

Review Report “The Corruption-Inequality Income Trap: A Study of Asian Countries”

The study does highlight a need to look at the impact of corruption on income-inequality and vice versa. The use of 2SLS is a very good choice to address the endogeneity in the estimated equations. The selection of instruments in 2SLS estimation is also commendable.

The title of the paper is not suitable as it says a study of “Asian” countries whereas the sample studied only consists of 14 countries. A study of 14 countries with such limited data in terms of years in the sample cannot be generalized as a study of Asian continent of 45 plus countries. Additionally the sample of 14 countries is very heterogenous, countries like Armenia and China are in the same sample. Econometrics of the paper does not use any technique to address the diversification of countries in the sample. The abstract of the paper makes sweeping statements such as “Asian countries have high levels of corruption and poor governance”, the statement is simply not correct as there is no evidence that the entire Asian countries are plagued by corruption and have poor governance. The abstract also boasts that it contributes to the literature in terms of theoretical modelling of the effect of corruption on income inequality but in reality just reproduction of two equations of Barro’s growth model cannot be classified as theoretical contribution.

The key words of the article “grease the wheel hypothesis” find no space in the whole article except for appearing once in a footnote. The first two sections of the paper have lots of repetition as the reader is quite confused as both seem to be a review of existing literature. First two sections of the paper cite mostly old papers and lack citation of very recent articles on Asia in the context of corruption. The theoretical model does not do justice in creation of the “corruption income-inequality trap”. The paper would be better off if it focusses on applied econometrics and not try to form theoretical foundations of the areas of research.

The data set of the paper consists of 14 countries with very different time periods, with such varied time periods the results of the panel regression do not bring confidence in the reader. In terms of the estimators, Tobit and 2SLS estimators may be enough and OLS results may not be reported. One very big issue of the entire results is the reported standard errors, looking at the results it seems likely that the reported standard errors are not “robust”. Statistical software’s like Stata these days provide 4 to 5 options in terms of standard errors and I fear the default of simple standard errors has been used. The use of robust standard errors might change significance of some of the variables. Table 5 in the study with 2SLS estimator has very large coefficients for corruption, population growth and Governance. Robust standard errors might solve the issues of table 5.

Governance variable is an average of six WGI dimensions that includes control of corruption and this averaged variable is used in the entire with the corruption variable. There could be strong correlation of these two variables and the reader does not find the correlation matrix or the descriptive statistics of the study.

Overall the paper highlights a good area of research but needs major revisions mentioned above.