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Investigating the Impact of Globalization and Corruption on Government Size

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Abstract

The process of economic growth and development depends on the extent to which the national economy interacts with the world economy and is affected by the process of globalization. In this regard, the size of the government has also undergone a great deal of change in the approach of accepting engagement with the issue of globalization and with the anomaly itself has increased the possibility of corruption, especially in developing countries. The purpose of the present study was to investigate the impact of business-financial openness on government size by emphasizing the Corruption Perceptions Index and comparing it in two groups of high-income and low-income countries over the period 2018–2006 using panel data. It is based on the FGLS approach. The findings show that improving the perception index of corruption has led to an increase in the size of government in high-income countries, while in low-income countries it has reduced the size of government presence in the economy. Moreover, financial freedom has had a greater impact on government size in high-income countries than commercial freedom, and has resulted in a decrease in the size of government, while commercial freedom has no such effect. In the group of low-income countries, improving the perception of corruption, which indicates improved governance quality, has led to a decrease in the size of governments, but the effect of commercial and financial freedom on the size of the positive government reflects the increasing impact of globalization indicators on The size of the government. The findings indicate the asymmetric impact of commercial and financial freedom on government size in high-income countries. In spite of the asymmetric response of the government size in the two income groups to the perception of corruption index, the improvement in this index in the group of low-income countries has been associated with a larger response to the decline in government volume.

Keywords: Government Size; Financial openness; Trade openness; Corruption Perception Index; Panel Data.

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1. Introduction

The role and size of government in economies as one of the main subjects of economic schools has always been the focus of economic decision makers. The

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debate over the size of the government and its efforts to make it smaller has been a public challenge for many countries over the past two decades and the foundations of "Big Governments" and "Centralized Planning" have been criticized (Benaroch et al. Pandi, 2010). The criticism is no central planning organization can access the information needed to run a sophisticated and modern economy thus economists focus on issues such as optimal government size and reduced government size nowadays (Falahati and Sepahban, 2009). Moreover, corruption is one of the most important impediments to economic growth and political instability, especially in developing countries (Derr et al., 2006). In fact, joining the international flow of supply and demand increases the likelihood of corruption in developing countries and affects government planning (Pour Moghim, 2013). The argument for such a claim can be traced back to a set of economic thinkers. Ackerman argues that corruption in its general sense is influenced by various socio-political-political-legal and economic factors, and in the developing countries, financial and commercial corruption linked to government rent is influenced by the quality of bureaucracy, the level of public sector wages, the system. Judicial are the institutional controls of transparency in rules, rules, and decision-making processes and ultimately the pattern of behavior of leaders. Paulo Mauro cites the origins of financial and commercial corruption in trade restrictions, government subsidies, price controls, multiple exchange rates, and the dependence of the budget on the proceeds from the sale of raw materials (such as oil). The passage of information asymmetry in banking, taxation, and customs regulations along with the uneven distribution of incomes leads to reduced transparency in the economic system, impedes statutory auditing and control and reinforces the intensification of corruption. The dependence of foreign trade on government licenses and the existence of various legal restrictions make the process of obtaining legal licenses time-consuming and bypassing such laws by paying bribes is commonplace. If the economic agents do not want to avoid breaking the rules by paying bribes, they are resorting to the use of the trafficking channel, which in both cases has led to increased levels of corruption. Governments in developing countries have played a very prominent role in managing economic affairs for many consecutive decades, and the lack of a robust private sector in the economic structure has led to the formation of corrupt-inefficient structures in such countries that even joining these Countries have no impact on global markets and their economies open up, at least in the short run, and merely create new areas of economic corruption (Jafari Samimi & Salehi, 2013). Corruption is a widespread phenomenon in all societies that occurs to varying degrees at different times. Corruption affects the size of the state by changing the amount of expenditure either by changing the composition or allocation of funds to different programs while focusing on the amount of government spending (Tanzi, 2000). On the other hand, Shelton (2007) states that there is evidence of the performance of some developed and developing economies over the past few decades, suggesting that exceeding the size of the government to an optimal level for basic services leads to slowing economic growth. To be. Increasing government spending and mismanagement of the economy will result in inefficient allocation of public resources to the community, disrupting the functioning of the market system and reducing social welfare. However, in cases of market failure (negative externalities and public goods provision), important government tasks such as institutional and legal infrastructure, redistribution of income and wealth, and public goods provision cannot be ignored. In addition, recent studies have shown that economic growth and development plans, especially in developing countries, depend on the extent to which the national economy interacts with the world economy and is influenced by the process of globalization of the economy (Garrett, 2001). An efficient government is essential to achieving the goal of economic and social development. Such a government should pave the way for greater private participation. On the other hand, growth and development plans, especially in developing countries, depend on the extent to which the national economy interacts with the global economy and is affected by the phenomenon of globalization (Ram, 2009). In today's world, despite interdependencies, economic growth and development at the national level, without active engagement with the global economy, is in serious trouble. Since the size of the state is one of the things that has changed in terms of whether or not governments interact with globalization, with the expansion of trade, corruption is likely to increase and government policies and programs are ineffective (in some countries). It affects the size of the government, so it is important to examine the extent and type of impact globalization indicators (such as financial and business openness) have on the size of the government with emphasis on corruption. Therefore, in the present study, we focus on the effect of government size on globalization variables, with emphasis on the indicators of financial and business openness and corruption perception index. There has been a great deal of research on the impact of globalization on the size of the government, often without considering the impact of the corruption index, while in many countries, especially developing countries, corruption and policy inefficiencies have been addressed. Government plans lead (Gaul & Buck, 2006; Epifani & Ginny, 2009) and are expected to affect government size.

2. Research Methodology

According to the latest classification of the World Bank in 2019 countries by income group, it is divided into four income groups: low income, lower than middle income, higher than middle income and high income. Given that the two middle-income groups may mislead us into the results, the present study estimates the effect of globalization on government size by emphasizing financial-business openness and corruption in two groups of high-income low-income countries for the period. When (2018-2006) we use panel data. All data and statistical data were obtained from the World Bank website and the countries selected are listed in

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Appendix (1). The proposed model for investigating the relationships between variables in the present study is as follows (1):

$$gov_{it} = \beta_0 + \beta_1(\mathrm{tra_{it}}) + \beta_2(fin_{\mathrm{it}}) + \beta_3(\mathrm{gdpgro_{it}}) + \beta_4(\mathrm{inf_{it}}) + \beta_5(\mathrm{cor_{it}}) + \beta_6(\mathrm{ind_{it}}) + \mathrm{u_{it}} \quad (1)$$

gov: Government spending as a percentage of GDP as a measure of government size.
tra: The sum of exports and imports is expressed as a percentage of GDP as an index of trade openness.
fin: Foreign direct investment as a percentage of GDP as an index of financial openness.
gdpgro: GDP growth as an indicator of economic growth.
inf: Price growth rate (inflation rate) based on consumer price index.
ind: Value added of industry sector to total value added as an index of industrialization.
cor: Corruption Perceptions Index.
i and *t*: represent time and time respectively.

3. Model Estimation Approach

The general form of panel data is presented in Equation (2) as follows:

$$Y_{it} = Z_i'\alpha + \beta X_{it} + u_{it} \quad (2)$$

In this equation, Yit is the dependent variable, the coefficients vector or parameters, and Xit is the k explanatory variable. Also, uit is a model disruption statement that follows the classical assumptions of linear regression. t = 1,2, ... T is the time period and i = 1,2, ..., N is the period. Heterogeneity or individual effects. It may include a fixed component and a set of individual or group variables that may be unobservable, such as, race, gender, location, etc., or invisible, such as country-specific characteristics or individual heterogeneity in skill or preferences, etc. They remain constant over time. Common methods for estimating equation (2) using panel data include fixed effects and random effects methods.

4. Findings

The estimations are confirmed the positive relationship of trade openness in both groups of countries (Roderick's compensation hypothesis), that is, the greater the volume of trade, the higher the government spending. In open economies, especially commercially, firms are actively or potentially exposed to various risks, such as changing export or import laws and regulations, changing quantitative restrictions and prohibitions on imported or exported goods, changing tariffs. Or nonprofits, fluctuations in exchange rates, fluctuations in exchange rates, fluctuations in the level of economic activity in trading partner countries, which make the task of stabilizing the state more economic today. In this regard, the government is setting up the necessary policy institutions as well as sound economic policies, all of which require budget spending. The effect of financial openness in high-income countries was on the efficiency hypothesis and in the low-income countries the Rodrik compensation theory was emphasized. Studies and evidence in the first group show that with the globalization of finance, government pressure is actually reduced because it is likely that funds will be attracted from abroad. Within the framework of the international economy, governments can become too small to use spending and tax advantages. According to the literature on tax competition, mobility reduces tax revenues and subsequently reduces public spending. In addition, governments collect less tax in response to increasing financial openness and can barely manage their budget deficits because capital in response to unfavorable tax and budgetary policies. It can easily be moved overseas, which (eventually leads to contractionary spending policies. In the second group of countries, evidence also shows that liberalization of financial markets shortens the likelihood of financial crises occurring. The occurrence of such crises is always accompanied by significant costs that governments inevitably face. Also, the flow of foreign direct investment in low-income countries leads to the polarization of the domestic economy and the need for government intervention, and the perception of corruption has both a positive and significant effect in the first group and a negative effect in the second The results also showed a significant and negative effect of economic growth and industrialization and a positive and significant effect of inflation on government size in both groups.

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