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The effects of corruption on growth, human development and natural resources sector: empirical evidence from a Bayesian panel VAR for Latin American and Nordic countries

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Abstract

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Purpose: The purpose of this paper is to analyze the effects of corruption on economic growth, human development and natural resources in Latin American and Nordic countries. **Design/methodology/approach:** Using the hierarchical prior of Gelman et al. (2003), a Bayesian panel Vector AutoRegression (VAR) model is estimated. In addition, two alternative approaches are considered, namely, a panel error correction VAR model and an asymmetric panel VAR model. **Findings:** The results reveal some relevant contrasts: (1) in Latin America there is support for the sand the wheels hypothesis in Bolivia and Chile, support for the grease the wheels hypothesis in Colombia and no significant impact of corruption on growth in Brazil and Peru, while in Nordic countries the response of growth to shocks in corruption is negative in all cases; (2) corruption negatively affects human development in all countries from both regions; (3) corruption tends to spur natural resources sector in Latin American countries, while it is detrimental for natural resources sector in Nordic countries. **Research limitations/implications:** The panel VAR approach uses recursive scheme identification. The authors have analyzed robustness using alternative ordering of the variables. The authors also have followed two alternatives suggested by the Referee: a panel error correction VAR model and a panel asymmetric VAR model. However, another more sophisticated identification scheme could be used. Also other variables could be introduced in the VAR model. **Practical implications:** Regardless of the issue of the “grease” vs the “sand the wheels” debate, corruption should be reduced because it is anyway harmful for human development. The differences in the results for Latin American and Nordic countries show that the effects of corruption have to be assessed considering the different institutional and economic conditions of the countries analyzed. **Social implications:** Governments should seek to reduce corruption because, despite corruption can have mixed effects on economic growth in some contexts, it is anyway harmful for human development. Besides, the finding that in some Latin American countries more activity in the extractive industries is generated by means of corruption confirm the association between corruption and extractivism found by Gudynas (2017) and can explain why there are issues of environmental damage and social conflict linked to natural resources in those countries. **Originality/value:** The present study contributes to the literature by presenting evidence on the effects of corruption on growth, human development and natural resources sector in Latin American and Nordic countries. It is the first study on economics of corruption which directly compares Latin American and Nordic countries. This is relevant because there are important differences between both regions since Latin American countries tend to suffer from widespread corruption, while the Nordic ones have a high level of transparency. It is also the first in using a Bayesian panel VAR approach in order to evaluate the effects of corruption. © 2021, Emerald Publishing Limited.

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