

CHAPTER 5

CONCLUSION AND SUGGESTION

5.1 Conclusion

This research aims to study the correlation between economics variables, corruption perception index and human development index and also study the effects on human development index. The observations include 59 countries from 2000 to 2010 totally 11 years. Panel data analysis employed panel unit root test for testing stationary and employed generalized moments of method for estimating the model.

The results from panel unit root test: Levin, Lin, and Chu (LLC) Test, Breitung Test, Hadri Test, Im, Pesaran and Shin (IPS) Test and Fisher Type Test by using Fisher-ADF and Fisher-PP found that data is stationary at level $I(0)$. Then this set of data was estimated by GMM estimator.

The result from GMM estimator statistically significant at 1%, the correlation between economic variables, corruption perception index and human development index shown in the diagram below;

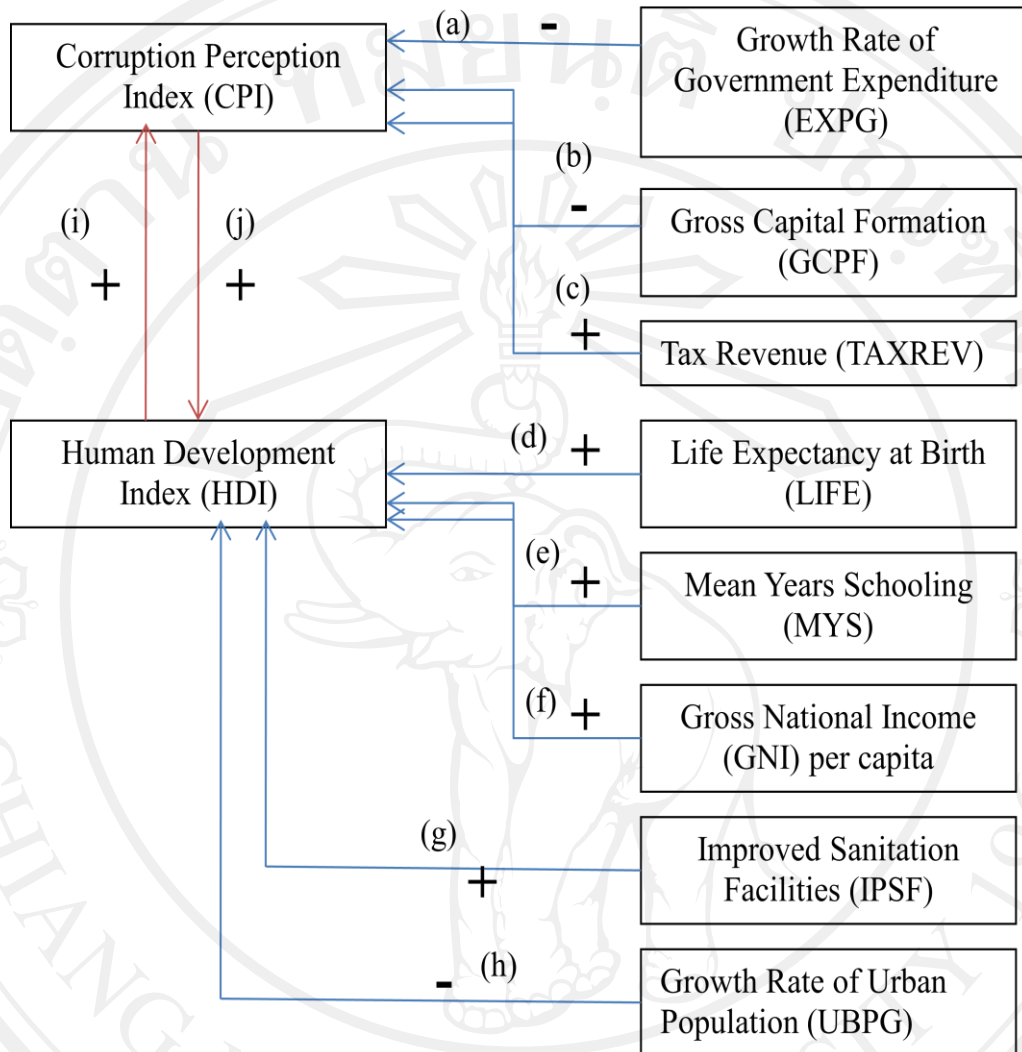


Figure 5.1: The relationship between economic variables and Corruption Perception Index and the effects on Human Development Index with statistically significant at 1%

From estimation model (4.1) and (4.2) the results from GMM estimator shows that there is a two-way relationship between HDI and CPI or human development and corruption that the in level of human development will effect level of corruption and the change in level of corruption also effect to level of human development with a negative correlation. Recall Ngoc Anh Tran 2012 shows the two-way relationship between corruption and human development is mutual-relationship leads to multiequilibria situation.

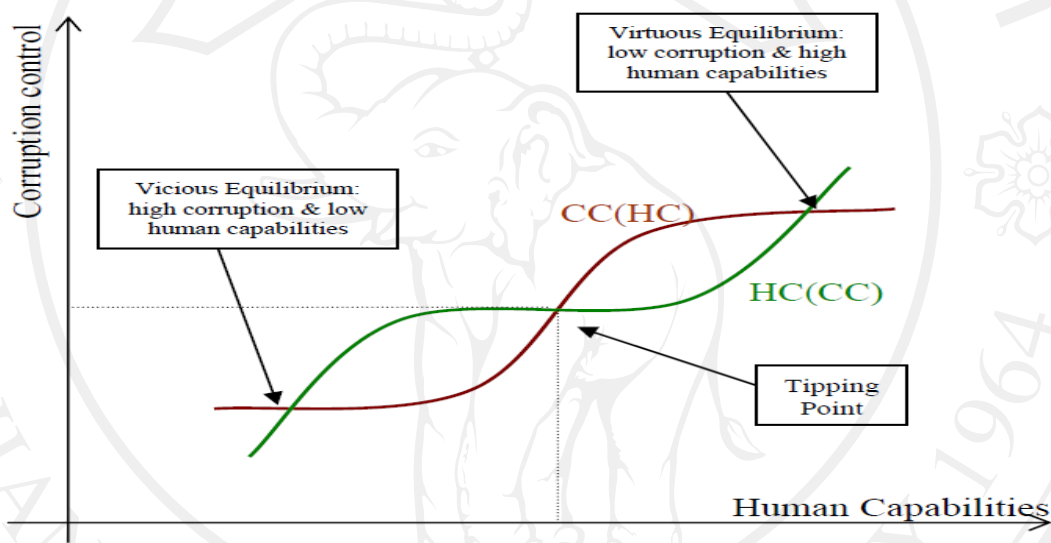


Figure 5.2: Two-way Relationship between Corruption and Human Development

Source: Ngoc Anh Tran 2012

As same as the result from estimation (i) in figure 5.1 an increase in HDI 1% leads to an increase in CPI 1.4232. Similarly at flat slope state of the green curve when corruption control was improved enough means least corruption affects to a rapidly increase in human capabilities or human development. In figure 5.1 (2.0) an increase in CPI affects to an increase in HDI means decreasing in level of corruption can lead to an improved Human Development Index. Another interesting variable is government expenditure, the result from the study found that an increase in growth rate of government expenditure leads to an increase in level of corruption.

5.2 Suggestion

According from the results of this study, the negative correlation between corruption and human development emphasize that corruption is a serious problem for development. High level of corruption makes ineffectiveness in every development projects. It will become a main cause of failure to reach development goal. Government should have a good strategy for planning good development projects which will be benefit to a large portion of population in order to raise national standard of living. And the important thing is financial plan; government must have a good budget allocation because a great budget for government expenditure on these projects induces to a great corrupt.

Planning development projects should do simultaneous with anti-corruption campaigns with clearly and seriously punishment.

There are some suggestions for government plans in three pillars of human development

According from the results of this study, government policies should support in providing education and providing a good quality of health care services in order to raise standard of living and increase the HDI but a policy which support increasing individual income also has a significant with HDI but there is a less effect than increasing in education and health dimension. So, two important pillars for human development are education and health.

For policy suggestions refer to the results of the study in figure 5.1

1. $EXPG \longrightarrow CPI$ and,
2. $GCPF \longrightarrow CPI$

Government expenditure goes directly with levels of corruption. A huge amount of government expenditure relates to a huge corrupt trough government spending on projects. Government should abolish patronage system and work with more transparent. And Gross capital formation represents national investments and collecting of fixed capital that is related to corruption such as government purchase machine for government projects, government face a higher cost because of the price has been distorted. About the regulation against corruption control, government have to control spending by examine the money that spent on each government project. For instant, cost or any kind of expenditures must be determined by the real price not the

price with additional private gains. There must be no loss from government investment and the financial plan can be traced-back in every process.

3. $TAXREV \xrightarrow{+} CPI$

Tax revenue has negative relation with corruption, if we consider corruption from household or tax evasion, government should determine the optimal tax rate because high tax rate leads to tax evasion which affects to government revenue.

4. $LIFE \xrightarrow{+} HDI$

Policies which provide good health care services for people should be benefit for low-income people or poor in order that they can attain a good quality of health services equally to rich people.

5. $MYS \xrightarrow{+} HDI$

Government should provide educational especially for children who is disadvantaged and decrease rate of illiteracy.

6. $GNI \xrightarrow{+} HDI$

There is a least effect of rising in income per capita to human development compared with attaining a higher level of education and better health. So, government should focus on increase literacy rate and improve health care services than focus on stimulate the economy by increase income per capita in order to increase purchasing power.

7. $HDI \xleftarrow{+} CPI$

Increase mind consciousness about corruption in children show them that corrupt is a bad behavior.

The national legal must be strength enough to control corruption by authorities or people who have high power such as a politician.

5.3 Limitations of research study

This research aims to study the effects of economic variables including effect of corruption but exclude the effect from politics, the strength of legal, economic system, and culture.

Corruption comes from both of private sector public sector. Actually there are many factors are the causes of corruption but this study considered that corruption is hidden in government spending and tax evasion from household.

5.4 Suggestion for future research

In order to complete the system for studying the linkage of variables, the system should have more variables such as the variable which represents law and strength of law. Furthermore, it will be better to study separately with the different political system.