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# Corruption causes inequality, or is it the other way around?

## An empirical investigation for a panel of countries

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### Abstract

In past decades, a relevant strand of literature has found corruption to be an important determinant of income inequality. In this paper, it is argued that a reverse causal relationship between corruption and income inequality might exist. We claim that income inequality could in fact be responsible for fostering corruption, which may be a reaction to a perceived unfair income distribution. Looking at a panel of 50 countries from 1995 - 2015, we show that the direction of causality between corruption and income inequality is country-specific and may be bidirectional. Using a dynamic GMM model, we robustly find that income inequality positively affects corruption, while corruption does not appear to be significant in the determination of income inequality, therefore contradicting the existing empirical literature on this topic.

**Keywords:** Corruption perception; dynamic panel; income inequality; causality.

**JEL Codes:** C23; D30; K42; O1; O5.

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