

CORRUPTION ACCELERATE INCOME INEQUALITY IN PAKISTAN: USE WORLD VALUE SURVEY DATA

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ABSTRACT

This study investigates the perceptions of income inequality and corruption in Pakistan, a country facing these challenges much like other nations worldwide. The economic underperformance in Pakistan is influenced by various factors, with increasing corruption emerging as a significant determinant impacting economic growth. The data is taken from World Value Survey Wave 7 (WVS Wave 7) and dates from 2017 to 2021. The findings of this study show that perceptions of corruption have a negative association with income inequality. Moreover, gender differences in corruption significantly influence perceptions of income inequality, with women being less corrupt than men. However, the involvement of specific groups, such as state authorities, business executives, and local authorities in corruption, commonly does not have a statistically significant impact on the perception of income inequality. The study suggests, based on the results, that the state government should prioritize anti-corruption, enhance transparency and accountability, conduct public awareness campaigns, promote gender equality, and implement proper economic reforms.

Keywords: Corruption, Income Inequality, Pakistan

INTRODUCTION

In recent years, corruption has become a universal issue in many countries worldwide, particularly in developing economies. In developing countries, it carries significant implications. A number of economists extensively acknowledge the crucial role of institutions in economic growth. Unfortunately, most developing countries are facing the issue of weak institutions. The existence of corruption within a country shows institutional weaknesses. There is not a single cause of the weakness. There are many social, economic, and political causes of weak institutions. These

weaknesses cannot be attributed to a single cause, as there are multiple social, economic, and political factors contributing to the fragility of these institutions. These weak institutions promote corruption, and corruption has the consequence of influencing the long-term economic activities of a state. Corruption is commonly defined as the improper use of public office for personal gain (Ascencio, 2019; Philp, 1997), as well as corruption in various ways like bribery, the unauthorized sale of public assets by government officials, and the misuse of government funds (World Bank, 1997;

Reinikka and Svensson, 2005). The Corruption Perceptions Index (CPI) for this year highlights that corruption levels have remained stagnant in 124 countries, with a growing number of nations experiencing a decline. This trend carries significant consequences, as it not only leads to a deterioration in global peace but also underscores the reciprocal relationship between corruption as both a leading cause and a resultant effect of this decline.

Corruption is a global issue, and it affects not only one state or region but the entire world. It hampers economic growth and development, especially in developing countries (Ibraheem et al., 2013; Grabova, 2014). Public officials (both in politics and civil service) often exploit their positions to accumulate wealth at the expense of public welfare (Oni and Awe, 2012; Zahoor et al., 2023).

The World Bank states that corruption is "the single greatest obstacle to economic and social development" (Hayadaroglu, 2023), because it changes the role of the law and weakens the institutions crucial for economic growth. Recently, economists at global financial institutions such as the World Bank and IMF have taken a keen interest in researching corruption due to its harmful effects on economic growth (Saeed et al., 2023; Refakar and Cardenas, 2023). Economists described five key factors contributing to a corrupt society and the illegal accumulation of wealth within an economy: corrupt government (Rose-Ackerman, 2008; Aburime, 2009), political corruption, encouraging imperatives and incentives (Aburime, 2009; Frisch, 1996), cascading effect (Aburime, 2009), and lack of accountability (Thu et al., 2023; Shairgojri, 2023).

Corruption In Pakistan's Context

In 2022, Pakistan's Corruption Perceptions Index (CPI) declined to a score of 28, and it was ranked 140th out of the total countries on the index. In 2020, Pakistan had a CPI of 31 and was ranked 124th out of 180 countries. It indicates a negative trend in the fight against corruption. Parallel, Pakistan's score compares with those of neighboring countries such as India and Bangladesh. India had a CPI score of 40 and was ranked 85th, while Bangladesh had a CPI of 26 and was ranked 147th. The report highlighted that, in

spite of global efforts to combat corruption, 86 percent of countries have made little to no progress in the last decade. Transparency International attributes Pakistan's low CPI score to the absence of the "rule of law" and the issue of "state capture." Since the last elected government, Pakistan's ranking has been gradually declining. In 2019, it was ranked 120th out of 180 countries; in 2020, it was 124th; and in 2021, it worsened further to 140th. In 2018, during the PML-N government, the ranking was 117th out of 180 countries. Therefore, Transparency International's report also highlighted those countries where the state consistently violates civil liberties and tends to score lower on the CPI. This contentment in fighting corruption exacerbates human rights abuses, weakens democracy, and can lead to a vicious cycle where authoritarianism takes hold, resulting in even higher levels of corruption. Not only Pakistan is facing this issue, but almost every nation in the world is facing it. Several countries have weak anti-corruption scores, including China, India, Indonesia, and Bangladesh. These nations were noted for either weakening their anti-corruption institutions or, in some cases, lacking agencies responsible for coordinating action against corruption.

The poor economic performance in Pakistan can be attributed to various factors, with increasing corruption being the most significant determinant affecting economic growth. Corruption is a consequence of institutional weaknesses that discourage a country's economic development. Pakistan's historical background indicates that governance indicators have remained mostly unchanged, and corruption has pervaded all levels of government, from the federal to the provincial and local levels. As well, in 1995, Pakistan's score on the Corruption Perception Index (CPI) was 2.25, placing it among the most corrupt countries in the world. The government of Pakistan initiated some efforts to combat corruption, leading to an improvement in the Corruption Perception Index in 1998, which further increased to 2.7 from 2.53 in 1997 (according to the International Transparency Report, 2012). Corruption in Pakistan can be attributed to several factors, such as weak institutions, insufficient political will, the dominance of the bureaucracy, low public sector

salaries, high inflation, etc. While corruption remains a substantial issue in Pakistan, it still offers a more favorable environment for new and existing businesses compared to other countries in the region, such as India, Bangladesh, and Sri Lanka (International Transparency Report, 2012).

LITERATURE REVIEW

Corruption is a basic and fundamental issue in Pakistan. Political instability and hindered economic development exist due to fragile institutions. The influence of a powerful military, ready to succeed civilian governments to protect their economic interests, contributes to this institutional fragility. Unsuccessful civilian governance and the durable impact of British colonialism create a challenging cycle that is hard to break. The study shows the historical roots of corruption, assesses its adverse economic effects, and presents a case study of the National Accountability Bureau (NAB) to emphasize that improving institutional quality necessitates bureaucratic accountability and commitment rather than political victimization and institutional abuse. (Kirsanli, 2023).

Ishfaq and Waqas, (2023), studied the impact of corruption on economic development in Pakistan. The data type is time series, with a time span of 1966 to 2021. The econometrics technique VECM is used for estimation. The empirical results showed that trade openness positively affects economic growth, while inflation and corruption negatively impact GDP growth.

Uroos et al. (2022) examined the issue of corruption and its misuse of public power. The study focused on Pakistan and aimed to identify the economic factors influencing corruption and assess the impact of trade openness. The data used from 1987 to 2017 and the econometric approaches Tobit model and ARDL were applied. The study results showed that the literacy rate, GDP growth, and economic integration negatively affect

corruption in Pakistan, while inflation has a positive impact. However, control variables such as investment, an extensive index, public spending, and income distribution do not show statistical significance as economic determinants of corruption in Pakistan.

Abbasi Et Al. (2019) Examined

the relationship between corruption and economic growth. Economic growth is measured in terms of per capita GDP, and corruption is quantified using the Corruption Perception Index (CPI) that is published by Transparency International. The study used time series data and a time period from 1995 to 2019 as well as the Solow growth model to incorporate corruption into the macroeconomic variables affecting economic growth. The econometric model ARDL was used. The results of the study show a long-term relationship between corruption and economic growth in Pakistan. The outcomes showed that corruption has a negative impact on per capita GDP, thus diminishing the country's economic growth.

Awan et al. (2018) investigated the relationship between governance, corruption, and economic growth in five SAARC countries: Bangladesh, India, Nepal, Pakistan, and Sri Lanka. The data nature is panel and time used from 1996 to 2014. The study results showed that two institutional governance indicators, government effectiveness and political stability, have a positive and significant impact on economic growth in the selected SAARC countries. Corruption, as per theory, has a negative effect on economic growth. Furthermore, the results show that, among the governance indicators, government effectiveness exerts a more substantial influence on GDP growth in the selected SAARC countries. Additionally, the education index is found to be a significant predictor of economic growth in these countries during the specified time period.

(Li et al., 2000; Jong-Sung and Khagram, 2005; Uslaner, 2006; Uslaner, 2007; Dincer and Gunalp, 2012; Yan and Wen, 2020). We are also conducting the study on the basis of these variables. In this study, income inequality is a dependent variable, while perceptions of

METHODOLOGY

Data and Data Sources

In this study, we investigate how corruption impacts income inequality in Pakistan. A number of studies were conducted by researchers to investigate the issue in different parts of the world

corruption in the countries involved in corruption—state authorities, business executives, local authorities, local service providers, journalists and media, local offices or institutions,

and women being less corrupt than men—are independent variables. The data are taken from World Value Survey wave seven (WVS wave 7) from 2017 to 2021.

Table 1
variables description Source: World Value Survey, 2023

Variable	Nature	Description
II	Categorical	Income equality vs larger income differences
CORR	Categorical	Perceptions of corruption in the country
ST	Categorical	Involved in corruption: State authorities
BE	Categorical	Involved in corruption: Business executives
LA	Categorical	Involved in corruption: Local authorities
CSP	Categorical	Involved in corruption: Civil service providers
JM	Categorical	Involved in corruption: Journalists and media
LOI	Categorical	Frequency ordinary people pay a bribe, give a gift or do a favor to local offices (Police, lawyers, doctors, teachers etc.,)
WM	Categorical	Degree of agreement: On the whole, women are less corrupt than men

MODEL

$$II_i = \alpha_i + \beta_1 CORR_i + \beta_2 ST_i + \beta_3 BE_i + \beta_4 LA_i + \beta_5 CSP_i + \beta_6 JM_i + \beta_7 LOI_i + \beta_8 WM_i + \varepsilon_i \dots (1)$$

Where: II = income equality or inequality in my state; CORR = perceptions of corruption in the country; ST, BE, LA, CSP, and JM indicate those involved in corruption: state authorities, business

executives, local authorities, civil service providers, journalists, and the media. LOI represents the frequency with which ordinary people pay a bribe, give a gift, or do a favor to locals (police officers, lawyers, doctors, teachers, etc.). The degree of agreement shows that, on the whole, women are less corrupt than men. Therefore, α and β are parameters.

LOGISTIC REGRESSION

If there are two possible outcomes for a response variable, such as success and failure, represented by the values 1 and 0, respectively, the mean of this response variable corresponds to the proportion of "successes" (denoted as p), which is the probability of an event being successful. Logistic regression is introduced as a statistical method to model and describe the relationships between these explanatory variables and the probability of success (p). It allows us to understand how these variables affect the likelihood of a specific outcome, such as whether corruption exists in your country or not (Kleinbaum et al., 2010). This technique is similar to multiple linear regression but is specifically designed for situations where the

response variable is binary or categorical. Logistic regression helps us examine and interpret these types of relationships effectively. The model uses when to predict the probability of an event occurring (e.g., yes/no, 1/0) based on the values of the independent variables. The equation of logistic regression is:

$$\log\left(\frac{p}{1-p}\right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_n X_n$$

Where p represents the probability of the dependent variable (e.g., event occurrence), The $X_1, X_2 \dots X_n$ are the independent variables. Therefore, β_0 is the intercept term and $\beta_1, \beta_2 \dots, \beta_n$ are the coefficients for the independent variables. (Coklin, 2002; Harrell and Harrell, 2015).

RESULTS AND DISCUSSION

Table 2

Frequency and Percent of the Variables

Question statement	Sub-statement of Questions	Total (n=1995)		Rural (n=1331)		Urban (n=664)	
		F*.	%*	F*.	%*	F*.	%*
Income equality vs larger income differences	0 = Income equality in my state	588	29.47	381	28.63	207	31.17
	1 = Income Inequality in my state	1,407	70.53	950	71.37	457	68.83
Perceptions of corruption in the country	0 = No corruption in my state	255	12.78	167	12.55	88	13.25
	1 = Abundant corruption in my state	1,740	87.22	1,164	87.45	576	86.75
Involved in corruption State authorities	1. None of them	259	12.98	169	12.70	90	13.55
	2. Few of them	614	30.78	442	33.21	172	25.90
	3. Most of them	783	39.25	535	40.20	248	37.35
	4. All of them	339	16.99	185	13.90	154	23.19
Involved in corruption Business executives	1. None of them	277	13.88	174	13.07	103	15.51
	2. Few of them	666	33.38	461	34.64	205	30.87
	3. Most of them	708	35.49	478	35.91	230	34.64
	4. All of them	344	17.24	218	16.38	126	18.98
Involved in corruption Local authorities	1. None of them	330	16.54	214	16.08	116	17.47
	2. Few of them	686	34.39	464	34.86	222	33.43
	3. Most of them	663	33.23	443	33.28	220	33.13
	4. All of them	316	15.84	210	15.78	106	15.96
Involved in corruption Civil Service Providers	1. None of them	269	13.48	180	13.52	89	13.40
	2. Few of them	660	33.08	456	34.26	204	30.72
	3. Most of them	703	35.24	467	35.09	236	35.54
	4. All of them	363	18.20	228	17.13	135	20.33
Involved in corruption Journalist and Media	1. None of them	418	20.95	287	21.56	131	19.73
	2. Few of them	617	30.93	406	30.50	211	31.78
	3. Most of them	539	27.02	340	25.54	199	29.97
	4. All of them	421	21.10	298	22.39	123	18.52
Frequency ordinary people pay a bribe, give a gift or do a favor to local office	1. Never	394	19.75	242	18.18	152	22.89
	2. Rarely	735	36.84	514	38.62	221	33.28
	3. Frequently	588	29.47	390	29.30	198	29.82
	4. Always	278	13.93	185	13.90	93	14.01
Degree of agreement: On the whole, women are less corrupt than men	Strongly agree	752	37.69	493	37.04	259	39.01
	Agree	641	32.13	433	32.53	208	31.33
	Disagree	391	19.60	255	19.16	136	20.48
	Strongly disagree	211	10.58	150	11.27	61	9.19

Author's calculation, F and %* indicates Frequencies and percentage of the variable.*

Descriptive statistics is a branch of statistics that involves the collection, organization, presentation, and interpretation of data. It describes the fundamental features of the data (Gul et al., 2023; Gul et al., 2023). Table 2 describes the outcomes of the frequencies and percents of the specific variables. Mostly, the level of income determines the standard of living of the state, including Pakistan. Regarding the perceptions of income equality, it is evident that a large majority of all respondents (70.53%) perceive income inequality, while the remainder (29.47%) perceive income equality. Rural respondents similarly show a higher perception of income inequality (71.37%), with a lower percentage (28.63%) perceiving income equality. Particularly, urban respondents display nearly identical perceptions as their rural equals. In perceptions of corruption, the findings reveal a dominant perception of corruption among respondents. In total, 87.22% perceive abundant corruption, while a smaller percentage (12.78%) believe there is no corruption. This movement is reliable among both rural and urban respondents, with 87.45% of rural respondents noticing abundant corruption and 12.55% believing there is no corruption. In the urban context, 86.75% perceive abundant corruption, and 13.25% believe there is no corruption. The data traces perceptions of state authorities' involvement in corruption. Of all respondents, merely 12.98% believe that none of the state authorities engage in corruption, while 30.78% think that only a few of them are involved. A significant portion (39.25%) believes that most state authorities are involved, while a smaller percentage (16.99%) perceives that all of them are corrupt. The data highlighted the perception that corruption exists within state authorities, reflecting a complex issue within the surveyed population. In developing countries, most people believe that

most people are involved. Besides, the empirical results also support the perceptions of the people. The respondents' perceptions of the involvement of business executives in corruption are mostly high. In all respondents (1,995), the perceptions of none of them (13.88%), 33.38% believe few of them, and 35.49% believe most of them are involved in the corruption. 666 individuals believe that a few of them are involved. Merely 17.24% believe that all of the business community is involved in corruption. Therefore, of the perceptions of the involvement of local authorities in corruption, about 16.54% believe that the local authorities are not involved in corruption. Similarly, 34.39%, 33.23%, and 15.84% believe that a few of them, most of them, and all of them are involved in state corruption. The civil service is also a key institution of the state. If it fails, the state and other institutions will automatically fail. In Pakistan, about 13.48% believe that civil service providers are involved in corruption. As well, 33.08% and 35.24% believe that a few or most of them are involved. While 18.20% believe that all of them are involved, In Pakistan, perceptions of the involvement of journalists and the media in corruption are common among the people. 30.93% believe a few, while 27.02% and 21.10% believe that most and all of them are involved in corruption. Respondents asked about the frequency of ordinary people paying bribes, giving gifts, or doing favors for local officials. Nearly one-fifth of all respondents (19.75%) claimed that they never engage in bribery, gift-giving, or favoritism towards local officials, while the majority falls into the categories of 'Rarely' (36.84%), 'Frequently' (29.47%), or 'Always' (13.93%). Most people strongly agree that women are less corrupt than men.

Table 3
Descriptive statistics (n=1,995, n=1,331, and n=664)

Question statement	Total (n=1,995)	Rural (n=1331)	Urba (n=664)
	Mean (SD)	Mean (SD)	Mean (SD)
Income equality vs larger income differences	0.70 (0.45)	.713 (.452)	.688 (.463)
Perceptions of corruption in the country	.87 (.33)	.874 (.331)	.867 (.339)
Involved in corruption State authorities	2.60 (.91)	2.55 (.883)	2.70 (.972)
Involved in corruption Business executives	2.56b (.93)	2.55 (.914)	2.57 (.967)
Involved in corruption Local authorities	2.48 (.947)	2.48 (.942)	2.47 (.958)

Involved in corruption Civil Service Providers	2.58 (.936)	2.55 (.927)	2.62 (.953)
Involved in corruption Journalist and Media	2.48 (1.04)	2.48 (1.06)	2.47 (1.00)
Frequency ordinary people pay a bribe, give a gift or do a favor to local offici	2.37 (.953)	2.38 (.938)	2.34 (.983)
Degree of agreement: On the whole, women are less corrupt - than men	2.03 (.997)	2.04 (1.00)	1.99 (.981)

***Indicates the Freq. and Percent in total observation which is 1,995.**

Tale 3 displays the results of the mean and standard deviations (SD) for various statements from a survey conducted in different groups, such as total respondents, rural respondents, and urban respondents. Column two shows the mean and standard deviation of the total respondents, while columns three and four illustrate the mean and standard deviation of rural and urban respondents, respectively. The mean value of income inequality is 70%, while in rural and urban areas it is 71% and 68%, respectively. It demonstrates the general perception of income inequality in Pakistan, as well as rural and urban areas. The respondents believe there is a moderate level of corruption in the country (mean $\approx$ 0.87). The means are quite similar across all groups, with rural respondents at 0.874 and urban respondents at 0.867. The relatively low standard deviations suggest that responses are clustered closely around these means, indicating a relatively consistent perception of corruption. The means values of a moderate

level of involvement in corruption among these different groups indicate about 2.47 to 2.70. These means suggest that respondents perceive a similar level of involvement in corruption among these groups across all categories (total, rural, and urban). Therefore, the perception is that ordinary people pay bribes, give gifts, and give favors to local officers. The overall mean is 2.37. Rural respondents have a slightly higher mean of 2.38, indicating a slightly higher reported frequency, while urban respondents have a lower mean of 2.34, suggesting a slightly lower reported frequency. The standard deviations suggest some variability in the reported frequency among respondents. The mean value of women being less corrupt than men is 2.03, while rural respondents have a slightly higher mean of 2.04, indicating slightly stronger agreement, while urban respondents have a lower mean of 1.99, suggesting slightly weaker agreement.

Table 4

Logistic estimates of the Income Inequality and corruption

	Total (n=1995)	Rural (=1,331)	Urban (n=664)
Dependent Variable: Income Inequality			
Independent variables	Odds Ratio	Odds Ratio	Odds Ratio
Perceptions of corruption in the country	0.830*** (0.141)	0.804*** (0.174)	0.861*** (0.242)
Involved in corruption State authorities	0.00812 (0.0696)	0.0478 (0.0896)	-0.0148 (0.112)
Involved in corruption Business executives	0.186*** (0.0714)	0.179** (0.0897)	0.194 (0.121)
Involved in corruption Local authorities	0.0764 (0.0711)	0.0471 (0.0878)	0.130 (0.124)
Involved in corruption Civil Service Providers	0.101 (0.0665)	0.0929 (0.0836)	0.140 (0.112)
Involved in corruption Journalist and Media	0.0579 (0.0591)	0.0928 (0.0718)	0.0222 (0.109)
Frequency ordinary people pay a bribe, give a gift or do a favor to local offici	0.00396 (0.0548)	-0.0153 (0.0692)	0.0487 (0.0913)
Degree of agreement: On the whole, women are less corrupt than men	0.0308 (0.0464)	-0.0857 (0.0640)	-0.173* (0.0894)
Constant	-0.990*** (0.245)	-0.704** (0.280)	-0.882** (0.393)
Observations	1,995	1,331	664

Standard errors in parentheses, *** p<0.01, **

p<0.05, * p<0.1

Table 4 shows that in the logistic analysis, the dependent variable income inequality and several independent variables are used to estimate these outcomes for total, rural, and urban respondents. The odds ratios and associated standard errors are presented for each independent variable. In total, respondents' odds ratio is 83%. It means that when 1 unit increases in the perception of corruption in the country, the income inequality decreases by a factor of 83%; other variables are constants. This indicates that higher perceptions of corruption are associated with a lower probability of income inequality. In rural perceptions, there is a decrease in the odds of income inequality (odds ratio of 0.804) for every one-unit increase in the perception of corruption. Parallel, in urban perceptions, there is a decrease in the odds of income inequality (odds ratio of 0.861) for every one-unit increase in the perception of corruption. These results are statistically significant at the $p < 0.01$ level. The institutions perceptions of corruption within the state, such as state and local authorities, business executives, civil servants, journalists, and the media, are different from each other. The odds ratios for involvement in corruption among these different groups indicate their impact on the perception of income inequality. For some groups, such as state authorities, business executives, and local authorities, the odds ratios are not statistically significant, meaning that these variables do not have a significant impact on the perception of income inequality. In some cases, i.e., business executives, in the total group, there is a statistically significant relationship. For every one-unit increase in involvement in corruption among business executives, the odds of perceiving income inequality decrease by a factor of 0.186. In the rural and urban columns, the odds ratios for these variables are generally not statistically significant, indicating that involvement in corruption among these groups does not significantly affect the perception of income inequality. Similarly, a number of people believe that the local institutions (policy, teachers, and doctors) are involved in the corruption. In the total group, the frequency of ordinary people engaging in corrupt practices has a non-significant odds ratio (0.00396), indicating that it does not have a significant impact on the perception of income inequality. As well, in the rural and urban groups, the odds ratios for this variable are also non-significant, suggesting that the

frequency of such practices does not significantly influence the perception of income inequality. In total perception, for every one-unit increase in agreement that women are less corrupt than men, the odds of perceiving income inequality decrease by a factor of 0.0308. This result is statistically significant at the $p < 0.05$ level. Parallel, in rural areas, this relationship is also negative, with a decrease in the odds of perceiving income inequality (odds ratio of -0.0857) for every one-unit increase in agreement. This result is statistically significant at the $p < 0.05$ level, and in urban areas, the relationship is more pronounced, with a greater decrease in the odds of perceiving income inequality (odds ratio of -0.173) for every one-unit increase in agreement. This result is statistically significant at the $p < 0.05$ level. To conclude, the perceptions of corruption in the country and agreement on gender differences in corruption

CONCLUSION

The study aims to investigate the perception of income inequality and corruption. Pakistan is also facing these issues, such as those facing other countries in the world. The poor economic performance in Pakistan can be attributed to various factors, with increasing corruption being the most significant determinant affecting economic growth. Corruption is a consequence of institutional weaknesses that discourage a country's economic development. It shows a strong correlation between perceptions of corruption and income inequality. The higher levels of perceived corruption are associated with a lower possibility of perceiving income inequality, and this relationship is statistically significant. Therefore, gender differences in corruption also play a significant role in shaping perceptions of income inequality. The analysis shows that women are less corrupt than men. Similarly, the involvement of specific groups, such as state authorities, business executives, and local authorities, in corruption generally does not have a statistically significant impact on the perception of income inequality. These findings provide valuable insights into the multifaceted relationships among factors that influence public perceptions in the context of corruption and income inequality. The study suggests, based on the results, that the state government should prioritize anti-corruption,

enhance transparency and accountability, conduct public awareness campaigns, promote gender equality, and implement proper economic reforms. These policy recommendations, if implemented

effectively, can contribute to reducing corruption, addressing income inequality, and improving overall governance in Pakistan

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