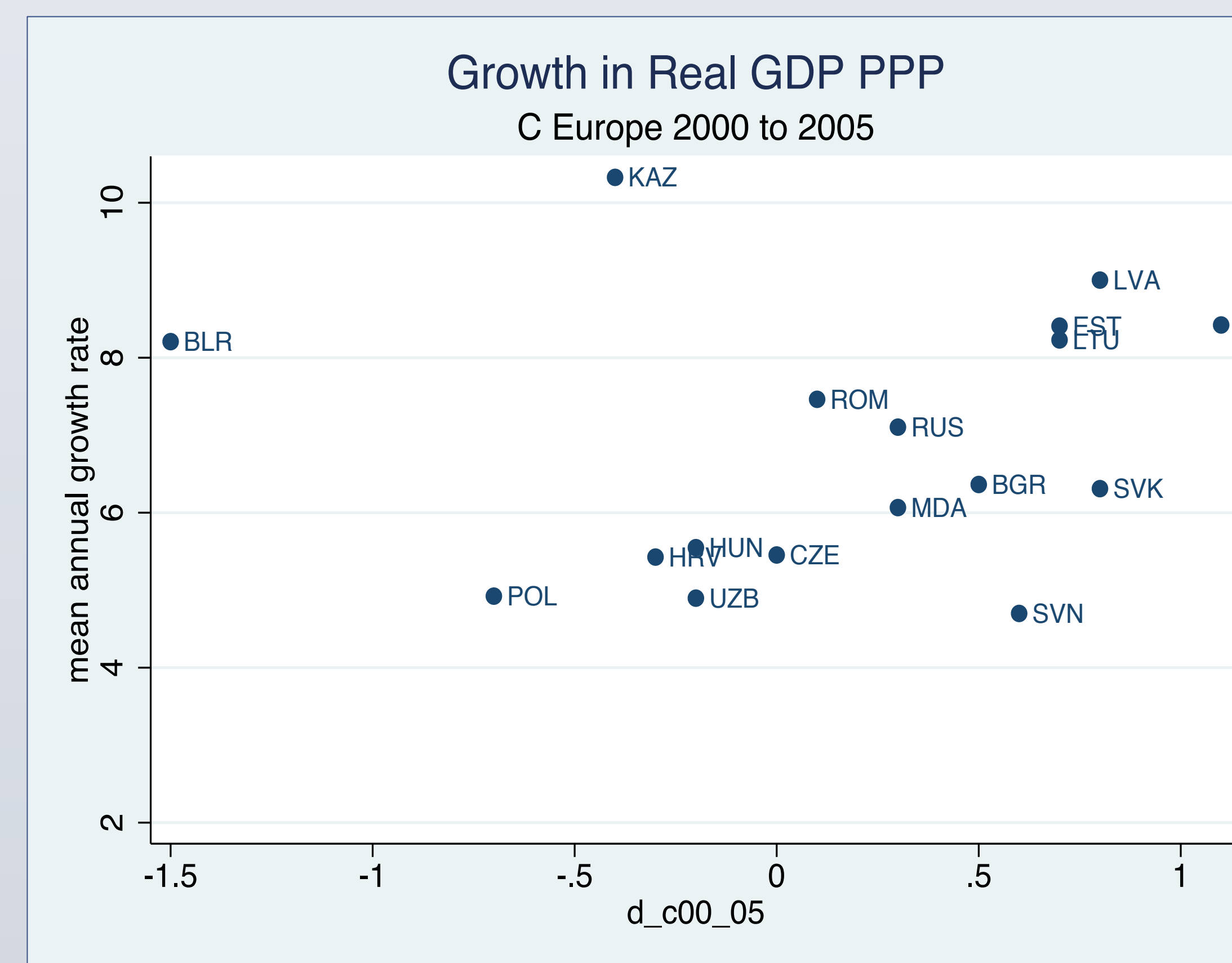
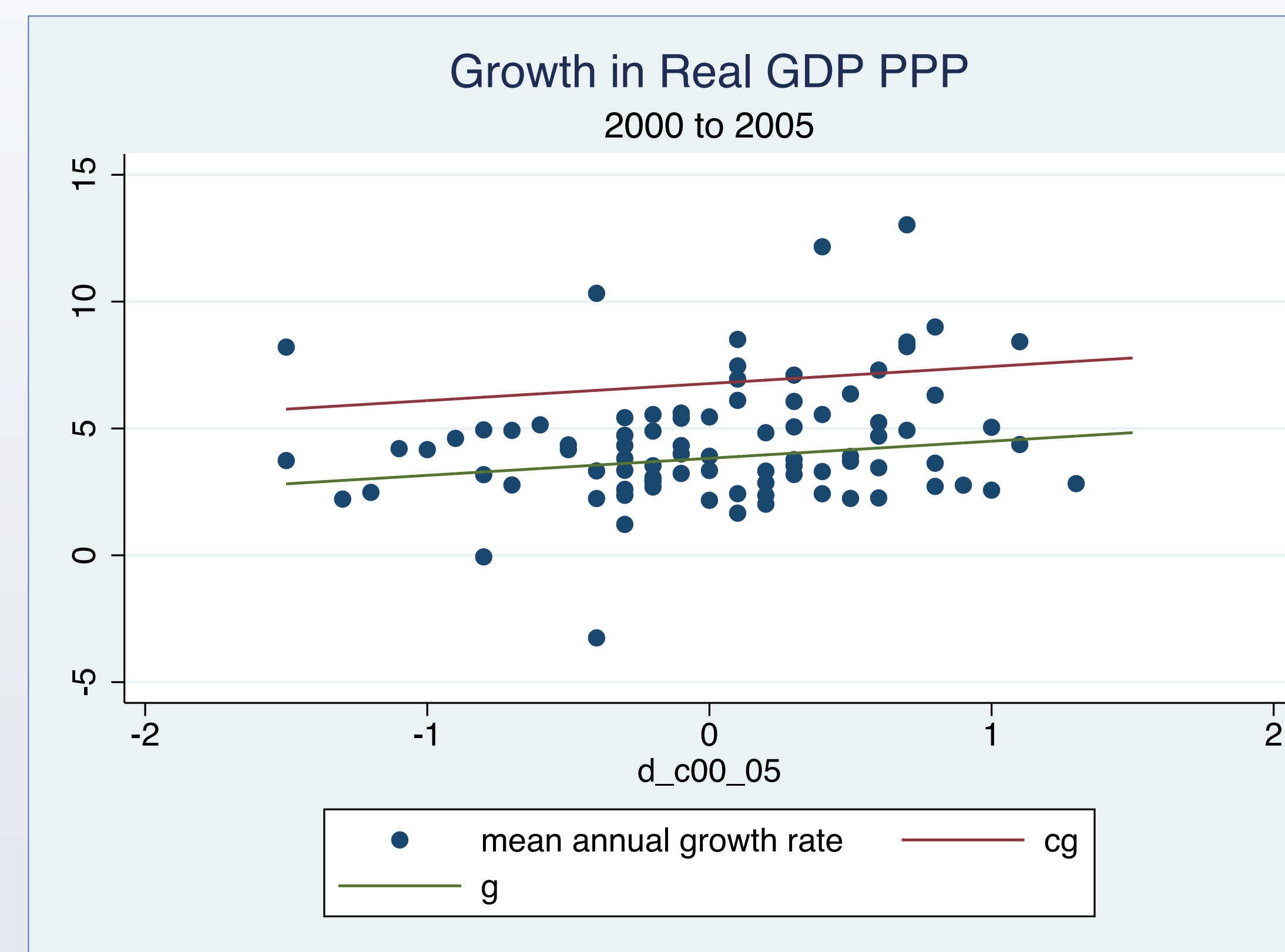
First, corruption and GDP numbers were gathered from Daniel Treisman's calculations from the years 2000 to 2005. GDP numbers from 2000 to 2005 were used to calculate a rate of change in growth. The GDP numbers used were considered "real variables", meaning they have been corrected for inflation. The GDP numbers were also corrected by the Purchasing Power Parity (PPP) so that currency of all the countries were relative and could be fairly compared. Corruption numbers were also taken from 2000 to 2005 to calculate a change in corruption over the six years. After calculating the change of the two variables the numbers of several countries from several regions were plotted on Graph 1, the x-axis being change in corruption and the y-axis being change in GDP growth, to later be formed by a regression line. It is important to note that positive numbers mean less corruption. The second graph takes a focus on Central Europe and plots specific European countries using the same corruption and GDP growth numbers as talked about above. The third bar graph compares average growth rates calculated of several different regions including Western Europe, North America, South America, Central Europe, Middle East, Asia, and Africa.

Research Question

Does reducing corruption change Economic growth?

Hypothesis: A higher change in corruption will result in a higher change in GDP growth from 2000 to 2005.

Results



Analysis of Results

All graphs fully support the hypothesis of a change towards less corruption leading to more growth. For instance, Europe's regression line in Graph 1, shown as "cg", is visibly higher than the mean annual growth rate of all other countries. This is important due to the fact that Europe was leaving communism and extreme corruption in the time period the data was taken. Leading to more intensified growth. It is also seen that the average change in growth is lower than Europe's change in growth, proving that a move to less corruption leads to better growth. Graph 2 takes a deeper look into Central Europe's growth and corruption comparison. The hypothesis is further supported by the second graph, because Central European countries that had less corruption growth resulted in higher growth in GDP. Graph 2 also shows how countries becoming more corrupt still yielded high growth in GDP. While countries across all types of corruption do not always have distinct differences in GDP growth, it is important to note the visible, but minor differences in growth related to corruption. Witnessed in the Graph 3, it is easy to tell that most growth between regions is consistently similar. This graph offers even more proof that a change towards less corruption yields a higher rate of growth in GDP, represented by Central Europe's much higher average growth rate bar. Although a drastic difference is not seen beyond Central Europe, there are long run effects that can be related to even minor differences in growth. In turn, higher GDP growth creates many long run effects on the economy and society of a country. For example, it could possibly lead to better education, health, production, lower unemployment, and strength of a country. Furthermore, our hypothesis was proven and it is evident that a country's government system and the corruption it inhibits clearly effect the health of the economy.

Impact of Findings

While these numbers are not of the present time, the data researched is still significant and a quality representation of the future of our world. The results show the importance that needs to be placed on a country's corruption and political processes. It shows the drastic effects change in corruption has on the economy and society, beyond simple political unrest. Although GDP is defined a measure of monetary value of all goods and services produced in a country, this number holds more significance beyond a measure of wealth. GDP can relate to unemployment rates, per capita, education, and technology growth. On a personal standpoint, it is important for our population to stay involved and active in politics, so to lessen corruption and increase our country's growth and economic health. We can also be active in remaining ethical and serving as ethical leaders in our academic and career lives. As proven, we must take political and business processes seriously to ensure the health of our economy and society for the present and future.

Acknowledgements

Advisor:
Dr. Lee Adkins
Ph D in Economics

Department Head and Professor

Department of Economics and Legal Studies

Spears School of Business



All data from: Daniel Treisman, "What have we learned about the causes of corruption from ten years of cross-national empirical research?" November 2006