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THE IMPACT OF OIL REVENUE ON THE ECONOMIC CORRUPTION IN IRAN*

Economic corruption is an international challenge. To fight it, we must understand its causes. We analyze the data from Iran over the period 1984-2010. Our analysis shows that oil revenue and economic corruption in Iran are correlated. Given that corruption is likely to hinder economic development and not enhance it, and that oil revenue is largely driven by international forces outside Iran, the possible causality (if the two are causally related) flows from revenue to corruption and not reverse. Our econometric tests support this inference. We estimate that a 1% increase in oil revenue leads to 15-43% increase in bribery, embezzlement and forgery. We emphasize that this result is not necessarily conclusive for all oil-producing countries, rather we stress on Iranian case, due to its rentier state and bad governance (especially under 2005-2011 administration).

Keywords: *Iranian economy; oil revenue; economic corruption; government size.*

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ВПЛИВ НАФТОВИХ ПРИБУТКІВ НА РІВЕНЬ ЕКОНОМІЧНОЇ КОРУПЦІЇ В ІРАНІ

У статті показано, що економічна корупція – проблема міжнародна. Для боротьби з нею необхідно розуміти її причини. Проаналізовано дані по Ірану за 1984-2010 роки. Аналіз показав, що нафтові прибутки та економічна корупція в Ірані взаємопов'язані. З урахуванням того, що корупція уповільнює економічний розвиток, а нафтові прибутки Ірану залежать переважно від зовнішніх чинників, потенційна залежність йде від прибутків до корупції, а не навпаки. Економічні тести підтверджують дане припущення. За нашими розрахунками, збільшення нафтових прибутків на 1% призводить до 15-43%-го росту статистики хабарництва, розкрадань та підробок. Необхідно підкреслити, що даний висновок стосується виключно Ірану, а не всіх нафтодобуваючих країн.

Ключові слова: *економіка Ірану; нафтові прибутки; економічна корупція; розмір урядового апарату.*

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ВЛИЯНИЕ НЕФТЯНЫХ ПРИБЫЛЕЙ НА УРОВЕНЬ ЭКОНОМИЧЕСКОЙ КОРРУПЦИИ В ИРАНЕ

В статье показано, что экономическая коррупция – проблема международная. Чтобы бороться с ней, необходимо понимать ее причины. Проанализированы данные по Ирану за 1984-2010 годы. Анализ показал, что нефтяные прибыли и экономическая коррупция в Иране взаимосвязаны. С учетом того, что коррупция замедляет экономическое развитие, а нефтяные прибыли Ирана во многом зависят от внешних сил, потенциально зависимость идет от прибыли к коррупции, а не наоборот. Экономические тесты подтверждают данное предположение. По нашим расчетам, увеличение нефтяных прибылей на 1% приводит к 15-43%-му росту статистики по взяточничеству,

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хищениям и подделкам. Необходимо подчеркнуть, что данный вывод применим исключительно к Ирану, а не ко всем нефтедобывающим странам.

Ключевые слова: *экономика Ирана; нефтяные прибыли; экономическая коррупция; размер правительственного аппарата.*

1. Introduction. Petroleum has ever been one of the most influential factors in economies of oil-exporting countries, including Iran. Because of its remarkable role in world industry, "black gold" can be enumerated as one of the most important constituents of demand of developed countries. The majority of oil producing countries share several characteristics that cause them to rely on oil revenue to finance their expenditures. First, they are not equipped for optimal usage utilization of this special product. Second, their governments are involved in considerable financial and economic corruption. Third, they, in both public and private sectors, have relatively low saving and investment rates. Finally, some of them, including Iran, suffer from inefficient taxation systems. This paper is to analyze the case of the Iranian economy. This is much more meaningful when we remember that we passed 101st anniversary of the petroleum discovery in Iran. The first petroleum extraction was done in 1909, in the Masged Soliman area in the south of Iran. Although Iran has benefited from petroleum for the last century, it lags behind even those countries that are devoid of this material. Accordingly, even after 100 years of petroleum utilization, the Iranian economy has not yet developed.

Economic corruption is a global problem, in which almost all countries are engaged (Khan, 2004; Deluca 2009). Corruption usually involves abusing the deployed power in order to maximize self-interest in public and private sectors. The root of corruption is referred to the Latin word "rumper" which means breaking, therefore, during corruption something will be broken – this may be formal law, moral law, social conventions etc. Nevertheless, the definition of corruption is not completely obvious (Jain, 2001; Vinod et al., 2000). Economic corruption causes waste of resources and leads to the efficiency decline in the whole economic system. The weight of corruption has been increasing in the XXI century. Some considerations here are appropriate. Firstly, other things being equal, increasing the openness of an economic system is a crucial factor in avoiding corruption. The more open the economic system is, the more transparent the government reports will be, the less will be economic corruption. Secondly, increasing the number of free press entities, independent political parties, non-government organizations, and other social control devices, can lead to higher disclosure of a government's activities, leaving less room for economic corruption. Thirdly, after globalization, international organizations have extended both vertically and horizontally their anticorruption efforts. Finally, much more reliance on market mechanisms in economic decision-making can be helpful for highlighting the seriousness of corruption.

Much more than 75% of public expenditures of Iranian government are financed by oil revenues and over 75% of Iranian foreign currencies belong to the same. On the other hand, the size of the Iranian government, especially under the current administration, 2005-2011, has increased. We label the current administration, "the strangest Iranian Administration, SIA", because, first, it misuses the economy, as the instrument for achieving its ideological goals. Second, by its nuclear program it has

engaged the country into massive international sanctions etc. These factors alongside with the increase in oil prices in the period in question were some of our inspirations to analyze the economic corruption in Iran.

2. Preliminary statistical analysis. Paying attention to some basic realities of the structure of the Iranian economy is helpful at the beginning of this section. One reality is that the Iranian economy suffers from the lack of a well-developed taxation system. Accordingly, public expenditures are financed by the petroleum revenues. The ratio of tax revenue to GDP in Iran is less than 6.5%, which is nearly the lowest in the world (Dadgar, 2010). Secondly, the Iranian government (especially under the current administration) is taking over the majority of economic units, and has crowded out the private sector. The government in question even construes banking as an instrument for achieving its ambitious goals (Dadgar and Naderi, 2010). Thirdly, the oil revenue is monopolized by the government, and finally there is a big bureaucratic system involved in oil revenues. So the meaningful relation between economic corruption and petroleum revenue in Iran is expectable.

Misusing oil revenue can make some distortions in socioeconomic systems both by increasing the government size, and by dichotomizing the government and private sectors. The government may rely on oil revenue instead of tax, and therefore needs no taxpayer citizens. Thus people become the servants of the government, which plays the role of a master. In usual circumstances people pay taxes for financing the government expenditures, thus they are the master of a government in principle. One symptom of corruption in the Iranian economy is the increase of embezzlement, bribery, and other fraudulent cases. Of course, when we rely on official reports on embezzlement, bribery and other fraud cases as indicators of corruption, our study may easily underestimate the real corruption, because some crimes are been reported officially. Nevertheless, even basing on the available data, the relationship between oil revenue and corruption is relevant.

As Figure 1 indicates, the oil revenue has increased from $140.77 mln. in 1984 to $151.51 mln. in 1989, corruption cases have increased from 8,792 to 16,646 cases during the same period. When oil revenue has increased from $337.51mln. in 1990 to $2,147.97mln. in 1994, corruption cases have increased from 19,217 to 38,681 cases during the same period. Oil revenue has increased from $2,943.12 mln. in 1995 to $4,417.4 mln. in 1999. At the same time, corruption cases have increased from 85,212 to 163,667 cases. The oil revenue has increased from $5,944.85 mln. in 2000 to 15,041.33 mln. in 2004, while corruption has decreased from 186,070 in 2000 to 176,863 cases in 2004. Oil revenues changed from $18,634.24 mln. in 2005 to $15,582 mln. in 2010, and the corruption cases changed to 256,990. Thus, with other things being equal, there is a positive relationship between the growth of oil revenue and of corruption cases.

Another reason behind the crucial feature of corruption in Iranian economy is the closeness of its economy. It has not been accepted for inclusion in the WTO, and international sanctions related to its nuclear program decreased the degree of openness of the Iranian economy even more. Regarding economic freedom, Iran was ranked 112 among 140 countries in 2009. Of course, if international centers, responsible for announcing these rankings, rely on SIA data, their declared rankings are not reliable, because the administration easily manipulates the data. Lack of private mass media in Iran aggravates the case much more seriously. There is only one radio-television system, which is monopolized by the government.

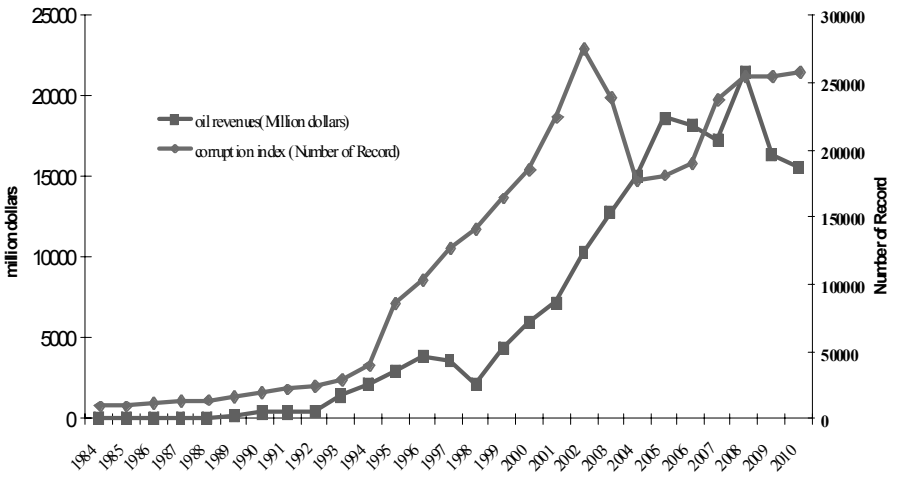

Figure 1. **Oil revenues and corruption index in Iran (1984-2010)**

Lack of well-developed political parties, independent magazines, newspapers, and the like, are other constraining factors in addressing the corruption in the Iranian economy. Accordingly, the level of meritocracy in Iran is in its worst. Increase in the corruption cases, therefore, from 8,792 in 1984 to 256,990 in 2010 could not be surprising. In other words, the corruption cases have increased 29 fold in 26 years. In addition, some other problematic situations in the Iranian case are: the increase trend of the inflation rate; declining purchasing power of the middle class, canalizing economic information towards semi-public economic units, non-transparent property rights and budgeting.

We use some standard measures to analyze the economic corruption. In addition to the World Bank indicator, Transparency International Organization (TIO) has introduced its corruption perception index (CPI) for different countries. It is based on financial corruption and financial safety (Graf, 2005; Vietor, 2007). The main factors affecting corruption include rapid propensity to use cash money in transactions; lack of guarantee for presenting required financial bills and other necessary financial documents; lack of professional and trusty personnel; lack of a meritocracy system for selecting key official authorities; absence of efficient and independent economic monitoring committees; lack of suitable and efficient accountability and absence of proper mechanisms for combating financial corruption. In addition, the extent of economic and financial corruption can be related to the dominance of monopoly and despotism. Surprisingly, Iran among 180 countries was ranked 173 in 2009 (Table 1). Although the ranking of #146 has been recorded since this country in 2010, we are not sure of its reliability, for the data in question have been documented from the official centers of the current Iranian government.

Table 1. **Corruption index in Iran (2004-2009)**

Year	2004	2005	2006	2007	2008	2009
Rank	88	93	106	133	142	173
Corruption Index	2.9	2.9	2.7	2.5	2.3	1.8

Source: Transparency International, 2004-2009

Table 2 shows the corruption index in oil producing countries, Iran including. According to the table, one can easily conclude that oil revenue is one of the basic factors affecting the corruption in these countries in general and in Iran in particular. As Table 2 shows, the conditions of Qatar, United Arab Emirates and Bahrain are better than Iran, because Iran is under a special rentier state. Government rent as a usual kind of corruption, causes decline in the innovative affairs (Barro, 1991; Baumol, 1990).

Table 2. **Corruption index ranking in oil producing countries**

Country	2000		2005		2007		2008		2009		Country	2000		2005		2007		2008		2009	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank		Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Qatar	-	-	5.9	32	6	32	6.5	28	7	22	Syria	-	-	3.4	76	2.4	142	2.1	150	2.6	128
United Arab Emirates	-	-	6.2	30	5.7	36	5.9	35	6.5	30	Indonesia	1.7	86	2.2	140	2.3	144	2.6	130	2.8	114
Bahrain	-	-	5.8	36	5	46	5.4	43	5.1	46	Russia	2.1	83	2.4	128	2.3	145	2.1	149	2.2	149
Oman	-	-	6.3	29	4.7	55	5.5	42	5.5	39	Angola	1.7	85	2	151	2.2	147	1.9	158	1.9	162
Kuwait	-	-	4.7	45	4.2	60	4.3	66	4.1	66	Nigeria	1.2	90	1.9	154	2.2	149	2.7	122	2.5	137
Saudi Arabia	-	-	3.4	75	3.4	80	3.5	81	4.3	63	Azerbaijan	1.5	87	2.2	137	2.1	150	1.9	159	2.3	143
Trinidad and Tobago	-	-	3.8	61	3.4	83	3.6	79	3.6	82	Ecuador	2.6	74	2.5	119	2.1	154	2	154	2.2	147
Gabon	-	-	2.9	91	3.3	86	3.1	94	2.9	108	Kazakhstan	3	66	2.6	110	2.1	155	2.2	145	2.7	123
Algeria	-	-	2.8	97	3	99	3.2	92	2.8	111	Turk-menistan	-	-	1.8	157	2	166	1.8	168	1.8	173
Argentina	3.5	52	2.8	98	2.9	106	2.9	109	2.9	106	Venezuela	2.7	73	2.3	136	2	167	1.9	165	1.9	167
Egypt	3.1	64	3.4	72	2.9	110	2.8	115	2.8	113	Congo	-	-	2.1	144	1.9	168	1.7	171	1.9	163
Vietnam	2.5	78	2.6	114	2.6	129	2.7	125	2.7	125	Guinea	-	-	-	-	1.9	170	1.6	173	1.8	170
Iran	-	-	2.9	93	2.5	133	2.3	142	1.8	172	Chad	-	-	1.7	159	1.3	173	1.6	172	1.6	175
Libya	-	-	2.5	122	2.5	134	2.6	131	2.5	132	Sudan	-	-	2.1	149	1.8	174	1.6	174	1.5	177
Yemen	-	-	2.7	106	2.5	137	2.3	144	2.1	157	Uzbekistan	2.4	79	2.2	143	1.7	176	1.8	169	1.7	174
Cameroon	2	84	2.2	138	2.4	138	2.3	149	2.2	146	Iraq	-	-	2.2	141	1.5	178	1.3	178	1.5	176

Source: Transparency International, 2000-2009.

Some studies show that corruption ultimately increases inequality (Murphy et al., 1993), and remarkable numbers of studies have proved the negative relationship between corruption and economic growth (Mauro, 1995; Aidt et al., 2008; Shao et al., 2007; Heckelman and Powell, 2008; Ebben and Vaal, 2009). One interesting point is that comparing governments with NGO organizations, corruption of the former has much more negative impact on economic growth than the latter (Knack and Keefer, 1995). Misusing oil revenues by a government worsens a friendship relationship between a government and social groups, which could potentially influence tax on system (Chaudhry, 1997, 143). Some studies demonstrate that the more corrupt

the government is, the less resources would be available for public health and public education (Cupta et al., 1998). Shortcomings of laws and inefficiencies of bureaucratic systems, especially in the process of issuing monopoly permissions, contain some corruption grounds as well (Tanzi, 1998). Some studies state that the higher economic growth is, the lower the economic corruption would be (Puldam, 1999). Other studies argue that economic corruption declines the investments (Johnson, 2000). Others show that the higher the inflation rate is, the more there would be corruption (Almarhubi, 2000). Some other research proves that income inequality is the basic factor for raising corruption is, (Jang-Sung and Khagram, 2005). Some studies prove that in Iran is, the more the corruption the higher the unemployment rate would be (Agheli and Vafaei, 2007). Another study indicates that the more the government expenditure in Iran, the more the economic corruption would be (Haghani, 2000). Another study proves there is a relation between tax burden and extending the "under economy phenomenon" in Iran (Nili and Maleki, 2006). Another shows that the more open the economy is, the less the corruption in Iran would be (Elmi and Sayadzadeh, 2008).

3. The possible relationship between oil revenue and good governance in Iran. We argue that bad governance in Iran (especially under SIA) is one reason which has led to the positive relation between oil revenue and corruption in this country. Thus, in this section we try to analyze the impact of oil revenue on some indices of good governance in Iran. The empirical study for Iran (Dadgar and Nazari, 2007) has demonstrated there is negative relationship between oil revenues and taxes in this country. This finding reinforces the negative relation between oil revenue and improvement of good governance in Iran. Iranian government, especially under SIA, did not pay any attention to improve good governance at all. Cancelling the Council of money and credit and Office of plan and budget is one strange decision of this administration. It indeed reinforced the government power and weakened the power of civil institutions. Crowding out the private sector from investments in housing is another decision which devastates the trend of good governance in Iran. Many shortcomings in communications via mobile phones and Internet for majority of people, non-transparency in economic reports, publishing the unreliable economic data, hiding high inflation and high unemployment rates are among other evidences of toughness with good governance in Iran.

Taking over so many companies by government and increasing the budget of state owned companies is one more factor behind the bad governance. The state owned companies are relatively less efficient than private ones, and state companies in Iran are main debtors to both government and banking system. Some studies show that due to the above circumstances, government dependents have obtained the monopoly privileges of importing some commodities including mobile phones, glass lens, automobiles, videos, televisions, and sugar (Aarabi, 2001). In addition, unreasonable Gini coefficient, zero or negative rate of economic growth, deficit of international balance, massive international tensions, and low compositeness of Iranian commodities at international markets are among other factors behind bad governance in Iran (Bashirieh, 2001; Katouzian, 2009; PBO, 2002).

Controlling the corruption itself is another meaningful index used to testify the situation of good governance in different countries. We have examined the relation-

ship between oil revenue and controlling the corruption in Iran as well. The results of our study show that this relation is negative. Dominance of government in the larger part of the economy, vagueness in property rights, massive trade limitations, lack of standard monitoring, apparent law breaching by government itself, full dependence of central bank on government can explain the negative relation between oil revenue and corruption control in Iran (Figure 2).Consequently,

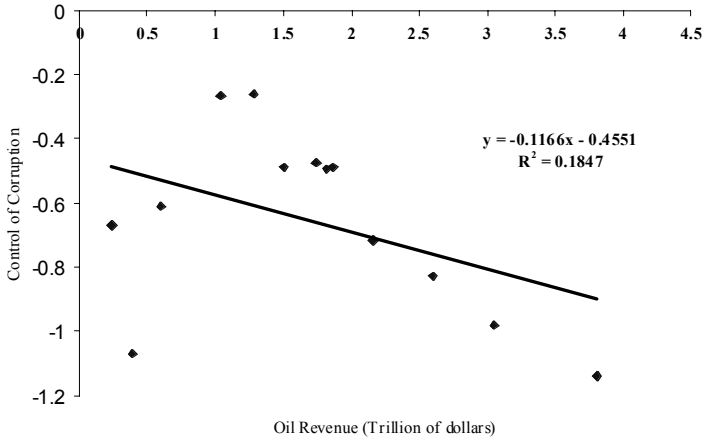

Figure 2. **Oil revenue and control of corruption in Iran (1996-2011)**

Figure 3 indicates there is a negative relationship between oil revenue and good governance in Iran. We repeat one point here and that is our study is about Iranian case and is not responsible for explaining the situation of every rentier state or any oil exporting country. Obviously, better utilization of oil revenues, rational public management, existence of civil institutions can change the results of such or similar studies.

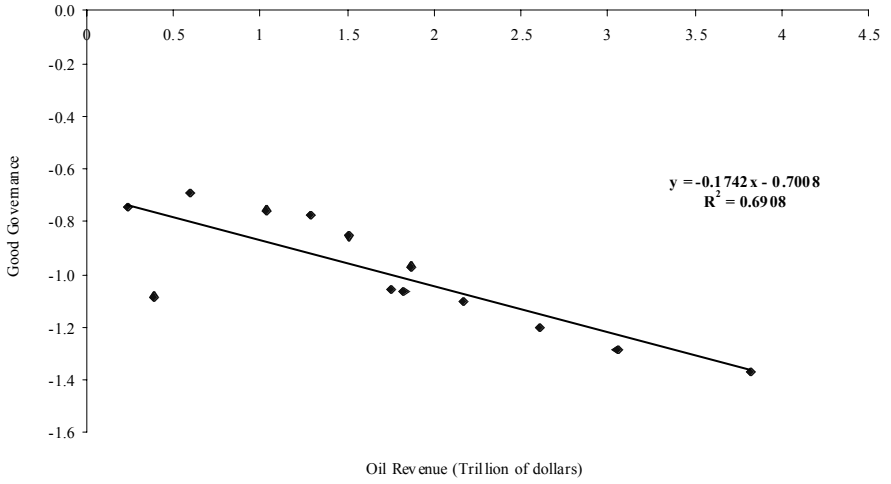

Figure 3. **Oil revenue and good covernance in Iran (1996-2011)**

4. Model building and analysis of the results. In order to empirically test the relationship between oil revenue and corruption in the Iranian economy, we analyze the behavior of the following variables: economic corruption as a dependent variable, oil revenue, Iranian GDP (without oil revenue), consumer price index (as proxy of inflation rate), and openness of economy, urbanization level, government size and Gini coefficient. We believe that, in addition to oil revenue, there is some relationship between corruption and each of the above variables as well. Our dependent variable (corruption) is based on the number of terminated and closed corruption cases (including bribery, embezzlement etc). Thus we are going to propose the following model:

$$LCORR_t = \beta_0 + \beta_1 LOILR_t + \beta_2 LYR_t + \beta_3 LCPI_t + \beta_4 LOPENt + \beta_5 DU_t + \beta_6 LINDUST_t + \beta_7 LGR_t + \beta_8 LGINI_t + \beta_9 U_t \quad (1)$$

where $LCORR_t$ is the logarithm of economic corruption variable, β_0 is intercept, $LOILR_t$ is the logarithm of oil revenue, *(2004=100)*[3], LYR_t is, the logarithm of gross domestic product (without petroleum), $LCPI_t$ is the logarithm of consumer price index (as proxy of inflation rate), $LOPEN_t$ is openness degree of the economy (ratio of combination of export and import on *GDP*), DU_t is the degree of urbanization, $LINDUST_t$ is industrial value added, LGR_t is government expenditure, and $LGINI_t$ is Gini coefficient (as proxy of inequality).

In processing the model we consider the following points: Firstly, as the standard of living of public and private staff are concerned, the higher the inflation rate is, the more uncertainty will be in their future and, possibly, the more involvement in economic corruption (bribery, forge, embezzlement etc). Thus, controlling the inflation rate can secure the standard of living as such, and reduce the economic corruption. Secondly, the degree of urbanization in our model, DU_t, can be calculated as:

$$DU_t = \frac{POP_t}{TPOP_t}.100$$

Where POP_t is the urban population and $TPOP_t$ is the total population. Generally speaking, the more urbanization, the more bureaucracy and, potentially, the more ground for economic corruption will be provided. Thirdly, as launching industrial units require government permit, economic and business units, to get permission (given the big size and inefficient bureaucracy in Iran), engage in economic corruption. Donating banking facilities, subsidies, granting government owned lands and the like can be enumerated among other government rents that could be given to industrial units. We use the value added of industries as a proxy for industrialization in our model. Finally, government size is one of our key variables here. This indicator is made of ratio of total government expenditures to GDP which reflexes the size of government as well. Meanwhile, the data for developing this paper are mainly provided by the Iranian Central Bank (ICB) and yearbooks of the Iranian Bureau of Statistics (IBS).Of course, some further data from independent research centers have been used as well.

Analysis of the results and the concluding remarks. We tried to test the stationary situation of data, thus we use DF and Augmented DF and also Phillips-Peron tests.

[3] Iranian price index during 2011 was based on the 2004 prices.

The results show the existence of unit root is confirmed with high level of certainty, consequently there is no "spurious regression" (Table 3 indicates the above results). We also test the Granger casualty of the variables basing on the following models:

Table 3. **Phillips-Peron and DF/ADF tests for unit roots and time trend (levels and first differences)**

Variables	Phillips–Peron				ADF tests			
	Level		First differenced		Level		First differenced	
	With intercept	With intercept and trend	With intercept	With intercept and trend	With intercept	With intercept and trend	With intercept	With intercept and trend
LCORR	-1.42	-0.76	-3.19**	-3.53**	-1.56	-0.40	-3.19**	-3.51**
LOILR	-1.50	-2.19	-4.92*	-4.86*	-1.47	-1.96	-4.92*	-4.84*
LYR	-0.30	-1.75	-2.54**	-2.53**	-0.32	-0.99	-2.54**	-2.53**
LCPI	-1.54	-0.69	-3.00**	-3.55**	-2.15	-1.40	-2.91**	-3.53**
LOPEN	-1.24	-2.55	-4.04*	-3.92**	0.69	-2.74	-4.09*	-3.98**
DU	0.82	-1.07	-4.47*	-4.36**	-0.38	-2.07	-4.47*	-4.36**
LINDUST	-0.004	-2.28	-3.27**	-4.09*	-1.05	-2.08	-3.32**	-3.71**
LGR	-0.19	-3.16	-4.04*	-4.07*	-0.08	-3.16	-4.08*	-4.09**
LGINI	-2.54	-2.56	-6.82*	-7.80*	-2.51	-2.56	-6.72*	-6.94*

Notes: *, ** mean to reject the null hypothesis of a unit root at 1% and 5% critical value respectively. The selection of the lags is based on the Akaike's information criterion (AIC) and Schwarz information criterion (SIC).

$$LCORR_t = \sum_{i=1}^{n} \alpha_i LOILR_{t-i} + \sum_{j=1}^{n} \beta_j LCORR_{t-j} + \varepsilon_{1t} \quad (2)$$

$$LOILR_t = \sum_{i=1}^{n} \lambda_i LOILR_{t-i} + \sum_{j=1}^{n} \delta_j LCORR_{t-j} + \varepsilon_{2t} \quad (3)$$

The results of Granger causality test for LOILRt and LCORRt is shown in Table 4.

Table 4. **Granger causality test for variables of the model**

X	Y	Statistic F	Probability	Hypothesis of zero
LCORR	LOILR	3.74	0.068	Rejected
LOILR	LCORR	14.57	0.004	Accept
Hypothesis of zero: X is not Granger causality Y.				

As Table 4 shows, oil revenue in Iran is Granger causality of economic corruption in this country. The results of the estimated model is shown in Table 5. As we see, all variables are significant and relevant at 95% (except government size which is relevant at 90%). The specification coefficients of models in question imply that independent variables explain 98% to 99% of the economic corruption changes.

The oil revenue coefficient is positively significant, accordingly; there is a positive relationship between oil revenue and economic corruption in Iran for the period in question. The more the oil revenue is, the more economic corruption would be. In other words, 1% increase in oil revenue leads to between 15%-43% increase in bribery, embezzlement and forging cases.

The negative coefficient of GDP without petroleum indicates that the higher the GDP without petroleum is, the less economic corruption would be. This result, in turn, reinforces our main hypothesis. The negative coefficient of openness variable also proves that the more open the economy is, the less corruption it would have.

Table 5. **Estimated Models (Dependent Variable: Corruption Index)**

Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
C	15.45 (5.24) *	13.74 (5.32) *	6.43 (5.24) *	17.78 (5.12) *	11.77 (9.18) *	11.05 (1.52)
lOILR	0.20 (2.29) **	0.43 (5.59) *	0.41 (4.02) *	0.15 (1.47)	0.39 (3.62) *	-
lYR	-1.03 (-2.68) **	-0.65 (-1.87) ***	-1.89 (-3.05) *	-2.05 (-3.88) *	-	-0.81 (-2.06) **
lCPI	1.06 (9.43) *	1.05 (10.79) *	-	-	1.07 (10.66) *	-
lOPEN	-	-0.84 (-3.68) *	-	-	-0.75 (3.19) *	-
DU	-	-	0.30 (6.93)*	-	-	-
LINDUST	-	-	-	0.99 (8.57) *	-	-
LGR	-	-	-	-	-0.55 (-2.39) **	-
LGINI	-	-	-	-	-	3.30 (9.34) *
ARMA	ARMA(0,1)	ARMA(0,1)	ARMA(0,1)	ARMA(0,1)	ARMA(0,1)	ARMA(1,1)
R-squared	0.98	0.99	0.98	0.98	0.99	0.99
Durbin-Watson stat	1.44	1.89	1.63	1.41	1.63	2.09
F-statistic	356.8	431.8	238.8	271.7	355.9	511.8

The t-statistics are given in parentheses. *,**, *** refer to 1%, 5% and 10% levels of significance. ARMA terms introduced to control problems of serial correlation are not listed.

Positive relationship between inflation, urbanization and industrialization with Iranian economic corruption are to be expected as well. Nevertheless, due to some structural shortcomings in the economic performance of Iran, as a whole, we can justify some ambiguities in the estimated values regarding government size. Consequently, we can conclude, and we believe, that downsizing the government is only one factor in reducing corruption, alongside with other factors. Meanwhile, we analyzed the situation of good governance in Iran for period in question. Our study indicates there is a meaningful relationship between oil revenue and good governance.

Although there is a positive relationship between corruption and oil revenue in Iran in the whole period we examined (1984-2010), the period of the current administration, 2005-2011, is witnessing the worst burden on the economy and has led to creating the most disordered fluctuations in that period.

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