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PROS AND CONS OF CORRUPTION TO INCOME INEQUALITY: AN EXTENSIVE LITERATURE SURVEY

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Abstract: Corruption, a universal concept with deep historical roots, permeates societies and has varying implications on the economies. This study reviews the existing literature on corruption, with a particular focus on how corruption shapes income inequality, using an analogy of sand- versus grease-the-wheels hypotheses to explore the positive and negative aspects of corruption. Our aim is to contribute to the corruption literature by presenting theoretical and empirical insights in a clear and traceable manner. Previous studies on the relationship between corruption and income inequality have produced mixed results, which can be attributed to variations in data and methodologies. Some studies show positive associations between corruption and income inequality, while others show negative associations, echoing the controversy surrounding the sand- and grease-the-wheels hypotheses. However, there is also scant research suggesting a non-linear relationship between corruption and income inequality, characterized by an inverted U-shaped pattern. All of these diverse findings have important implications for policymakers, emphasizing the need for comprehensive reforms that address corruption and simultaneously tackle the immediate challenges faced by low-income individuals during the transitional period. In conclusion, this study systematically discusses the implications of these findings for policymakers and researchers, highlighting the relevance of this research for shaping effective policies and further investigations in this field.

Keywords: Corruption, Income Inequality, Income Distribution

Yolsuzluğun Gelir Eşitsizliği Üzerindeki Olumlu ve Olumsuz Etkileri: Kapsamlı Bir Literatür Taraması

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Özet: Derin tarihsel köklere sahip evrensel bir kavram olan yolsuzluk, toplumlara nüfuz etmekte ve ekonomiler üzerinde çeşitli etkilere sahip olmaktadır. Bu çalışma “çarkları aşındırma” (sand-the-wheels) ve “çarkları yağlama” (grease-the-wheels) hipotezlerine dayalı bir analogi ile yolsuzluğun gelir dağılımı üzerindeki olumlu ve olumsuz etkilerinin ayrımına odaklanarak yolsuzluk literatürünü

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incelemektedir. Amacımız, teorik ve ampirik çıkarımları açık ve takip edilebilir bir çerçevede sunarak yolsuzluk literatürüne katkıda bulunmaktır. Yolsuzluk ve gelir eşitsizliği arasındaki ilişki üzerine yapılan önceki çalışmalar, veri ve metodolojilerdeki farklılıklara atfedilebilecek karmaşık sonuçlar ortaya koymaktadır. Bu çalışmalarda, yolsuzluk ve gelir eşitsizliği arasında hem pozitif hem de negatif ilişkilerin olduğu bulunmuştur. Nitekim bu durum, "çarkları aşındırma" ve "çarkları yağlama" hipotezlerini çevreleyen tartışmaları yansıtmaktadır. Bununla birlikte, yolsuzluk ve gelir eşitsizliği arasında ters U yapısına sahip doğrusal olmayan bir ilişki olduğunu öne süren sınırlı sayıda çalışmalar da bulunmaktadır. Tüm bu farklı bulgular yolsuzlukla mücadele ederken aynı zamanda geçiş döneminde düşük gelirli bireylerin karşılaştığı kısa vadeli zorlukları ele alan kapsamlı reformlara duyulan ihtiyacı vurgulamaktadır. Sonuç olarak, bu çalışma politika yapımcılar ve araştırmacılar için bu bulguların çıkarımlarını sistematik olarak tartışmak suretiyle etkili politikaların şekillendirilmesi ve bu alanda daha fazla araştırma yapılması hususunda bu çalışmanın önemini ortaya koymaktadır.

Anahtar Kelimeler: *Yolsuzluk, Gelir Eşitsizliği, Gelir Dağılımı*

1. INTRODUCTION

Reducing income inequality remains a hot topic on the world agenda with almost unanimous political consensus. The phenomenon of widespread and persistent income inequality has raised serious concerns among researchers and policy makers in recent years. Income inequality has multifaceted negative effects on various socioeconomic factors that cannot be explained only by material deprivation. In order to achieve inclusive growth with a fair income distribution, relying only on the indirect outcomes of growth-oriented reforms may not be the main solution. Instead, it is important to develop targeted policies that address the root causes of income inequality.

Given the significance of income inequality as a global concern, policymakers and the mainstream economists have actively engaged in the discussions regarding its causes and underlying structures such as financial development, globalisation, labour market institutions, technological progress, public expenditure, human capital investment, tax policies and institutional quality. This study focuses on the last factor, namely institutional quality, with a special focus on corruption. Tanzi (1998) argues that corruption increases income inequality by allowing the rich to exploit corrupt practices of governments for personal gain, with the less affluent bearing the consequences. Thus, the poor disproportionately bear the burden of corruption. In this framework, corruption is not only a moral issue but also a structural problem that can lead to distortions in income distribution.

While the nexus between these two phenomena may seem intuitively straightforward (more corruption leads to greater income inequality), empirical evidence points to a more complicated relationship. Previous studies examining the relationship between corruption and income inequality have undertaken extensive efforts to understand the relationship between these variables and have produced mixed findings. In other words, these studies have found both positive (Aman Ullah and Ahmad, 2016; Apergis et al., 2010; Bayar and Aytemiz, 2019; Chong and Gradstein, 2007; Dincer and Gunalp, 2008, 2012; Dwiputri et al., 2018; Gupta et al., 2002; Pedauga et al., 2017) and negative (Andres and Ramlogan-Dobson, 2011; Berggren and Bjørnskov, 2020; Dobson and Ramlogan-Dobson, 2010, 2012) relationships between corruption and income inequality. In a sense, these findings reflect the debates surrounding the sand-the-

wheels hypothesis³ and the grease-the-wheels hypothesis⁴. On the other hand, a third group of empirical research with a scant literature integrates the two above-mentioned strands to present a non-monotonic association between corruption and inequality (Chong and Calderón, 2000; Fakir et al., 2017; Li et al., 2000). This association, represented in an inverted U-shape framework in empirical sense, implies a threshold level of corruption until which the control of corruption increases income inequality, and then reduces it above the threshold. This asymmetric structure can be justified in the context of the Kuznets curve theory adapted for the inequality-corruption nexus.

The literature argues that corruption increases income inequality through a number of mechanisms, including reduced economic growth, biased tax systems, high concentration of assets, depletion of resources devoted to poverty alleviation programs and reduced trust in institutions. On the other hand, although there is no obvious theoretical background about whether corruption and the informal economy are substitutes for or complements of each other (Dreher and Schneider, 2010), corruption is presumed to operate as a channel to bypass institutional obstacles and generate favorable impacts through promoting investment, production, and employment within the informal sector. Hence, corruption is assumed to function as a bureaucratic lubricant and improve income distribution (Andres and Ramlogan-Dobson, 2011. Blackburn and Forgues-Puccio (2009) relate this to the extent to which corruption is organised in a country. They argue that when bureaucrats are organised and act as a "joint monopoly", they can internalise the negative externalities arising from unorganised corrupt behaviours. Thus, an organised corruption network can reduce bribe payments compared to an unorganised corruption network and reduce distortions by making it more predictable and may increase the provision of public goods in favour of the poor.

Moreover, the inability to keep pace with the rapid institutional transformations initiated by economic liberalisation policies, especially after the 1980s, may have led to the degeneration of informal activities in production and exchange processes. Corruption, on the other hand, is likely to be one of these informalities that hove into sight either with a motivation to compensate for the welfare costs of the liberal transformation incurred by low income groups or with an acquisitive ambition to increase the present welfare.

All these factors collectively point to a non-linear relationship between corruption and income inequality, akin to the pattern observed in the Kuznets curve, rather than a simple linear relationship between the two variables. In such a case, anti-corruption reforms are likely to reduce income inequality in countries with corruption control above a certain threshold, whereas in regions where corruption is particularly widespread, such reforms may have undesirable consequences and further increase income inequality. However, it is imperative to interpret these assumptions with caution. Such an erroneous assumption that corruption must increase in order to improve income inequality in societies with prevalent corruption risks resulting in inefficient institutional structures and falling into the "low efficiency-bad governance" trap (Andres & Ramlogan-Dobson, 2011, p. 972). In essence, these assumptions underscore the critical need for comprehensive anti-corruption reforms to be coupled with concurrent policies which address the short-term challenges faced by low-income individuals during the transition process, or at the

³ The sand-the-wheels hypothesis argues that corruption hampers economic development in the process (Mauro, 1995; Rose-Ackerman, 1999; Tanzi, 1998) and has even more damaging characteristics under poor governance conditions (Méon and Sekkat, 2005).

⁴ The grease-the-wheels hypothesis, originally proposed by (Leff, 1964), suggests that corruption can have efficiency-enhancing effects by facilitating economic activities. It posits that corruption can expedite transactions and help to bypass bureaucratic barriers, particularly in settings with weak institutions. This perspective treats corruption as a lubricant for economic functioning.

very least, to be meticulously designed to alleviate the detrimental impact on the welfare of lower-income segments.

Understanding the intricate connections between corruption and income inequality is vital for promoting social cohesion, economic stability, and sustainable development. By synthesizing diverse perspectives and findings, we endeavor to make a meaningful contribution to the ongoing discourse on these interconnected issues, and offer insights that may inform more effective and targeted policy interventions.

2. AIM AND METHODOLOGY

Income inequality exerts a multitude of adverse impacts on diverse socioeconomic aspects that extend beyond mere material deprivation, encompassing a complex array of consequences (Alesina & Rodrik, 1994; A. G. Berg & Ostry, 2017; Dabla-Norris ve diğerleri, 2015; Furman & Stiglitz, 1998; Keefer & Knack, 2002; Ostry ve diğerleri, 2014; Schneider, 2016; Stiglitz, 2015). For example, high inequality leads to concentration of decision-making power in the hands of a few, sub-optimal use of human resources, political and economic instability, and the risk of crises (Dabla-Norris et al., 2015, p. 5). In addition, rising inequalities can lead to large economic costs by reducing social capital (trust) (Uslaner & Brown, 2005) and increasing political and social unrest (Barro, 2000). While tackling the multifaceted consequences of inequality is undoubtedly important, it remains critical to identify and address the root causes that generate it in the first place. Although the extensive literature has identified various driving forces underlying income inequality, such as financial development, globalization, labor market institutions, technological progress, public expenditure, human capital investment, and tax policies, this study narrows its focus to institutional quality, particularly addressing the pervasive issue of corruption.

While existing research has highlighted the intricate interplay between corruption and income inequality, a conclusive determination regarding the causal direction remains elusive. In other words, as corruption can worsen inequality within a country, high initial level of inequality may also fuel corruption. This endogeneity between inequality and corruption has been addressed by various scholars. You and Khagram (2005) hypothesize that rising levels of income inequality can foster a social norm in which corruption is perceived as acceptable or justifiable behavior, that corruption is likely to further exacerbate existing inequalities. Therefore, countries are likely to be trapped in vicious cycle of income inequality and corruption. Similarly, Policardo et al. (2019) argue that when the public perceives inequality as unfair, corruption may emerge as an (unjust) reaction to the uneven distribution of income, but the impact of income inequality on corruption could be weaker or stronger based on other variables. Uslaner (2008) suggests that high levels of inequality contribute to decreased trust, fostering an environment conducive to corruption; consequently, the presence of corruption further exacerbates inequality, generating a cycle of mutual reinforcement. However, the prevailing statistical tests for causality clearly lack the robustness researchers seek, evident in the ongoing inconclusive debate surrounding the correlation between corruption and inequality (Aman Ullah and Ahmad, 2016).

The problem of two-way causality poses a significant challenge when analysing the relationship between the variables, but a thorough exploration of the issues stemming from potential endogeneity is beyond the structure and scope of this paper. We aim to pivot the discussion towards elucidating how corruption shapes income inequality rather than vice versa.

The inequality-corruption nexus exhibits a somewhat complicated content either due to differences in empirical findings and their theoretical justifications or due to measurement problems embedded in corruption and income inequality indicators. The purpose of this study is to review the relevant literature and illustrate how corruption affects income distribution in the context of the theory and empirical evidence by providing a traceable knowledge of theoretical and empirical inferences to the interested reader. In this direction, the following parts of the study are designed so as to review the corruption literature by putting a special emphasis on the segregation of the pros and cons of corruption to income distribution, through an analogy based on the sand-versus grease-the-wheels hypotheses.

3. CORRUPTION IS BAD FOR INCOME INEQUALITY

3.1. Theoretical Basis

Corruption can exacerbate income inequality through various mechanisms, with one prominent channel being the negative impact on economic growth. Corruption impedes economic growth by distorting resource allocation (distorting market signals and incentives), encouraging rent-seeking rather than productive activities, increasing production and transaction costs as corruption acts as an additional tax, impairing the functioning of institutions, reducing investment in human and physical capital, and, more importantly, increasing uncertainty in the case of decentralized corruption (Gyimah-Brempong and De Gyimah-Brempong, 2006). Consequently, corruption hampers economic growth and worsens income inequality, as growth disproportionately benefits the lowest quintile of the income distribution (Gupta et al., 2002; Ravallion, 1997) and widens the gap between the rich and the poor.

Corruption deteriorates income inequality also through its impact on the tax system. By enabling the tax evasion and providing excessive exemptions that primarily benefit the elites and well-connected individuals, corruption distorts the fairness of the tax system. This erosion of the tax base leads to a more regressive tax structure, where the burden disproportionately falls on the non-wealthy segments of the society (Blackburn and Forgues-Puccio, 2007; Gyimah-Brempong, 2002; Hindriks et al., 1999). Moreover, government revenue losses due to tax erosion restricts the availability of public funds for essential sectors, such as the healthcare and education sectors, which are crucial for the well-being of the low-income individuals (Blackburn and Forgues-Puccio, 2007). As a result, corruption exacerbates income inequality by perpetuating an unfair tax system and limiting public investments in social services for the disadvantaged. Corruption depletes resources for social programs designed for lower-income groups (Rose-Ackerman, 1999). This occurs when government-funded initiatives intended for the truly needy end up benefiting wealthier segments of the society, or when funds from poverty alleviation programs are misused by individuals with influential connections (Gupta et al., 2002). Even if the overall resources allocated to poverty alleviation programs remain unchanged, corruption can alter the composition of social spending in a manner that disproportionately benefits the wealthy while neglecting the needs of the poor (Andres and Ramlogan-Dobson, 2011; Glaeser et al., 2003). Since individuals with lower incomes rely more heavily on these social services, they are particularly vulnerable to the adverse consequences of corruption.

Corruption widens income inequality also through the concentration of assets among a privileged few. When corruption is prevalent, assets tend to be accumulated by the elite class. In societies where assets are highly concentrated among a selected group, these asset owners can leverage their wealth to influence government policies and derive greater benefits from them. Consequently, individuals receive returns from these policies proportional to their assets, leading

to a higher return for the wealthy elites and exacerbating income inequality (Gupta et al., 2002). Additionally, the use of assets as collateral for investments or borrowing compounds the inequality further, as the poor segments of the society lack access to such collateral instruments (Birdsall and Londoño, 1997; Li et al., 1998).

Finally, the presence of corruption not only results in the misappropriation of resources but also undermines trust and social capital within institutions. Consequently, this lack of trust leads to decreased compliance with laws and regulations. When institutions are perceived as unfair or biased, they fail to ensure equal compliance, thereby exacerbating the pre-existing income inequality (Uslaner, 2006). Individuals become less motivated to participate in the formal economy and invest in their education and business ventures when they perceive that the system favors the privileged and well-connected, thereby, widening income disparities further.

3.2. Empirical Evidence

The collective body of research consistently demonstrates a positive association between higher levels of corruption and increased inequality, employing diverse measures and methodologies across various regions and time frames (see Table 1). A common tendency in the literature is the utilization of the Gini index as a proxy for measuring income inequality. It is a comprehensive summary measure which can capture the distributional disparities within a given population. However, despite its widespread use, the Gini index is subject to various restrictions⁵. Therefore, some studies have used alternative measures, such as the Atkinson index⁶ (Dincer and Gunalp, 2008, 2012; Nel, 2020) and income shares⁷ (Chong and Gradstein, 2007).

Corruption may involve activities such as bribery, embezzlement, nepotism, influence peddling, cronyism and others. As corruption is inherently a secretive activity, it is a challenging task to detect and effectively measure it. A large body of the studies in the corruption literature relies on perception-based measures, such as the Corruption Perceptions Index of the Transparency International (Dwiputri et al., 2018; Gyimah-Brempong and De Gyimah-Brempong, 2006; Gupta et al., 2002), the Control of Corruption Index of the Worldwide Governance Indicators (Bayar and Aytemiz, 2019; Pedauga et al., 2017), and the corruption index of the International Country Risk Guide (Chong and Gradstein, 2007; Ullah and Ahmad, 2016) which are all designed to reveal the awareness level of individuals. However, such measures are inherently prone to bias and have been criticized for serving as imperfect proxies for true levels of corruption (Heywood, 2014; Kurtz and Schrank, 2007; Olken, 2009; Rose-Ackerman and Palifka, 2016; Treisman, 2007). Therefore, some other studies exploit the practical alternatives depending on evidence rather than perception-based measures of corruption (Apergis et al., 2010; Dincer and Gunalp, 2008, 2012; Nel, 2020)⁸. However, evidence-based measures of corruption also have problems concerning the

⁵ For example, it fails to capture the particularities of income distribution, as evidenced by intersecting Lorenz curves among different countries that still yield similar Gini coefficient values (Atkinson, 1970). Furthermore, the Gini coefficient demonstrates excessive sensitivity to changes in the center of the distribution, while being less responsive to variations at the top and bottom (Cobham and Sumner, 2013; Cowell, 2000).

⁶ The Atkinson index is a measure of income inequality that incorporates a sensitivity parameter to emphasize the distributional concerns by weighing income changes among individuals and it can prioritize the impact on the lower or higher end of the income spectrum.

⁷ Inequality metrics like the Gini index and Atkinson index are summary measures, offering an overview of overall inequality, while income shares concentrate on specific segments and provide straightforward evaluation of inequality along the income distribution.

⁸ However, conducting empirical studies using objective cross-country data on the relationship between corruption and income inequality in an international context can be challenging due to the limited availability. As a result, researchers often rely on corruption perception indices as the primary source of information for analyzing corruption across different countries. Despite their limitations, corruption perception indices are widely used because they offer the most accessible and commonly utilized data for cross-country corruption analysis.

definition and types of corruption, and how to score or apply a final ranking to activities (Heywood and Rose, 2014).

The corruption and inequality nexus in the literature has been analyzed with varying country samples. Gupta et al. (2002), Gyimah-Brempong and De Gyimah-Brempong (2006), Ullah and Ahmad (2016), Chong and Gradstein (2007), and Policardo et al. (2019) carry out analyses in multi-country framework. However, some studies conduct the analyses for specific regions, i.e., Gyimah-Brempong (2002) and Adams and Klobodu (2016) for African countries; Dwiputri et al. (2018) for Asian countries; Pedauga et al. (2017) and Bayar and Aytemiz (2019) for Latin American countries, and Apergis et al. (2010), Dincer and Gunalp (2008), and Dincer and Gunalp (2012) for the US states.

Supporting the positive association between the variables of interest, Gupta et al. (2002) argue that corruption undermines the fundamental roles of the government, such as resource allocation, economic stability and income redistribution, which in turn have significant effects on income distribution and poverty levels to varying degrees, both directly and indirectly. The authors find that an increase of one standard deviation (equivalent to 2.52 points on a scale of 0 to 10) in a country's corruption index is associated with an 11-point rise in the Gini coefficient. These findings align with the political economy perspective, suggesting that the benefits of corruption primarily accrue to affluent individuals with better connections. Gyimah-Brempong and De Gyimah-Brempong (2006) find that a standard deviation increase in corruption levels leads to a rise in inequality by 0.05 points in OECD economies, 0.14 points in Asian countries, 0.25 points in African countries, and 0.33 points in Latin American countries, with the positive relationship between corruption and income distribution being particularly more pronounced in the latter region. These results reveal significant regional variations, indicating that differences in the nature of corruption, rather than the differences in corruption levels only, may contribute to the observed disparities. Consequently, addressing corruption and its impact on inequality may require tailored policies that consider the nature of corruption within specific regions. In a more recent study by Ullah and Ahmad (2016), they arrive at a comparable finding, namely, a one standard deviation increase in the corruption index, equivalent to 3.73 points on a scale of 0 to 12, corresponds to a 1.3 percentage point increase in the Gini coefficient. The authors suggest that anti-corruption policies not only combat corruption but also contribute to improving income distribution.

Chong and Gradstein (2007) developed a theoretical model and tested it by using a cross-section sample of 121 countries in order to analyze the relationship between institutional quality (including corruption) and inequality. Their findings revealed a reciprocal relationship between corruption and inequality, indicating that corruption exacerbates inequality while inequality also exacerbates corruption. This relationship is commonly referred to as the corruption-inequality trap. Policardo et al. (2019) study the causality between the corruption-income inequality nexus in 34 OECD countries. Their empirical analysis also supports the notion of a mutual reinforcing influence between corruption and inequality, establishing a vicious cycle.

Two empirical studies, conducted by Gyimah-Brempong (2002) and Adams and Klobodu (2016), delve into the correlation between corruption and income inequality specifically in African countries. The former study reveals that corruption indirectly exacerbates inequality, primarily through its detrimental impact on economic growth, leading to disproportionate burdens on low-income individuals. Similarly, Adams and Klobodu (2016) find significant negative coefficients for controlling corruption, indicating that anti-corruption efforts contribute to reducing inequality. Consequently, their research suggests that promoting transparency in governance and

implementing measures to combat corruption can play a crucial role in mitigating income inequality in Sub-Saharan Africa.

Focusing exclusively on Asian countries, Dwiputri et al. (2018) conducted an analysis of the relationship between corruption and inequality in the Ramsey Growth model framework. Their empirical findings confirm the positive association between corruption and higher levels of inequality. Moreover, their study emphasizes the reciprocal nature of this relationship in the Asian context, corroborating the earlier findings of Chong and Gradstein (2007). The implications of these findings underscore the significance of addressing corruption and reducing income inequality as essential components for fostering inclusive and equitable development in the region.

Latin America stands out as a region where discussions on the relationship between corruption and inequality are highly divisive. This debate primarily stems from the significant presence of a large informal economy in the region. Contrary to the traditional argument, Dobson and Ramlogan-Dobson (2010) and Andres and Ramlogan-Dobson (2011) argue that there exists a trade-off between corruption and inequality when considering the informal economy in Latin America. In other words, they posit that lower corruption is associated with increased income inequality. However, a more recent study conducted by Pedauga et al. (2017) in 18 Latin American countries presents findings that contradict the aforementioned perspective, indicating that corruption actually exacerbates income inequality. More specifically, their research reveals that a one standard deviation improvement in the Control of Corruption index and the Corruption Perceptions Index (CPI) corresponds to a decrease of 1.5 and 0.5 points, respectively, in the Gini index. Along a similar line, Bayar and Aytemiz (2019) study the interaction between the misery index, corruption and income inequality in 11 Latin American countries. Their results also reveal a positive relationship between the variables. Moreover, the causality test provides evidence of a bidirectional causality between income inequality and corruption. In overall, the relationship between corruption and inequality in Latin America appears to be complex, necessitating further research to gain a comprehensive understanding of the dynamics.

Apergis et al. (2010) and Dincer and Gunalp (2012) have investigated the impact of corruption on income inequality across states in the US. In these studies, a narrower definition of corruption is used based on objective (non-perception-based) measures of corruption, in particular relying on the number of government officials convicted for corruption-related crimes in each state. These studies consistently find a positive relationship between the relevant variables, suggesting that states with higher levels of corruption tend to exhibit higher levels of income inequality. Furthermore, Dincer and Gunalp (2008) and Dincer and Gunalp (2012) have used alternative measures of inequality besides the Gini coefficient. In particular, employing the Atkinson index with varying degrees of inequality aversion, these studies find that the estimated coefficients for corruption demonstrate an upward trend as the inequality aversion parameter increases. This suggests that the impact of corruption on the lower tail of the income distribution intensifies as sensitivity to inequality increases.

Table 1. The Literature on The Positive Relationship Between Inequality and Corruption

Author(s)	Period	Sample	Data	Methods
Mixed Sample Data				
Gupta et al. (2002)	1980-1997	38 countries	C: CPI and Corruption index from ICRG INQ: Gini from Deininger and Squire's (1996)	OLS and IV
Gyimah-Brempong and De Gyimah-Brempong (2006)	1980-1998	61 countries	C: CPI, BI and BE INQ: Gini coefficient from (Deininger and Squire 1996)	2SLS
Chong and Gradstein (2007)	1960-2000	121 countries	C: Corruption index from ICRG INQ: Gini coefficient from (Deininger and Squire 1996) and Income shares	System GMM and Panel VAR
Ullah and Ahmad (2016)	1984-2012	71 countries	C: Corruption index from ICRG INQ: Gini coefficient from (Deininger and Squire 1996)	GMM and REM
Policardo et al. (2019)	1995-2011	34 OECD countries	C: CPI INQ: Gini index	Granger causality and Dumitrescu and Hurlin (2012) tests
Africa				
Gyimah-Brempong (2002)	1993-1999	21 African countries	C: CPI INQ: Gini coefficient from (Deininger and Squire 1996)	OLS, IV, and LIML
Adams and Klobodu (2016)	1985-2011	21 African countries	C: Corruption index from ICRG and transparency index from Williams (2011) INQ: Gini coefficient from SWIID	PMG
Asia				
Dwiputri et al. (2018)	Different periods for each country	14 Asian countries	C: CPI INQ: Gini index from WB	OLS, Tobit, and Two Stage Least Square 2SLS
Latin America				
Pedauga et al. (2017)	1996-2012	18 Latin American countries	C: CCI from WGI and CPI INQ: Gini coefficient from SWIID	OLS, FE and Generalized mixed models with measurement error (ME)
Bayar and Aytemiz (2019)	2002-2014	11 Latin American countries	C: Control of Corruption index from WGI INQ: Gini index from WB	Westerlund and Edgerton (2007), LM bootstrap panel cointegration and Kónya (2006) bootstrap panel Granger causality tests
The U.S.A				
Dincer and Gunalp (2008)	1981-1997	50 states of U.S.A.	C: The number of government officials convicted in a state for crimes of corruption from the Justice Department's "Report to Congress on the Activities and Operations of the Public Integrity Section". INQ: Gini Index, SDL (standard deviation of the logarithms), RMD (relative mean deviation) and the coefficient of variation (CV) and Atkinson indexes	OLS, IV and Maximum Likelihood (ML)
Dincer and Gunalp (2012)	1981-1997	48 states of the U.S.A.	C: The number of government officials convicted in a state for crimes related to corruption in a year from the Justice Department's "Report to Congress on the Activities and Operations of the Public Integrity Section" INQ: Gini index and Atkinson indexes	System GMM
Apergis et al. (2010)	1980-2004	50 states of the U.S.A.	C: The number of government officials convicted in a state for crimes related to corruption in a year from the Justice Department's "Report to Congress on the Activities and Operations of the Public Integrity Section" INQ: Gini index from the U.S. Census Bureau	Panel cointegration test by Pedroni and Granger-causality test

Source: Own elaboration

Note: C represents the variable used to measure corruption: CCI- Control of Corruption Index; CPI- Corruption Perception Index; ICRG- International Country Risk Guide; PRS- Political Risk Service's; BI- Business Index; BE- Bureaucratic Efficiency. INQ represents the variable used to measure income inequality: WB- World Bank; SWIID- Standardize World Income Inequality Database; WIID- United Nations World Income Inequality Database; OLS stands for Ordinary Least Square; LIML- Limited information maximum likelihood; IV- Instrument Variable; GMM- Generalized Method of Moments; FE- Fixed Effects; RE- Random Effects; 2SLS- Two-Stage Least Squares.

4. CORRUPTION IS GOOD FOR INCOME INEQUALITY

4.1. Theoretical Basis

As Dreher and Schneider (2010, p. 217) hypothesize, corruption and the informal economy are complements in low-income countries. Their hypothesis relies on the arguments of Johnson et al. (1997), Hindriks et al. (1999) and Hibbs and Piculescu (2005). In these arguments, corruption is deemed as an incentive increasing the size of the unofficial economic activities. Thus, corruption appears to be both a "... form of taxation and regulation" which drives entrepreneurs underground and a governance failure where "... bureaucrats can overlook unofficial production in exchange for a bribe" or where tax inspectors "... underreports the tax liability of the tax payer in exchange for a bribe". In this context, the presence of a large informal economy in certain regions provides job opportunities and income sources for individuals who are the part of the poorest segments of the society. Many of these individuals lack the qualifications to secure employment in the formal economy. Institutional barriers and discrimination can further hinder their access to formal job opportunities. As firms in the informal sector operate outside of regulatory frameworks, their operational costs remain low. However, when compliance with rules and regulations is enforced through institutional reforms and anti-corruption measures, businesses in the formal sector face higher operational costs, reduced profits, and potential job losses.

Another mitigating effect of the corruption on income inequality operates through the provision of special government projects, which can improve the well-being of non-wealthy individuals while inadvertently promoting corruption. Some public projects are specifically designed to benefit the poor, providing them with essential services and creating job opportunities. However, as institutional reform policies are implemented, corrupt practices in project allocation decrease. Government projects undergo stricter evaluation processes and competitive bidding, leading to the exclusion of projects that may be economically viable but tainted by corruption. The mechanisms that previously facilitated the functioning of the system for those operating in the informal economy, acting as a lubricant, become less effective under a more stringent institutional framework (Chong and Calderón, 2000).

Blackburn and Forgues-Puccio (2009) relate this to the extent to which corruption is organised in a country. In their model, based on the argument of Shleifer & Vishny (1993), they argue that when bureaucrats are organised and act as a "joint monopoly", they can internalise the negative externalities arising from unorganised corrupt behaviours. Thus, an organised corruption network can reduce bribe payments compared to an unorganised corruption network and reduce distortions by making it more transparent and predictable and may increase the provision of public goods in favour of the poor.

In sum, a weak institutional setup creates an environment conducive to corruption and fuels the expansion of the informal economy. In such cases, the formal sector's production is substituted by the informal sector. Consequently, corrupt activities may appear to help overcome institutional obstacles and facilitate production, employment, and investment. However, it is important to note that allowing corruption to grow as a means of reducing inequality can lead countries into a low productivity and bad governance trap (Andres and Ramlogan-Dobson, 2011). In this context, the point emphasized here is that when implementing anti-corruption measures, especially in countries where corruption is entrenched and part of the system, the potential effects of corruption on income inequality should not be ignored.

4.2. Empirical Evidence

Contrary to the conventional wisdom, certain empirical research has revealed a counterintuitive finding regarding the relationship between inequality and corruption. More specifically, several studies have identified a negative association between the variables of interest, indicating that higher levels of corruption are actually linked to lower levels of inequality (see Table 2). This unexpected result challenges the prevailing notion that corruption exacerbates inequality and highlights the need for a nuanced understanding of the dynamics between these two factors.

Andres and Ramlogan-Dobson (2011) and Dobson and Ramlogan-Dobson (2010) investigate the connection between income inequalities in 19 Latin American countries during a similar time period. Their research reveals an inverse relationship between inequality and corruption in Latin American countries, suggesting that corruption can contribute to reducing income inequalities and serve as a means of pro-poor redistribution. In a similar vein, Dobson and Dobson (2012) tested the informal sector hypothesis by employing data on a large sample of countries. They confirm that the informal economy is conditional on the relationship between inequality and corruption, especially in Latin American countries. More specifically, the marginal effect of corruption turns out to be negative when the size of the informal economy increases. Kar and Saha (2012) conducted a study in 19 Asian countries to examine the same hypothesis. They also confirm that the informal sector plays a conditional role in the inequality-corruption nexus, namely income inequality tends to decrease with the presence of larger informal sectors. These studies posit that corruption's role in reducing inequality lies in its ability to facilitate entrepreneurial activities by helping entrepreneurs navigate institutional barriers, particularly within the informal sector. Hence, the implementation of anti-corruption policies may inadvertently exacerbate rather than alleviate existing levels of inequality (Dobson and Ramlogan-Dobson, 2012).

Nel (2020) emphasizes that the context-sensitive nature of the relationship between inequality and corruption extends beyond Latin American or Asian countries to other regions as well. By utilizing direct evidence of bribery in 106 industrialized and industrializing countries, he examines the impact of corruption on inequality and identifies the role of regulatory quality as a conditional factor. The findings of the study reveal that in the presence of weak institutional frameworks, bribery related to entrepreneurship can lead to an increase in the income share of the bottom 40 percent in up to 25% of the states included in the sample, thereby reducing disposable income inequality. He emphasizes the importance of understanding the constraints and incentives that drive individuals to resort to bribery as a means of survival. Berggren and Bjørnskov (2020) explore the impact of corruption, as measured by the V-Dem corruption index, on income inequalities using several measures such as income and consumption quintiles, Gini coefficients and Theil index across 145 countries. Their findings also provide evidence of a negative association between corruption and income inequality. They propose that non-wealthy individuals may benefit from corruption to a greater extent than elites. This observation is attributed to two potential explanations. First, the poor may be more successful in evading regulations and taxes than the rich. Second, the rich consciously or unconsciously utilize their de facto authority in favor of the poor, possibly as a strategic maneuver to preserve their own positions of power.

Table 2. The Literature on The Negative Relationship Between Inequality and Corruption

Author(s)	Period	Sample	Data	Methods
Latin American Countries				
Andres and Ramlogan-Dobson (2008)	1981-2000	19 Latin American countries	C: Corruption index from ICRG INQ: Gini Coefficient from WIID	FE and IV
Dobson and Ramlogan-Dobson (2010)	1984-2003	19 Latin American countries	C: Corruption index from ICRG INQ: Gini Coefficient from WIID and the share of income in the lowest quintile	FE and IV
Andres and Ramlogan-Dobson (2011)	1982-2002	19 Latin American countries	C: Corruption index from ICRG and CPI INQ: Gini Coefficient from WIID and the share of income in the lowest quintile	FE
Asia				
Kar and Saha (2012)	1995-2008	19 Asian countries	C: CPI and Corruption index from ICRG INQ: Gini coefficient from WIID	PLS, FE and 2SLS
Mixed Sample Data				
Nel (2020)	2004-2015	106 countries	C: Bribery data from Global Corruption Barometer (GCB) INQ: Gini, Atkinson, income share of Bottom 40% from the Global Consumption and Income Program	OLS
Dobson and Ramlogan-Dobson (2012)	2000-2004	140 countries	C: Corruption index from ICRG and CPI INQ: Gini Coefficient from WIID and the share of income in the lowest quintile	OLS, RE, IV and LIML
Berggren and Bjørnskov (2020)	1960-2014	145 countries	C: The V-Dem corruption index INQ: Income and consumption quintiles, Gini coefficient and Theil index from the Göttingen Consumption and Income Project	OLS with two-way fixed effects

Source: Own elaboration

Note: C represents the variable used to measure corruption: CCI- Control of Corruption Index; CPI- Corruption Perception Index; ICRG - International Country Risk Guide; PRS- Political Risk Service's; INQ represents the variable used to measure income inequality: WB- World Bank; SWIID- Standardize World Income Inequality Database; WIID- United Nations World Income Inequality Database. OLS stands for Ordinary Least Square; LIML- Limited information maximum likelihood; IV- Instrument Variable; GMM- Generalized Method of Moments; FE- Fixed Effects; RE- Random Effects; 2SLS- Two-Stage Least Squares, PLS- Panel Least Square.

5. CORRUPTION IS “NOT ALWAYS” GOOD FOR INCOME INEQUALITY

Unlike the literature presented above, some research provide evidence on the presence of a non-monotonic relationship between corruption and income inequality, pointing out that corruption affects inequality in an inverted U-shape pattern (see Table 3). That is, below a given threshold level of corruption inequality declines with corruption and then begins to increase above that threshold. Hence, the theoretical basis of this non-monotonic dynamics relies upon the combination of the two literature strands depicted in previous sections.

5.1. Empirical Evidence

Li et al. (2000) analyze the relationship between corruption, inequality, and economic growth using a panel dataset comprising 48 countries from Latin America, Asia, and OECD countries. They observe a quadratic relationship between corruption and inequality. They find that extraordinarily low and high levels of corruption are associated with lower levels of inequality, while intermediate levels of corruption correspond to higher levels of inequality. More specifically, their results suggest that corruption begins to alleviate inequality when the corruption index exceeds 2.91, on a scale of 0 (least corrupt) to 6 (most corrupt). Chong and Calderón (2000) investigate the effect of institutional quality, one dimension of which is corruption, on income

inequality in a sample of 105 countries over a comparable time period. Consistent with previous research, they find evidence of a non-linear association between the variables of interest. However, it is worth noting that when they only use corruption as an individual institutional quality measure, even though the inverse U-curve pattern persists, the coefficients are not statistically significant.

Chong and Calderón (2000) hypothesize that institutional reforms can impose significant initial costs, particularly on the informal or underground sector in less developed countries. Reforms that aim at reducing corruption and improving institutional functioning may disrupt the existing transactional system of the informal economy and impose additional burdens such as new taxes, restrictions, norms, and increased policing. As a result, the income of individuals in the informal sector, who are predominantly among the poorest, may temporarily decline, leading to higher income inequality. However, formal sectors benefit from the reforms and experience initial gains. As the informal economy adapts and the large initial gains diminish, inequality is expected to decrease in the long run. This non-monotonic structure can be justified in the context of the Kuznets-curve theory adapted for the inequality-corruption nexus.

Fakir et al. (2017) conducted an investigation into the non-linear influence of corruption on inequality, utilizing a sample of up to 78 countries. Their study reinforces the notion of a non-linear association between corruption and inequality. Notably, Fakir et al. (2017) identify a threshold level of Corruption Perceptions Index (CPI) scores above 64.4, beyond which corruption starts to exhibit positive effects on inequality. They speculate that as corruption decreases initially, there is a corresponding decline in bureaucratic levels. This may facilitate business operations by reducing the risk of illicit rent-seeking behavior from government officials, potentially leading to increased returns on business investments and contributing to higher levels of inequality. However, beyond a certain corruption threshold (CPI score of 64.4), the authors propose that higher-level corruption may decline, enabling income redistribution and potentially reducing the income inequality. This could lead to lower inequality, as the redistribution of incomes becomes possible. Hence, inequality may only decline after a certain threshold level of corruption.

Table 3. The Literature on The Non-Linear Relationship Between Inequality and Corruption

Author(s)	Period	Sample	Data	Methods
Li et al. (2000)	1982-1994	48 countries	C: Corruption index by PRS INQ: Gini coefficient from Deininger and Squire (1996)	OLS and 2SLS
Chong and Calderon (2000)	1982-1995	105 countries	C: Corruption index from ICRG INQ: Gini coefficient from Deininger and Squire (1996), income shares	GMM
Fakir et al. (2017)	2000-2011	78 countries	C: CPI INQ: Net Gini from SWIID and top 10% income share	OLS, IV, 2SLS and Quantile regression

Source: Own elaboration

Note: C represents the variable used to measure corruption: CPI- Corruption Perception Index; ICRG- International Country Risk Guide; PRS- Political Risk Service's. INQ represents the variable used to measure income inequality: SWIID- Standardize World Income Inequality Database; OLS stands for Ordinary Least Square; IV- Instrument Variable; GMM- Generalized Method of Moments; 2SLS- Two-Stage Least Squares.

6. CONCLUSION

Income inequality remains a persistent and urgent problem with negative impacts on a wide range of socio-economic factors beyond material deprivation. Relying solely on growth-oriented reforms to reduce income inequality may not be the primary solution. Instead, it is important to develop

targeted policies that address the root causes of income inequality. The existing literature has identified various causal factors and driving forces underlying income inequality. This paper systematically explores how corruption, a key indicator of institutional weakness, shapes income inequality in analogy with the distinction involved in the sand- and grease-the-wheels hypotheses.

While the link between these two phenomena may seem intuitively straightforward - increased corruption directly leads to higher inequality- the existing literature on the inequality-corruption nexus presents mixed evidence, varying with respect to the particularities of the data and methodologies employed. Studies find both positive and negative associations between corruption and income inequality, which imply a controversy analogous to the one put forth by the sand- and grease-the-wheels hypotheses. Additionally, some research points out the presence of a non-linear relationship, accommodating both hypotheses along the curvature of an inverted U-shaped pattern, similar to Kuznets' hypothesis.

The fight against corruption is crucial for addressing income inequality, as evidenced in the large part of the studies which found positive associations between the variables. In other words, this emphasizes the necessity for proactive measures aimed at reducing corruption, such as strengthening institutions, building capacity, and promoting transparency and accountability. Such actions can serve as an effective tool in reducing income inequality.

On the other hand, although the primary objective is to eliminate or minimize corruption, if corruption is high and organized, implementing anti-corruption measures alone may not always yield the desired outcomes (as indicated by studies demonstrating a negative or U-shaped relationship). Therefore, rather than one-size-fits-all solutions, the characteristic structure of countries should be carefully considered when formulating reforms to tackle corruption and these efforts should be complemented by simultaneous policies directly empowering lower-income segments to increase their productivity. In this context, governments can promote inclusive economic growth by prioritizing effective fiscal policies. These policies should ensure equal access to education and healthcare, support small businesses, encourage entrepreneurship, and create employment opportunities, thus establishing a fair playing field for all individuals.

In conclusion, understanding of the link between corruption and income inequality is multifaceted and context-specific. It is essential to consider the interplay of various mechanisms and the dynamics of institutional reforms.

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Etik Onay	Bu makale, insan veya hayvanlar ile ilgili etik onay gerektiren herhangi bir araştırma içermemektedir.
Çıkar Çatışması	Yazarlar çıkar çatışması bildirmemiştir.
Finansal Destek	Yazarlar bu çalışma için finansal destek almadığını beyan etmiştir
Telif Hakkı & Lisans	Yazarlar dergide yayınlanan çalışmalarının telif hakkına sahiptirler ve çalışmalarını CC BY-NC 4.0 lisansı altında yayımlanır. https://creativecommons.org/licenses/by-nc/4.0/deed.tr
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GENİŞLETİLMİŞ ÖZET

Gelir eşitsizliği, maddi yoksunluğun ötesinde çok çeşitli sosyo-ekonomik faktörler üzerinde olumsuz etkileri olan kalıcı ve acil bir sorun olmaya devam etmektedir. Gelir eşitsizliğini azaltmak için yalnızca büyüme odaklı reformlara güvenmek birincil çözüm olmayabilir. Bunun yerine, gelir eşitsizliğinin temel nedenlerini ele alan hedefe yönelik politikalar geliştirmek önemlidir. Mevcut literatür, gelir eşitsizliğinin altında yatan çeşitli nedensel faktörleri ve itici güçleri tanımlamaktadır. Bu çalışma, kurumsal zayıflığın önemli bir göstergesi olan yolsuzluğun gelir eşitsizliğini nasıl şekillendirdiğini, çarkları aşındırma ve çarkları yağlama hipotezlerinde yer alan ayrıma benzer şekilde sistematik olarak ele almaktadır.

Bu iki olgu arasındaki bağlantı sezgisel olarak basit görünse de - artan yolsuzluk doğrudan daha yüksek eşitsizliğe yol açar - eşitsizlik-yolsuzluk bağlantısına ilişkin mevcut literatür, kullanılan veri ve metodolojilerin özelliklerine göre değişen karmaşık kanıtlar sunmaktadır. Çalışmalar yolsuzluk ve gelir eşitsizliği arasında hem pozitif hem de negatif ilişkiler bulmaktadır ki bu da çarkları aşındırma ve çarkları yağlama hipotezlerinin ortaya koyduğuna benzer bir tartışmayı çağırılmaktadır. Ayrıca bazı araştırmalar, Kuznets'in hipotezine benzer şekilde ters U şeklindeki her iki hipotezi de barındıran doğrusal olmayan bir ilişkinin varlığına işaret etmektedir.

Tüm bu farklı bulgular yolsuzlukla mücadele ederken aynı zamanda geçiş döneminde düşük gelirli bireylerin karşılaştığı kısa vadeli zorlukları ele alan kapsamlı reformlara duyulan ihtiyacı vurgulamaktadır. Bu anlamda, incelenen çalışmaların büyük bir kısmında değişkenler arasında pozitif ilişkiler bulunmasının da ortaya koyduğu gibi, yolsuzlukla mücadele gelir eşitsizliğinin giderilmesi için hayati önem taşımaktadır. Başka bir deyişle, bu durum kurumların güçlendirilmesi, kapasitenin geliştirilmesi, şeffaflık ve hesap verebilirliğin teşvik edilmesi gibi yolsuzluğun azaltılmasına yönelik proaktif tedbirlerin gerekliliğini vurgulamaktadır. Bu tür eylemler gelir eşitsizliğini azaltmada etkili bir araç olarak hizmet edebilir.

Öte yandan, temel amaç yolsuzluğu ortadan kaldırmak veya en aza indirmek olsa da, yolsuzluğun yüksek ve organize olması durumunda, yolsuzlukla mücadele tedbirlerinin tek başına uygulanması her zaman arzu edilen sonuçları vermeyebilir (negatif veya U şeklinde ilişki bulan çalışmalarda gösterildiği gibi). Dolayısı ile yolsuzluk mücadelelerine yönelik reformlar hazırlanırken ülkelerin karakteristik yapısı dikkatle okunmalı ve eş zamanlı politikalar ile doğrudan alt kesim gruplarının üretkenliğini artıracak politikalara da yer verilmelidir. Bu anlamda, hükümetler yolsuzlukla mücadele önlemleri alırken, eğitim ve sağlık hizmetlerine eşit erişim sağlayan, küçük işletmeleri destekleyen, girişimciliği teşvik eden ve istihdam fırsatları oluşturan etkili mali politikalara öncelik vererek kapsayıcı ekonomik büyümeyi teşvik edebilirler. Bu önlemler, yolsuzlukla mücadele politikalarının gelir eşitsizliği üzerindeki muhtemel olumsuz etkilerini azaltmaya ve en düşük gelir gruplarına mensup bireylerin beşeri sermayeleri artırılarak adil bir zemin oluşturmaya yardımcı olabilir.

Sonuç olarak, yolsuzluk ve gelir eşitsizliği arasındaki ilişkinin anlaşılması çok yönlü ve bağlamsal bir konudur. Çeşitli mekanizmaların karşılıklı etkileşimini ve kurumsal reformların dinamiklerini göz önünde bulundurmak önem arz etmektedir.