

# CORRUPTION AND ECONOMIC GROWTH IN TRANSITION ECONOMIES

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## ABSTRACT

The general understanding of corruption is that the corruption harms economic growth because it increases transaction costs and information uncertainty (Rose-Ackerman, 1997). However, there are studies showing that corruption promotes economic growth as well (Leff, 1964; Lui, 1999). In this paper, I use pool regression model analyzing the impact of corruption on the real economic growth by examining how institutional quality moderates the impact of corruption on economic growth and how an external shock like a financial crisis changes the impact of corruption on economic growth. I argue that corruption does not affect GDP growth. Instead, institutions have direct impacts on GDP growth. Higher degree of economic freedom promotes more real GDP growth. Furthermore, to obtain higher growth, a government can be more centralized in order to keep being efficient.