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EVIDENCE ON THE IMPACT OF CORRUPTION ON ECONOMIC GROWTH: A SYSTEMATIC LITERATURE REVIEW

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EVIDENCE ON THE IMPACT OF CORRUPTION ON ECONOMIC GROWTH: A SYSTEMATIC LITERATURE REVIEW

Abstract
The relationship between corruption and economic growth is complex and has been extensively studied. Till recent days it is still one of the most genuine political challenges that all countries face. Even though anti-corruption measures have improved, they still lack consistency and clarity. Accordingly, this paper reviews the extant literature on this issue, by examining 66 research papers on the impact of corruption on economic growth. The study was aided by analysis of the theme Corruption and economic growth identified in the present literature. Impact of Corruption on economic growth has been tested in multiple studies utilizing time series, panel, and cross-sectional data for various time periods and locations. Although most empirical research has supported the idea that corruption has a considerable impact on economic growth, others have demonstrated that corruption has no significant impact on economic growth. The study draws its conclusions from a variety of investigations. The literature identified that depending on the circumstances, corruption can have both good and bad consequences on economic growth. Besides, the impact of corruption on economic growth varies per country, and time period under consideration based on a variety of characteristics such as economic development, political system, and legal system.

Keywords
1. INTRODUCTION

Since ancient times, corruption has been a topic of interest for scholars. It is a grave affliction that negatively impacts the social, political, and economic fabric of any society, disrupting the efficiency of its crucial components. Transparency International identifies corruption as one of the most significant challenges faced by the world today (TI, 2022). Corruption poses a threat to good governance, distorts public policy, leads to misallocation of resources, hinders growth in both the public and private sectors, and disproportionately affects the poor (TI, 2022). While corruption exists in all countries, it is particularly prevalent in impoverished nations in Sub-Saharan Africa and is widespread in Latin America (Tanzi, 1998). Corruption is deeply entrenched in many newly industrialized countries and is reaching alarming levels in the Middle East and North Africa (MENA) region nations (WB, 2019). Though the concept of corruption is widely used in politics and social sciences, it is often applied in an unsystematic manner.

Over the last three decades, significant theoretical and empirical research has been conducted on corruption, resulting in a multitude of alternate theories, typologies, and remedial strategies. Corruption's origins and consequences are diverse and have been examined from various perspectives, including human ethics and civic culture, historical and traditional contexts, economic systems, institutional arrangements, and political systems, among others (Jun, 2021). Additionally, corruption is a multifaceted phenomenon that encompasses several meanings, making it challenging to define analytically without specificity (Wagenaar, 2007). Corruption takes various forms, each with its own set of characteristics, initiators, and beneficiaries, as well as the manner in which it occurs and the extent to which it is practiced. Examples of corruption include paying bribes to civil servants in exchange for favors, embezzling public funds, and a wide range of questionable economic and political practices that enrich politicians and bureaucrats, as well as any abusive use of public power for personal gain (Mauro, 1995; Méon & Sekkat, 2005; Graycar, 2015; Suleiman & Othman, 2017; Budsaratragoon & Jitmaneeroj, 2020).

Given the complex nature of corruption, this study employs a systematic literature review using a keyword-string search method across relevant databases from the 1990s until 2021, utilizing a qualitative coding scheme. The study aims to review the existing literature on two aspects of corruption: its measurement and its effects on economic growth, providing extensive evidence from empirical studies with varying outcomes. This systematic review seeks to generate comparable, reliable, and verifiable estimates of the impact of corruption on economic growth and how this relationship may evolve over time.

2. THEORETICAL BACKGROUND

2.1 Theoretical Background on economic growth

The concept of economic growth as mentioned by Adam Smith's book on the prosperity of nations (1776) argued that multiple influences contribute to enhancing economic growth. He concluded that the development of the economy depends on labor division and centered on the accumulation of capital by individual savings as a primary driver of growth. Then some classical economists, such as Malthus, Mill, Senior, and Ricardo, confirmed the extension of education; these economists also developed the classical theory of economic development. Subsequently, in the late 19th and 20th centuries, Karl Marx, in his interpretation of historical prosperity, stressed that it was the growth of capital by the exploitation of labor.

At the end of the 1930s, Harrod and Domar proposed the hypothesis known as the Harrod-Domar principle, which was accepted by the classics (Adam Smith) on capital accumulation as the key behind accelerated economic growth. After that, Solow's Neoclassical Theory (1956) presented an alternative to the Harrod-Domar growth model; economists' focus was diverted to exploring the concepts of optimal distribution rather than describing how capital would develop. Thereby, Solow's theory was split into two categories: on the one hand, it demonstrated a dynamic Walrasian equilibrium model in which markets play a key role in the productive distribution of capital. On the other hand, it predicted that technological development, which increases labor/capital output, would boost economic
growth. The drawback of this principle is that it does not explain how to increase technical change pace.

A new growth theory was introduced by Rostow in 1960, that theory showed that industrialization and structural economic changes throughout the world, from agricultural to industrial, would cause economic growth to spread. He also stressed the major role that capital investment could play in growing economic development, as Rostow had assumed. New economic growth theories were developed by Paul Romer and Robert Lucas (1986 and 1988, respectively), but with a greater focus on growing resource and labor productivity, in particular human capital such as education and training, as well as greater awareness for workers, would encourage improved technical innovations and economic growth accordingly. These ideas are compatible with classics such as Malthus, Mill, Senior, Ricardo, and Solow; still, they contradict him by claiming that growing capital does not always lead to a reduction in return but rather based on the form of investment. In comparison to the classics, Schumpeter (1988) applied considerable value to an innovative entrepreneur in his technical advances philosophy. He argued that entrepreneurs' ingenuity and invention could contribute to economic growth (Islam, 2004), and this supports the thoughts of Solow.

In this context, economic development is defined as an increase in the amount of goods and services produced per head of the population over a period of time (Potters & Munichiello, 2021). It is based on increasing productivity, which leads to improved living standards. The definition from the Oxford Dictionary is virtually identical: "Economic growth is the increase in the output of goods and services per head of population during a certain time period", (Jonathan Law, 2009). The Cambridge Dictionary meaning is similar since it defines growth as "a rise in the economy of a nation or region, particularly in the value of goods and services produced by the country or region" (Cambridge Dictionary, 2022). Amadeo (2021) defines it as a "rise in the production of goods and services over a defined period," which is quite similar to the definitions provided above. Therefore, these definitions presented economic growth as an increase in productivity, which can lead to improved living standards. It is helpful to consider economic growth in terms of its effect on productivity, as this is the main way which it can improve living standards. There are different types of economic growth, and each has a different impact on productivity. The most common type of economic growth is intensive growth, which occurs when firms use more of their existing resources to produce more output.

As a result, there is no question that the above concept is stronger and more meaningful unless the rise in per capita income is a sustained increase to be called "economic growth" per capita. Also, income tests how much actual goods and services the average individual in the country enjoys for consumption and investment and thus adds more weight to people's quality of living, considering the economic growth goal described above. This description reinforces Professor Arthur Lewis' definition, which clarified that economic grow is the increase in production per head of population.

Therefore, it is noticed that most of the economists have agreed on a clear and unified definition for economic growth, which is the increase in the production of goods and services in an economy during a specific period of time. In other words, the economy's productive potential is expanding GDP (Gross Domestic Product) that is used to determine economic growth. Consequently, economic growth for a particular year occurs when there is an average percentage increase in real GDP (adjusted for inflation) or gross GNP (Gross National Product). While most economists adopt the overall definition mentioned above, they largely believe in different causes of economic growth. For example, few have proposed that technological discoveries cause economic growth (Peters, 2003), others have described economic growth as an outward movement in an economy's production possibility curve. While it can be noticed that many definitions focus on the 'value' of the products and services produced, other studies implied that it is important to emphasize that growth is equally concerned with an increase in the quality of goods and services.
2.1.1 Theories of Economic Growth

There are three major types of economic growth theories that have sought to address the issue of "how can a country or economy consistently raise GDP so that economic growth trends upward?" (Daly, 2005). These theories are the Classical, Neo-Classical, and Modern Day theories.

1. Classical Theory

The classical theory of economic growth holds that long-run growth is determined by the accumulation of physical capital and increases in productivity. This theory was first proposed by British economist Solow in his 1956 paper "A Contribution to the Theory of Economic Growth" and is largely focused on the supply side of the economy. However, in recent years, there has been evidence that corruption can have a negative impact on economic growth, leading to lower levels of investment and slower economic growth. To determine the usefulness of the theory, Smith (1776) posed two fundamental questions: what is the nature of the division of labor and how it affects economic growth; and why it exists. Besides, Smith (1776) argues that the division of labor is limited by the extent of the market, leading to a decrease in economic growth. This is especially true when businesses have to pay bribes to get permits or licenses, as they will be less likely to invest in new businesses or expand their existing businesses, resulting in a decrease-inflation. Additionally, Smith's theory is important in understanding the relationship between corruption and inequality, as workers are more likely to specialize in tasks that are in high demand, such as those that are paid less.

2. Neo-Classical Theory

The Solow-Swan model, developed in 1956, claims that output per capita is determined by physical capital, labor, and technology (Caraman, 2015). This model is dependent on the technological change and population growth, which are the endogenous factors. There are two major concerns with this era of theories: that continuous economic growth can only occur with technological advances, and that diminishing marginal returns of capital and labor can be a factor in growth (Chirwa & Odhiambo, 2018). The Solow-Swan growth model states that economic growth will not take place without an increase in productivity. To achieve this, a nation needs to increase productivity through technological advances, increasing the amount of human capital, and improving the physical objects used in the production process (Apostol et al., 2022). Growth theorists faced two significant challenges: continuous economic progress is impossible without technological progress, and diminishing marginal returns of capital and labor is necessary for long-run economic stagnation (Zhao, 2019). Robert Solow and Paul Romer addressed these challenges, but there is no empirical or real-life evidence that supports the notion of technological progress being the only source of long-term economic growth (Schilirò, 2019).

3. Modern Theories

Romer and Lucas (1986 and 1988) developed new economic growth theories which focused on growing resources and labor productivity, as well as greater awareness for workers that would encourage improved technical innovations. In 1988, Schumpeter argued that entrepreneurs' ingenuity and invention could contribute to economic growth, and Romer (1994) proposed that growth is a product of endogenous factors, such as technology and external market performance. This holds that government policies should inspire economic growth if they are directed towards cultivating a free market, investing in research and development, and increasing the presence of return on capital investment in the knowledge economy (Islam, 2004). Notably, this proposition can be applicable in the context of MENA countries that are committed to divest from reliance on petroleum and petroleum products if they are to experience sustained economic growth.
2.2 Theoretical Background on Corruption

The types and categories of corruption may vary but are thoroughly interconnected to corruption’s theoretical outlook. The Economic theory classifies corruption as “grand versus petty”, “demand versus supply”, “conventional versus unconventional”, and “public versus private” corruption (Lynda, Dent, & Brunelle, 2014).

1. Grand Corruption vs. Petty Corruption

Research has suggested that “Grand corruption” refers to “Political corruption”, which usually occurs among the highest political authority levels. It does not identify the true level of the public authority involved in corruption. Simultaneously, recent papers (such as Transparency International reports, 2021) state that high-ranking state agents (like chiefs of staff, ministers, and other government officials) could also be involved in political corruption schemes. Political or administrative authorities gain personal profits of several types by employing their influence or command throughout their status (Sardan, 1999). Certainly, this definition is ambiguous because only some occupations document high-ranking public agents’ corruption as grand public corruption. Economic growth could be affected by corruption, especially if it involves high-ranking officials; not to mention its negative impact on foreign investment in a state because investors usually seek a healthy environment when deciding to invest in a foreign country (Ackerman, 2002).

Similarly, opportunist decision-makers often favor contracts, which increase their profits (Ackerman, 2002). Being familiar with the project’s elements such as costs and economic inflation, these decision-makers attribute a higher value to the project in question to secure pensions and maximize their profit. However, other research suggested that privatization would likely involve even more lobbying and bribery. In this framework, corruption scandals might help to discredit many decision-makers in both emerging and developed states. Another type of grand corruption is a corporation bribe. A corporation bribe is defined as an offer of anything of value, made by a corporation to a foreign public official, to obtain or retain business. This type of corruption is defined under the Foreign Corrupt Practices Act (FCPA) in the United States (McGreal, 2019). The FCPA prohibits two types of activities: first, the making of a corrupt payment to a foreign official to obtain or retain business; and second, the making of a corrupt payment to an international intermediary, such as an agent, consultant, or distributor, to indirectly influence a foreign official.

2. Demand Vs. Supply Corruption

Another distinction that can be made between different types of corruption is the distinction between demand-side and supply-side corruption. Demand-side corruption occurs when citizens demand bribes in order to obtain services to which they are entitled. This type of corruption is often found in countries with a high level of inequality, where citizens believe that they need to pay bribes in order to obtain the same level of service as those who are better off. Supply-side corruption, on the other hand, occurs when public officials demand bribes in order to provide services to which citizens are entitled. This type of corruption is often found in countries with a low level of rule of law, where public officials believe that they can get away with demanding bribes. The phrases "active" and "passive" bribery are often used to describe these two types of corruption (Lynda, et al., 2014). Active bribery occurs when a public official demands a bribe, while passive bribery occurs when a citizen offers a bribe.

3. Conventional Vs. Unconventional Corruption

When government officers, civil servants, or company directors use their authority to enrich themselves, it is referred to as conventional corruption. The solicitation and acceptance of bribes, embezzlement, fraud, and nepotism are all examples of conventional corruption. This type of corruption is often found in countries with weak institutions and a lack of transparency (Naheh et al., 2020). Unconventional corruption, on the other hand, is defined as the use of public office for private gain in a way that is not illegal, but which violates social norms (Pustu et al., 2019). This type of corruption is often found in...
countries with strong institutions and a high level of transparency. Examples of unconventional corruption include nepotism, cronyism, and influence peddling.

4. Private Vs. Public Corruption

The essence of corruption can be described as the misuse of entrusted power for private gain. When this entrusted power is used for political gain, it is referred to as political corruption. This type of corruption includes activities such as vote-buying, rigging elections, and embezzlement of public funds. Administrative corruption, on the other hand, refers to the misuse of entrusted power for private gain in a non-political context (Amundsen, 2019). This type of corruption includes activities such as bribery, embezzlement, and nepotism. State-society partnerships are based on the premise that civil society organizations (CSOs) can play a valuable role in the fight against corruption (Ismail, 2018). CSOs can serve as watchdogs, monitoring the activities of public officials and exposing instances of corruption.

2.2.1 Theories of corruption

Acts of corruption emerge from a betrayal of trust vested in an individual. According to Dobel (1978), the preceding definition fits much in contemporary usage. Generally, though there are moral and social standards within which a society sets expectations for a just and equitable society. Since there is a state of inequality in wealth, power, and status those higher in the pecking order compromise their basic civic loyalty to gain and sustain their positions. The established inequality subsequently undermines citizen’s fidelity and welfare. Accordingly, the resulting inequality compartmentalizes the society into classes hence undermining their loyalty to self at the expense of class and community. Notably, this results in factional rivalry and constant squabbles between the disenfranchised and their tormentors leading to a state of anarchy. As a result, the anarchical state lowers citizen’s voluntary commitment to social structures.

1. Social Exchange Theory

As mentioned by Jawler and Hipp (2010), social interactions are based on trust, and corruption arises when this trust is violated. The main idea of social exchange theory is that all social interactions are based on an exchange of resources (Cortez & Johnston, 2020). When one party provides a resource to another party in exchange for a favor, this is known as a quid pro quo exchange. Quid pro quo exchanges are the basis of corruption. The social exchange theory is linked to the principle-agent paradigm (see, e.g., Klitgaard, 1988; Shleifer & Vishny, 1993). The principal-agent paradigm is based on the idea that agents are motivated by self-interest and that they will act in ways that are contrary to the best interests of the principals they are supposed to be serving. This model suggests that public officials will act in ways that are contrary to the best interests of the citizens they are supposed to be serving. Thus, the problem of agency is that it is often difficult to align the interests of the agent with those of the principal. In the context of corruption, this means that it is often difficult to align the interests of public officials with those of the citizens they are supposed to be serving.

2. Game Theory

Game theory has been linked to corruption in the context of bribery. According to Lianju and Luyan (2011), individuals engaged in Game theory has been linked to corruption in the context of bribery. According to Lianju and Luyan (2011), individuals engaged in bribery basically through exchanging interests. The briber seeks to obtain a benefit from the transaction which is over and above its actual cost. On the other hand, the bribed on account of their power, seeks to
obtain a “gift” in exchange for a benefit to the briber which the latter is not entitled to under normal circumstances. Consequently, Lianju and Luyan (2011) assert that both, first of all, explore the cost-benefit analysis of engaging in the act. For instance, the briber will offer a bribe for an illegitimate benefit in anticipation that the receiver will reciprocate. The game theory basically describes and supports the public sector corruption framework. As a result, all profit in a way, but it is still less than the profit they would have received if they had not declined to partake in unethical practices. This can be seen in public procurement, where players in wrongdoing involve private sector investors who are unsure of others' actions (Kuhn, 2019). Otherwise, honest companies are encouraged to indulge in procurement wrongdoing by a fear of being outdone by rivals that are behaving unlawfully or unethically. It is also worth noting that, in an individual's best efforts to behave ethically, various situational and psychological influences may contribute to unethical conduct.

3. **Rational Choice Theory**

The Rational choice theory has also been studied in the context of institutionalist conceptions. According to Gephart (2009), the theory perceives corruption as a product of the prevailing political economy; here, the principle and the agent act in pursuit of self-economic interest. Under this theory, corruption results from a dominant assertion, resulting into monopoly combined with discretion, and accountability deficiency. They cite the fact that officers with the decision-making power in public institution endeavors have the propensity to make decisions of a selfish nature. During a tendering process for instance, a company may target a decision maker within a public office to use their discretion and defy accountability requirements at the cost of a private benefit. Significantly, this theory focuses on the most popular form of corruption where public servants are involved.

4. **Organization Culture Theory**

The organization culture theory of corruption is concerned with an individual's position in the context of time. It was put to the test by Al-Jundi, Shuhaiber, and El Emara (2019) and found that corrupt and weak organizations tend to develop a culture that is tolerant of corruption. Organization culture and institutional theories are linked in the sense that they both suggest that organizations need to be more transparent and accountable in order to prevent individuals from engaging in corrupt activities. The institutional theory holds that the rules and norms of an organization can either constrain or enable individuals to engage in corrupt activities, while the relationship between the individual and the organization can also be seen as enabling(Debski and others, 2018; Stensöta, Wängnerud, and Svensson, 2015). Thus, Organizations need to be aware of both the constraining and enabling power of their rules and norms, and make sure that their rules and norms do not enable or encourage individuals to engage in corrupt activities(Gorsiraetal.,2018).

5. **Principal-Agent Theory**

The principal-agent model has long been used in economics to discuss corruption(Groenendijk,1997). It is concerned with the relationship between two parties, the principal and the agent. The principal is typically the government, and the agent is typically a public official (Dixit, 2018). Collective action theory has emerged as an additional cause for why institutional corruption persists despite anti-corruption rules and why corruption resists certain anti-corruption reforms. Persson, Rothstein, and Teorell (2013) consider institutional corruption to be a social issue, and people rationalize their behavior by looking at corruption as a social problem that needs to be solved. A corrupt bureaucratic system, in which the fundamental-agent model is ineffective (Klitgaard, 2004; Persson, Rothstein,
and Teorell, 2013), can be seen as a "license to steal" and it is difficult to implement anti-corruption reforms because the individuals who are supposed to carry out these reforms are the ones who benefit from the corrupt system (Appolloni & Nshombo, 2014).

6. Redistributive Theory

Redistributive corruption theory focuses on the state's weakness when tackling the state-society relationship. It is marked by the control of communal or economic groups (regional or ethnic) who have the authority to confront the state with all its power. These groups may bribe politicians to tailor regulations and laws that serve their goals and receive public services and goods they are not entitled to (Amundsen, 1997). The loser in this case is the state and its regulating authority, as elites extract more than they are supposed to gain from investments, international aid, and public project packs. Redistributive corruption harms the deprived because basic communal services will be granted based on groups' capacity to control policies and pay bribes. Feudalization is used to label such situations where strong societies manipulate weak states, but this might serve a ruler in the short run but could jeopardize the state unity in the long run.

7. Extractive Theory

Extractive corruption theory emphasizes that the state dominates its relationship with the society, opposing what the previous theory illustrates. Moreover, this theory is based on the political concept of dictatorship, mainly a law to the state's advantage. In this case, the authoritarian rulers employ the state's capabilities to extract the nation's resources. The theory emphasizes the illustrious statement: "all power tends to corrupt, and absolute power corrupts absolutely," as stated in 1912 by President Wilson, this marks many African countries. Moreover, the rulers are constantly working on establishing sophisticated plans to safeguard their benefits. They might resort, for example, to the cooptation of rivals to limit power-sharing. They might also establish unjust laws and regulations and resort to human rights violations and electoral fraud. The extractive corruption theory is part of the neo-patrimonial political system prominent in several African countries and few Latin American and Asian states (Kim, 2019). In political science, the neo-patrimonial system is widely used to describe non-democratic governments marked by the non-distinction of public and private property, along with a robust manifestation of the beneficiary correlation.

8. Modernization Theory

The modernization theory suggests that corruption can be seen as both a by-product and enabler of development, especially in the early stages of state modernization and development. According to Mungiu-Pippidi and Hartmann (2019). It has been suggested that corruption plays a crucial role in competitive bidding in public tendering processes (Ertimi and Saeh, 2013). It may also exist in the context of old social values being sustained as modernity thrives. However, there is a contrary view to the nexus between corruption and development, which suggests that as societies become modernized, there is a tendency for inequality to thrive as well as instability and corruption for selfish aggrandizement. This theory suggests that corruption will also affect similar goals with respect to sustainable development goals (Mungiu-Pippidi and Hartman, 2018).

9. White-Elephant Theory

The "white elephants" theory is linked to structural inefficiency and is based on three critical foundations that create ineffective re-distribution of resources (Robinson and Torvick, 2005). This leads to extreme resource misallocation, which has been associated with under-development in developing and least developing nations (Frank, 2004). It can also be extended to situations where
political instability threatens an incumbent government, creating a tendency for governments to neglect commitment to fighting corruption (Frank, 2005). The connection between corruption and the MENA region has been explored in Equatorial Guinea, where the corrupt government gives foreign corporations free hand to operate outside the law (Appel, 2012). This has resulted in a country whose resources are misplaced, leading to extreme poverty. Theories such as principle and agent and social-exchange theories are related to the state power and relationship with its people, which determine how resources are allocated or misallocated. It is important to take the theoretical position of a modern state and its implication on corruption within specific countries.

2.3 Theoretical Background on the Relation between Corruption and Economic Growth

According to Sharma and Mitra (2019), corruption affects economic performance beyond morality. The literature suggests that corruption's economic effects determine morality. Poor governance and confusing regulations are regarded to promote corruption. Corruption "greases the wheels" and boosts economic performance in such a setting. Corruption may be advantageous in some instances, but also increases production costs, validating the "sand the wheels" idea.

Corruption may help society despite its consequences, as suggested by Bardhan (1997) corrupt bureaucrats grant government contracts to the greatest bribe payer when private agents compete for them. If contract objectives and quality are not compromised, allocation efficiency may not be affected. Bribery only diminishes producer surplus. Beck and Maher (1986) and Lien (1986) proved that the lowest-cost bidder always wins, that bribery can imitate the efficiency of competitive bidding when information is insufficient. If the official is swayed by reasons other than the bribe's quantity, inefficiency can result.

Bribery may boost productivity (Huntington, 1968; Leff, 1964; Leys, 1965). "Grease the wheels" has been shown to work in certain situations. Since government workers have little incentive to work faster, slow governance breeds slowness. Corruption may help bureaucracy make good decisions since bribery requires talent. Bjorvatn and Naghavi (2011) discovered that corruption only increases economic efficiency when the actual government size is bigger than the optimal level, demonstrating that corruption can support growth and efficiency despite its moral condemnation. The "sand the wheels" argument claims that bribes do not improve efficiency or fix institutional weaknesses. Efficiency, investment, and growth suffer (Myrdal, 1968; Rose-Ackerman, 1997). Thus, bribes are unlikely to get the most efficient producer a license. The highest briber may simply be the one most willing to compromise on the quality of the goods he will produce if he gets a license (Méon & Sekkat, 2005; Rose-Ackerman, 1997). Finally, bribery does not appear to stimulate private investment.

Corruption decreases public investment (Tanzi & Davoodi, 1997) and shifts public spending from efficient to inefficient locations (Mauro, 1995). Ugur and Dasgupta (2011) found that corruption directly affects per capita GDP growth in low-income countries, though not significantly. However, public finance and human capital routes provide bigger indirect advantages. According to Ajie and Wokekoro (2012), corruption hurts economic performance.

Méon and Weill (2010) investigated whether corruption can help weak institutions function. Corruption has less impact on efficiency in countries with weak institutions. Corruption may also benefit countries with poor administration, according to studies. Zhou and Peng (2012) likewise found inconclusive results.

D'Agostino, Dunne, and Pieroni’s (2016a, 2016b), Sharma and Mitra's (2015), and Huang’s (2016) cross-country panel found mixed results, indicating that excessive regulation and complicated business policies limit firms’ strategic options and empower bureaucracy. Except for South Korea, Huang and Ho (2017) found no correlation between governance and economic growth in Asian countries. Some studies (Bhattacharyya and Hodler, 2010; Collier and Hoeffler, 2009; Mehlum, Moene, and Torvik, 2006; von Haldenwang and Ivanyna, 2018) have found that the resource curse concept only applies to countries with ineffective institutions and widespread corruption.
3. METHODOLOGY

This paper uses a systematic literature review, which uses a keyword-string search method across relevant databases from the 1990’s till 2021. The reviewed literature is largely based on a knowledgeable selection of credible, scientific and official articles and reports that follow the predefined protocol. As a result, this strategy is primarily based on the collection and analysis of literature review to define, differentiate, and comprehend the concept, definition, causes and consequences of corruption. The researcher used this strategy to analyze prior significant studies and publications that were published earlier in the 1990s and recently in 2021. Besides, the researcher used the main academic search engines database and official and organizational web sources as research gate, Scopus database, J-store, Emerald, Science Direct, Wiley, World Bank, and Transparency International. Reports and articles were revised to provide a historical and conceptual review that provides an evidence on the impact of corruption on economic growth: a systematic literature review, and assist the researcher in exposing how corruption evolved over time and through different countries and regions. Furthermore, the table below (see table 1), depicts the time frame and the number of articles, reports, and publications that were chosen by the researcher to complete an extensive systematic literature review study.

**Table 1: Time line and Distribution of Reviewed Reports and Publications from Selected Databases**

<table>
<thead>
<tr>
<th>Time Line of Selected Reports/Publications</th>
<th>No. of Selected Reports/Publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990’s-2000</td>
<td>10</td>
</tr>
<tr>
<td>2000-2010</td>
<td>11</td>
</tr>
<tr>
<td>2011-2021</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Researcher Illustration

3.1 Selection Process

The illustration depicted below provides a concise summary of the methodology employed in selecting the books, papers, and reports utilized in composing this paper (refer to Figure 1). This figure delineates the “Article Selection Process” and the majority of these stages are undertaken following the completion of the "Article Retrieval Process" (Vieira and Gomes, 2009). The researcher adopted the narrative synthesis approach, which is applied to analytical and theoretical studies, in conjunction with the meta-analysis technique, which is utilized in empirical studies. In this regard, the narrative synthesis method was utilized to determine the manner and reasons why corruption impacts growth and the factors that are unique to each country. On the other hand, meta-analysis was employed to obtain estimates of the direct and indirect effects of corruption on economic growth by aggregating (nesting) studies based on consistent measures of corruption and growth. The following criteria were employed in identifying the relevant literature: solely full-length research papers written in English were accepted, whereas book chapters and conference papers were not. The search terms "Corruption," "Corruption Index," "Economic growth," and "GDP" were employed to identify pertinent studies and develop the sample. In each of the databases, a Naive Boolean search was performed with the terms "Corruption and Economic Growth OR Corruption Index Impact on Economic Growth OR GDP."

The search terms were carefully selected based on previous reviews of the literature on corruption and economic growth (Comerio and Strozzi, 2019), which ensured the completeness and representativeness of the sample. The searches were not confined to economic journals alone; rather, they encompassed all relevant academic articles that had been published. After meticulously scrutinizing the databases for titles, keywords, and abstracts, 2089 searches were conducted respectively. Even though all the journals in the databases had undergone expert review, they were not all of equal quality. To ensure the quality of the chosen articles, only journals listed in the Chartered Association of Business...
Schools (ABS) and the social science citation index (SSCI) were considered. This led to a sample of 1306 articles from the Emerald, Wiley, and J-store databases, 598 articles from the Science direct database, and 185 articles from the Scopus database. Following the removal of duplicate articles and careful perusal of the remaining articles, the abstracts were manually reviewed. This process led to a final sample of 66 articles that were deemed eligible. Fig. 2 provides an overview of the search and selection process for the literature.

Article Retrieval Process

![Diagram of the Article Retrieval Process]

Article Selection Process

Fig. 1: The Selection Process
Source: Researcher Illustration

3.2 Process of Extracting the Included Papers

The extractions of the answers related to the research questions were extracted from the books, papers, and reports by title, abstract, introduction, and conclusion using sources that include official reports (such as: Transparency International, World Bank, and Monetary Fund), journals (such as: Journal of Comparative Economics, International Small Business Journal, European Journal of Political Economy, Journal of Political Economy, Journal of Economic Surveys, International Journal of Development, Journal of Economic Studies, Journal of Political Economy, The Quarterly Journal of Economics, Journal of Comparative Economics, American Economic Review, The Journal of Business Inquiry, Economic Freedom, Corruption, and Growth, Cato Journal), handbooks (such as: Review of International Economics, World Bank Economic Review), and academic press (such as: Oxford University Press, Harvard University Press, and Oxford University Press). The following figure (see figure 2) illustrates the whole process in details and the number of books, papers, and reports for the final analysis. This systematic review has been conducted in response to the objectives identified by the Department for International Development (DFID) of the UK government for systematic reviews.
4. FINDINGS

Thirteen of the 66 research findings in the present study are shared by both the empirical and theoretical/analytical categories. The frequency distribution over time of the included studies corresponds to that of all studies discovered during the search. All inquiries, including empirical and theoretical/analytical studies, have increased in frequency over time. The second characteristic is the publication type-based distribution of research. Two books, six working papers, and 31 journal articles constitute the theoretical/analytical investigations. Likewise, the empirical studies consist of three volumes, eleven working papers, and nineteen journal articles. The third characteristic is the methodology employed by empirical studies to quantify the impact of corruption on economic growth. There are two categories of research: those employing simulation techniques and those employing regression techniques. Although researchers extracted data from simulation studies, they did not use it for meta-analysis due to the absence of significance levels and confidence intervals. In empirical studies analyzing the effect of corruption on economic growth, a number of estimation techniques, including ordinary least squares (OLS), two-stage and three-stage least squares (2SLS and 3SLS), and the generalized method of movements (GMM), were utilized. Multiple model specifications were employed by the majority of studies in this category.

Despite this distinction, all empirical studies estimated a growth model that was compatible with the proposed and evaluated empirical growth regressions. Similarly, theoretical/analytical research investigated various forms of corruption and transmission routes, providing numerous explanations for why corruption may have a negative, positive, or variable effect on economic growth. Despite this variation, all theoretical/analytical papers included in this study either explicitly described a principal-agent approach to corruption or provided an account that was...
strongly related to this approach. 60 percent of the studies examine bureaucratic corruption, where the "agent" is a civil servant or bureaucrat, while 40 percent examine political corruption, where the "agent" is an elected or appointed high-level government official or decision-maker. In the empirical investigations, multiple sources of corruption data were utilized, and some studies utilized corruption data from multiple sources. In this systematic review, the researcher conducted two categories of synthesis: narrative synthesis and meta-synthesis, and mapped the results of the two in our conclusions.

The majority of research studies, 21 out of 31, have reported and predicted a negative impact as a result of misaligned incentives, increased transaction costs, and resource allocation inefficiencies. This occurrence is commonly known as the "sand in the wheel" effect. Eight out of thirty-one studies have discovered a nonlinear relationship between corruption and economic growth. The effects of corruption on growth differ based on the institutional quality of the country, the degree to which corruption is centralized or organized, and the country's level of development. If the benefits of overcoming burdensome government rules and bureaucratic barriers outweigh the associated costs of distortions, inefficiencies, or high transaction costs, corruption may even have a positive effect on economic growth, according to a small percentage of research, specifically two out of thirty-one studies. This occurrence is known as the "greasing the wheel" effect. On the other hand, an agent may have authority over the distribution of public expenditure funds or the sale of public assets. If the monitoring costs are substantial, this position permits the agent to manipulate the allocation of public funds and the sale of public assets in order to generate unlawful economic or political rents. This is known as Type II political corruption. According to Tanzi (1998), this form of corruption impedes public investment and expenditure decision-making processes. Political corruption has a negative effect on economic development, according to all thirteen of theoretic and empirical studies on the subject.

Table 2: Summary of researcher’s that Indicated Empirical Meta and Individual Researches with Negative Impact of Corruption on Economic Growth

<table>
<thead>
<tr>
<th>Negative effects</th>
<th>Transmission channels &amp; Impacts</th>
<th>Fundamental Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption causes the misallocation of talent and abilities from productive to non-productive (rent-seeking) activities.</td>
<td>Investment in innovations incurs higher transaction costs, poorer profitability, and increased inefficiencies when there is corruption. Corruption diminishes the incentives for investments in human capital development and diverts resources to inefficient expenditures.</td>
<td></td>
</tr>
<tr>
<td>Rent seekers are more likely to target the innovation sector, which relies on public goods more than established industries.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduced accumulation of capital and innovation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corruption impairs property rights protection, increases barriers to doing business, and stifles innovation and technical transfer.</td>
<td>Property and contract laws are vital for development. When corruption undermines these legal guarantees, it can slow down private investment and technical transfers, dragging down the growth rate.</td>
<td></td>
</tr>
<tr>
<td>Mijiyawa (2008)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fosu, Bates and Hoeffler (2006)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative effects</td>
<td>Fundamental Mechanisms</td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>------------------------</td>
<td></td>
</tr>
<tr>
<td>Drury, Kriekhaus and Lusztig (2006)</td>
<td>Corruption is a reaction to the level of political responsibility and the quality of political institutions.</td>
<td></td>
</tr>
<tr>
<td>Aident et al. (2005 and 2008)</td>
<td>As political institutions become more dysfunctional, the temptation to shift from the growth-enhancing formal sector to the growth-detrimental informal sector grows.</td>
<td></td>
</tr>
<tr>
<td>Kimenyi (2007)</td>
<td>Patronage and privileges are used to gain ethnic allegiance. As a result, there is a trade-off between economically efficient public benefit provision and ethnically motivated provision.</td>
<td></td>
</tr>
<tr>
<td>Breslin and Samanta (2008)</td>
<td>Corruption discourages investment, especially FDI, but the effect is moderated by broader institutions.</td>
<td></td>
</tr>
<tr>
<td>Rano and Akanni (2009)</td>
<td>Corruption has a favorable impact on capital expenditures due to corruption. This leads to an increase in the stock of human capital and a rise in employment.</td>
<td></td>
</tr>
<tr>
<td>Campos et al. (2010)</td>
<td>Corruption has a detrimental influence on economic development in countries with low and high incomes.</td>
<td></td>
</tr>
<tr>
<td>Malanski and Póvoa (2021)</td>
<td>Corruption damages countries with greater economic freedom and favors less liberal country.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher Illustrations
Table 3: Summary of researcher’s that Indicated Empirical Meta and Individual Researches with Positive Impact of Corruption on Economic Growth

<table>
<thead>
<tr>
<th>Transmission channels &amp; Impacts</th>
<th>Fundamental Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive effects</td>
<td></td>
</tr>
<tr>
<td><strong>Bardhan (1997)</strong></td>
<td>Corruption allows economic actors to circumvent bureaucratic obstacles.</td>
</tr>
<tr>
<td><strong>Swaleheen and Stansel (2007)</strong></td>
<td>The briber decides the size of the bribe in a queuing model to reflect the waiting cost associated with the queue. This would minimize inefficiencies in government, resulting in growth.</td>
</tr>
<tr>
<td><strong>Kholdy and Sohrabian (2008)</strong></td>
<td>Corruption can be advantageous in the early phases when economic freedom is limited and information access is tightly controlled. This beneficial effect, however, may be mitigated by three mechanisms: (i) the size of bribes and the number of transactions may increase, resulting in an overall net loss of efficiency; (ii) the distortions that bribes are supposed to mitigate may be the result of previous corrupt practices; (iii) because corruption ‘contracts’ are not enforceable; the bribe may be greater than the waiting cost.</td>
</tr>
<tr>
<td><strong>Méon and Weill (2010)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Heckelman and Powell (2010)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Wang and You (2012)</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher illustrations

Table 4: Summary of researcher’s that Indicated Empirical Meta and Individual Researches with Nonlinear Impact of Corruption on Economic Growth

<table>
<thead>
<tr>
<th>Transmission channels &amp; Impacts</th>
<th>Fundamental Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-linear effects</td>
<td></td>
</tr>
<tr>
<td><strong>Aidt et al. (2009)</strong></td>
<td>Corruption has a significant negative impact on growth under regimes with high institutional quality, but it has a favorable impact on growth in regimes with low institutional quality.</td>
</tr>
<tr>
<td><strong>Bardhan (1997)</strong></td>
<td>Corruption, institutions, and growth are all intertwined in a tangled web. As a result, there are feedback effects, threshold effects, and other non-linear drivers of the relationship between corruption and economic growth.</td>
</tr>
<tr>
<td><strong>Larsson (2006)</strong></td>
<td>Capital owners are dis-incentivized to invest in oligarchic and corrupt environments. Capital accumulation and economic growth suffer..</td>
</tr>
<tr>
<td>2 reports</td>
<td></td>
</tr>
<tr>
<td><strong>Larsson (2006)</strong></td>
<td>Centralized power and Schumpeterian rent may work.</td>
</tr>
<tr>
<td><strong>Wedeman (2004)</strong></td>
<td>Strong leadership and growth performance targets in China have caused government agents to profit from profitable investment. “Schumpeterian rent” rewards innovation and entrepreneurship. Renters increase with the economy. Transaction costs may rise, hurting growth.</td>
</tr>
</tbody>
</table>

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5. CONCLUSION

The study was facilitated through analysis of the theme Corruption and economic growth identified in the present literature. The Impact of Corruption on economic growth has been evaluated in multiple studies utilizing time series, panel, and cross-sectional data for various time periods and locations. Although the majority of empirical research has supported the idea that corruption has a significant impact on economic growth, others have demonstrated that corruption has no significant impact on economic growth.

The study draws its conclusions from a range of investigations. The literature identifies five key topics. Firstly, depending on the circumstances, corruption can have both positive and negative consequences on economic growth. This is due to the fact that, while corruption can facilitate trade, it can also lead to rent-seeking behavior, diverting resources away from constructive applications. Secondly, the relationship between corruption and economic growth is non-linear. This suggests that there may come a point where corruption levels are high enough to have a detrimental impact on GDP. It also implies that the extent of corruption in a country must be taken into account when developing economic policies. If a country’s degree of corruption is low, policies that improve transparency and accountability may be useful in reducing corruption. However, in countries where corruption is high, such regulations may be ineffective or even counterproductive.

The third significant element is that the effect of corruption on economic growth varies depending on the type of corruption that occurs. For instance, construction permits may be obtained more quickly if a bribe is paid, but the quality of the permit may be inferior compared to if the process was transparent. This means that not all forms of corruption have an equally detrimental impact on economic growth. Consequently, to optimize the effectiveness of anti-corruption policies, certain types of corruption must be targeted. This paper categorized the types of corruption studied in the literature and found that grand corruption is the most commonly studied type, followed by petty corruption. Among them, grand corruption is most likely to be detrimental to progress, whereas petty corruption and clientelism are more likely to have mixed or beneficial effects.

The fourth fundamental theme posits that the impact of corruption on economic growth varies significantly among countries, contingent upon a range of factors such as economic development, political system, and legal system. This report has thoroughly scrutinized the evidence concerning the impact of corruption in both developed and developing nations. The evidence indicates that corruption has an adverse effect on growth in industrialized countries, whereas its impact on developing nations is indeterminate. Corruption seems to yield a more deleterious effect in countries with a history of communism and in nations with weak legal structures.
The fifth and final fundamental point underscores that the impact of corruption on economic growth is contingent upon the time frame under consideration. As per the data, corruption can have distinct effects in the short and long run. In the short term, corruption may facilitate economic activity and contribute to better growth rates. However, in the long run, corruption is likely to have a detrimental impact on growth as it leads to resource misallocation and rent-seeking behavior. The crux of this argument is that corruption can have varying effects at different phases of economic development. Corruption may be beneficial in developing countries if the economy is expected to expand rapidly, but is likely to have a negative impact in industrialized countries where the economy is more likely to be mature.

These findings indicate that the impact of corruption on economic growth is multifaceted and context-dependent. Therefore, in the development of economic policy, it is crucial to consider the magnitude of corruption, the type of corruption that exists, and the specific circumstances of the country. Only by taking all of these elements into consideration can the most effective measures to combat corruption and promote economic growth be identified.

REFERENCES


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