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E-Mail: dujeds@fud.edu.ng

EFFECT OF ECONOMIC RECESSION AND CORRUPTION ON ECONOMIC GROWTH IN NIGERIA (1980 -2016)

IBRAHIM, A. Salihu — **Department of Economics, Nasarawa State University, Keffi - Nigeria**

HABIBU, Mohammed-Gani — **Department of Economics, Nasarawa State University, Keffi - Nigeria**

ABUBAKAR, O. Abdullahi — **Department of General Studies, Nasarawa State Polytechnic, Lafia - Nigeria**

Abstract
Public debates recently in Nigeria have recently focused on the increasing economic recession and rate of corruption on the economy of Nigeria which affects the economy negatively by reducing, inflation and increase rate of unemployment. This study empirically investigates the effect of corruption and recession on economic growth in Nigeria from 1970 to 2016. The study employed secondary data. The data were analyzed using econometric techniques, ordinary least square regression analysis. It was discovered that a slowdown in economic activities affects all aspects of national life and any jobs were lost, families usually adjust budget during recession and in the process, social activities are also affected. The result of the study revealed that both corruption and recession in Nigeria over the years have significant negative effects on economic growth in Nigeria. The study recommends among others that government should monitor its economic gains by ensuring that the benefits of development are measured by all and sundry. Monetary authority can pursue accommodating/easy monetary policy to stimulate economic activities and fiscal authority can pursue loose fiscal policy to bring economy back to growth from recession. Government can lower taxes on individuals and businesses thereby freeing additional resources to the household and businesses for consumption and investment.

Keywords: Economic Recession, Corruption, Economic Growth, Nigeria
JEL Classification: E32, D79 and O4

Introduction

Public debates recently in Nigeria have recently focused on the increasing economic recession and rate of corruption on the economy of Nigeria which affects the economy negatively by reducing, inflation and increase rate of unemployment. According to advanced learner's English dictionary "corruption is the act of changing from moral to immoral standard of behavior" .Corruption made itself is visible when the institution of the government was founded due the behaviour of people appoint or elect to manage the government institutions (Anyanwu, 2002; Idomeh, 2006). Corruption has recently become a major issue in foreign aid and Nigeria nation as a whole. Corruption is an ancient practice that has been traced back to pre-biblical time and made itself known in the ancient civilizations of developed and developing countries. Political and social corruption is not a recent phenomenon that pervades the Nigerian state. Corruption is a social problem that has interested many scholars. The major concern for inter-nation aid policy during the last five decades has been to improve the living condition for the poor in the poorest countries of the world. But governments in poor countries are also the most corrupt country due to high level of poverty. Treisman (2000) and Paldam (1999) cited in Jens and Odd-Helge (2001) states that the level of GDP per capital holds most of the explanatory power of the various corruption indicators. As a result, disappointed citizens might turn away from the state, retreat from political processes, migrate – or – stand up against what they perceive to be the corrupt political and economic elites.

Corruption is a disease, which eats into the cultural, political and economic growth of any country and as well destroys the functioning of various organs of the government. Transparency international (2005) opined that “corruption is one of the greatest challenges of the contemporary world which undermines good government, fundamentally distorts public policy, leads to the misallocation of resources harms the private sector development and as well hurts the poor”.

The need to study corruption and economic growth in Nigeria has continued to generate passionate commentaries and academic interest due to the level of corruption in the country and its effect on economic growth. In Nigeria corruption is one of the reasons for many unresolved problems that have critically hobbled and reduce development (Ayobolu, 2006). It also remains a long-term major political and economic growth challenge for Nigeria (Sachs, 2007). Abiodem (2007) in World Bank studies put corruption at over $1 trillion per year accounting for up to 15% of the Gross Domestic Product of nation like Nigeria. Corruption is a canker worm that has reduced development in all sectors of the economy (EFCC, 2005). Corruption has been the primary reason behind the country difficulties in developing fast (ICPC, 2006). Ribadu, (2003) states that this is the reason why transparency international has consisted rating of Nigeria as one of the top three most corrupt countries in the world.

Without doubt, corruption has pervaded the Nigerian society and in the words of Achebe “a one who can say that corruption in Nigeria has not yet been alarming is either a fool; a crook or else does not live in this country. The situation has become bad to the extent that as far back 1993, keeping an average Nigerian from being corrupt is like keeping a goat from eating yam” (Achebe, 1988). World Bank (2000) identifies corruption as the single greatest obstacle to economic and social development as it distorts the rule of law and weakens the institutional foundations which economic growth depends.

Corruption has also been described as a deadly virus that attacks the vital structures that makes for a society's progressive functioning. Corrupt practices span a wide spectrum, ranging from petty corruption whereby bribes are required before normal bureaucratic procedures are accomplished to large scale corruption whereby considerable sums of money are paid in return for preferential treatment or access. Corruption occurs in the political, economic and administrative spheres. Corruption is worse in countries where institutions, such as the legislature and the judiciary are weak, where rule of law and adherence to formal rules are not rigorously observed, where political patronage is standard practice, where the independence and professionalism of the public sector has been eroded and where civil society lacks the means to bring public pressure to bear (Lawal, 2007).

Obviously, in the case of developing country like Nigeria, where limited resources that are initially allocated for industries, hospitals, road construction, schools and other infrastructure are either out rightly siphoned, embezzled, misappropriated, or otherwise severely depleted through kickbacks and over invoicing by government officials. It is on this ground that this study is necessary. Following this introduction, the remaining subsection of the paper is organized as follows: Section 2 reviews the relevant literature. Section 3 presents methodology of the study. Section 4 presents the data collected. Section 5 concludes the study.

Conceptual and Empirical Review of Literature

The Concept of Recession

Recession is a business cycle contraction, referred to as a general slowdown in economic activities. During recession, there is usually a decline in certain macroeconomic indicators such as GDP, employment, investment spending, capacity utilization, household income, business income, and inflation, with attendant rising unemployment rate. Recession could be caused by two broad factors: internal (endogenous) and external (exogenous), and that recession has impact on the economy through its effect on business, financial markets, stocks and dividends, product quality, credit conditions and socio-political structures.

The Causes of Recession

Recession can be caused by two broad factors: internal (endogenous) and external (exogenous). The former is usually as a result of conflict of ideas, misapplication of economic theory and regulatory negligence or policy inconsistency. The Asian financial crisis of 1997-1998 was caused partly by internal factors; banks were lending abroad in pursuit of high profit margin, due largely to slow downs at home, desire to pursue development without due consideration of economic fundamentals, corruption, and structural and policy distortions. Other factors were the overheating of private sector and excessive investments in real-estate with non-commensurate returns. Defaults and losses on other categories of loans also rose considerably as the crisis expanded from the housing market to other sectors of the economy. Bankruptcy of several high rated investment banks started to panic on the inter-bank loan and stock markets and eventually, the bubble busted. This resulted in the fall of global GDP, rising unemployment and economic difficulties in many parts of the world (Kamar, 2012).

The external causes of recession have to do with factors that are exogenous to the economy over which policy makers have little or no control. Factors like natural disaster, climate change, revolution and wars. An agricultural economy could face crop failure resulting in general economic slowdown. Also, a mono-economy could suffer recession from international price shock for its product. The neoclassical economists are of the view that state interference in the market, labour union, monopolies and technological shocks are external causes of recession.

To another group, negative demand and supply shocks as well as deflationary macroeconomic policies are the main causes of recession. The negative demand-side shocks that affect the aggregate demand work through a global economic slowdown that impacts major trading partners of a country. In the case of Nigeria, when there is economic slowdown in the U.S., China, India and EU, it could have negative impact on the demand of Nigerian crude oil from these countries. As a result, government‟s revenue and spending would drop, taxes will rise, disposable income will fall and aggregate demand will fall, adversely impacting the production of goods and services. These developments would culminate in economic recession. Another source of negative demand shocks could be sharp appreciation of the domestic currency, which encourages import and discourage export of goods and services, and causes disequilibrium in balance of trade and deterioration in the balance of payments position.

Supply side shocks causes of recession result mainly from general increases in commodity prices such as crude oil, metals and other non-fuel inputs, foodstuff prices, etc. These factors are inflationary in nature. Inflation, which is the persistent rise in prices of goods and services, results because of high cost of inputs, which are usually transferred to the final consumers who can only afford less quantity because of higher prices. This lowers demand for goods and services, and reduces the standard of living, and ultimately depresses production of goods and services by firms. The macroeconomic policies work more or less like the internal factors discussed above. Here, when monetary and fiscal policies are not well coordinated it results to recession. During contracting growth or economic slowdown, taxes ought to be lowered, and government also ought to spend more to stimulate the economy. On the other hand, monetary authority ought to encourage borrowing by households and businesses by lowering interest rate. However, when the above policy mixes are not properly synchronized, it could further stifle the economy. Macroeconomic policies need to be complementary to achieve the desired result.

Effects of Recession on the Economy

A slowdown in economic activities affects all aspects of national life. A lot of elections are won and lost as a result of bad economic conditions. For example, like the current Nigerian President (Muhammadu Buhari) rode to electoral victory, because of the failures of the past administration and promised change to bring and worse ever corruption. Many job are usually lost families usually adjust budget during recession and in the process, social activities are also affected.

Business

When household incomes are cut as a result of economic slowdown, they reduce their demand for goods and services. As a result of low demand from households, firms reduce their production of such goods and services in order to cut cost and profit will decline. As a consequence of production fall, workers would be laid off, there will be no buying of new equipment, no funding for research and development, no new product rollouts and general business activities would also fall.

Financial Markets

The other sector that usually takes the heat during recession is the financial markets. Recession will lead to general fall in interest rate, crash of stock prices and rise in prices of some commodities (precious metal). Regulators usually lower interest rate in order to stimulate borrowing for investment that would lead to economic activities and growth. Most of the advanced economies of the world brought their interest rate to near zero during the GFC in order to stimulate economic activities through borrowing.

Unemployment

Recession has a devastating impact on employment worldwide. According to the International Labour Organization (ILO), at least 20 million jobs were lost by the end of 2009 due to the impact of the GFC, mostly in construction, real estate, financial services, and the auto sector, bringing the world unemployment above 200 million for the first time.

Social

Recession affects social life in some respects, from tourism to certain consumption of household. According to Zagat's (2009), U.S. Hotels, Resorts & Spas survey, business travel has decreased in the past year as a result of the recession. Thirty per cent (30%) of travelers surveyed stated they travelled less for business today while only 21 per cent stated that they travelled more. Reasons for the decline in business travel include company travel policy changes, dwindled personal economic fortune, uncertainties and high airline prices. Hotels were responding to the downturn by dropping rates, ramping up promotions and negotiating deals for both business travelers and tourists.

Concept Corruption

Corruption contributes immensely to inhibition of economic performance; it negatively affects investment and economic growth, which is detrimental to national development. If corruption discourages investment, limits economic growth and alters the composition of government spending, it automatically hinders future economic growth and sustainable development.

The Effect of Corruption on Economic Growth

Corruption increases the cost of doing business

First, bribes and drawn-out negotiations to bargain them add additional costs to a transaction. Second, corruption brings with it the risk of prosecution, important penalties, blacklisting and reputational damage. Third, engaging in bribery creates business uncertainty, as such behaviour does not necessarily guarantee business to a company; there can always be another competing company willing to offer a higher bribe to tilt the business in its favour.

On the macro level, corruption distorts market mechanisms, like fair competition and deters domestic and foreign investments, thus stifling growth and future business opportunities for all stakeholders. IMF research has shown that investment in corrupt countries is almost 5% less than in countries that are relatively corruption-free. The World Economic Forum estimates that corruption increases the cost of doing business by up to 10% on average. Siemens, the German engineering giant, had to pay penalties of US$ 1.6 billion in 2008 to settle charges that it routinely engaged in bribery around the world. A significant negative impact of corruption on a country's capital productivity has been proven *(Lambsdorff ,2003).*

Corruption leads to waste or the inefficient use of public resources

As a result of corruption, investments are not allocated to sectors and programmes which present the best value for money or where needs are highest, but to those which offer the best prospects for personal enrichment of corrupt politicians. Thus resources go into big infrastructure projects or military procurement where kickbacks are high, to the detriment of sectors like education and health care. Moreover, public tenders are assigned to the highest bribe payer, neglecting better qualified companies not willing to bribe, which undermines the quality of the projects carried out. In some instances public funds are simply diverted from their intended use, embezzled and exploited for private enrichment. Corruption also slows down bureaucratic processes, as inefficient bureaucracies offer more leverage for corrupt public officials: the longer the queue for a service, the higher the incentive for citizens to bribe to get what they want. Finally, nepotism - in both private and public organizations - brings incompetent people into power, weakening performance and governance.

Corruption excludes poor people from public services and perpetuates poverty

The poor generally lack privileged access to decision makers, which is necessary in corrupt societies to obtain certain goods and services. Resources and benefits are thus exchanged among the rich and well connected, excluding the less privileged. Moreover, the poor bear the largest burden of higher tariffs in public services imposed by the costs of corruption, as they have no alternative to the public offers. They might also be completely excluded from basic services like health care or education, if they cannot afford to pay bribes which are requested illegally. The embezzlement or diversion of public funds further reduces the government's resources available for development and poverty reduction spending. The significant impact of corruption on income inequality and the negative effect of corruption on income growth for the poorest 20% of a country have been proven empirically (Gupta et al. 2002).

Corruption corrodes public trust, undermines the rule of law and ultimately delegitimizes the state

Rules and regulations are circumvented by bribes, public budget control is undermined by illicit money flows and political critics and the media are silenced through bribes levering out democratic systems of checks and balances. Corruption in political processes like elections or party financing undermines the rule of the people and thus the very foundation of democracy. If basic public services are not delivered to citizens due to corruption, the state eventually loses its credibility and legitimacy.

A few of researchers has discussed the level of corruption on economic growth in both developed and developing countries. Such authors include Abiodum, Elijah and Obayelu (2007) that use descriptive survey and content analysis to investigate the effect of corruption and economic reforms on economic growth and development in Nigeria. It was revealed that there have been significant reductions in the level of corruption in Nigeria through the introduction of the anti-corruption team or instruments. But the study also found negative corruption between the levels of corruption and economic growth, thereby making it difficult for Nigeria to develop fast. This means that corruption in Nigeria reduces economic growth, efficiency and development despite the huge resources in the country. This is also because corruption reduces or create negative image in a nation and as well losses much needed revenue.

Rotini, Obasaju, Lawal and Ise, (2013) used ordinary least square (OLS) and granger causality method to determine the relationship between corruption and economic growth in Nigeria. The study observed that corruption impairs and impacts economic growth. The study fails to establish the level of impact of corruption on economic growth by stating whether it is positive or negative. Adewale, (2011) investigated the crowding out effects of corruption in Nigeria using parsimonious error correction mechanism and employed experimental research design approach for the data analysis and revealed that there is a negative relationship between corruption and output growth in Nigeria. The implication of this is that Nigeria government should introduce a national re-orientation program to educate people on the crucial need to eradicate corruption in all sectors of Nigeria economy and socio-political system. Akinpelu, Ogunseye, Bada, and Agbayangi (2013) examined the Socio-Economic Determinants of corruption in Nigeria using co-integration test and vector error correction model. The study discovered that there is a long-run relationship between conception and the social economic variables in Nigeria. This study falls to establish the level of relationship like whether significant positive or negative relationship which has policy implication in the short and long run. Mnhuda (2013) investigating the relationship between corruption, poverty and economic growth in Nigeria. The study employed regression analysis and granger causality test, it was discovered that there is an existence of cointegration chance tanging a long run causality relationship between corruption, poverty and economic growth in Nigeria.

Ade, Babatude and Awoniyi (2011) in the study of Corruption, foreign direct investment and Economic growth in Nigeria: An empirical investigation employing granger causality test and Ordinary Least Square Method in testing FDI inflow, corruption index, Exchange rate, Inflation rate, GDP for model one. For two, the variables are Gross Domestic Product, Government Expenditure, FDI and Gross fixed capital formation. The OLS result reveals that there is an inverse relationship between FDI inflow and corruption. This means that a large volume of FDI inflow is associated with a low level of corruption in the host countries. Exchange rate depreciation and inflation rate are significant determinations of FDI inflow in Nigeria. Also, there is a significant position.

Theoretical Review

Policy-Oriented Theory of Corruption

This theory was developed by Teveik, Albert and Charles (1986), in explaining the role of government in fighting corruption. They states that despite corruption frequent occurrence, government involvement in corruption has undergone surprisingly with its effect of the growth of the economy which needs serious investigation. The theory opine that he high level of corruption in any country whether developed or developing countries will not allow the country's economy to grow and that if the field of administrative corruption is to become more theoretical and less descriptive, it must develop a framework and methodology that will help to measure its effect on economic growth.

Economic Growth Theory

This theory was propounded in reactions to the deficiencies in the Solow-Swan growth theory by Lucas (1988); and Romer (1990). This theory as

propounded lay more emphasis on the long-run growth rate of an economy and on the basis of endogenous factors rather than exogenous factors of the neoclassical growth theory. The Solow-Swan model explains that the long-run growth rate of output is based on two basic exogenous variables such as population growth rate and level of corruption in the country. The growth theory emphasizes on technical progress resulting from the rate of capital stock, human capital development, reduction in corruption and investment rate.
Therefore, this theories, believes that economic growth is linked with improvement in productivity and reduction in corruption which ultimately result to a faster pace of innovation and extra investment in human capital. The theory predicted that externalities and spill over on corruption fight from developed countries will help to develop and maintain a competitive advantage in economic growth in Nigeria.

Methodology
The time series econometric procedures were used in order to examine the effects of corruption on Economic Growth of Nigeria from 1980 to 2016. There are four steps involved in estimating the relationships. The first step is to test the stationarity of the series or their order of integration, as the series need to be integrated in the same order. The second step is to examine the presence of a long run relationship among all variables in the equation.

However, the long run coefficients are estimated using the associated co-integration model, proposed by the Johansen et al. Once the co-integration is confirmed in the model, the causal relationship will be determine and lastly, the regression coefficient will be estimated OLS to examine the validity and reliability of these models.

Model Specification

GDP=f(CRPT,UR,DS,GE,INFL)………………………………………………….………………………. (1)

Where; GDP = Gross Domestic Product proxy for Economic Growth.
CRPT = Corruption,
UR = Unemployment Rate,
DS = Debt Stock,
GE = Government Expenditure and
IFL= Inflation

Stated explicitly

GDP=β0- β1CRPT -β2UR-β3DS+β4GE -INFL+ μt…………………………………….…..................... (2)

Where β0 is the intercept while β1, β2, β3, β4 and β5, are the regression coefficient of Corruption, Unemployment Rate, Debt Stock , Inflation rate and Government Expenditure. **μt** is the error term. It depicts external factors that affect the magnitude of growth rate that are not explicitly captured in the model. In this research work, the interest is not on **μt** that is other factors that influence the value of GDP growth rate. The interest is only concerned about the relationship between the structural compositions of corruption and other related variables that have a correlation with corruption and the GDP.

The log linear model specification for the analysis is given as;

LogGDP= βo- β1logCRPT- β2logUR- β3logDS+ β4logGE- β5logIFL+Ui……………………….………(3)

Where:
β0 is the intercept while β1, β2, β3, β4 and β5 are the slopes of the equation.

Apriori Expectation
B1, β2, β3, β5 <0 and β4> 0

Result and Discussion of Findings

OLS Estimation

The OLS estimated equation that explained the changes of the dependent variable GDP as a result of change in the independent variable is estimated in which the summary of the result is shown below;

GDP = 2.43E+10 - 7.47E+10CPI + 3.36E+09UR – 3434.441DS + 101352.3GE – 3639.112IFLR
Std. error (4.04E+10) (8.88E+10) (6.79E+09) (16297.50) (44037.81) (1286.53)
t-stat (0.600157) (-1.529780) (0.494480) (-0.210734) (2.301484)
Prob. (0.5518) (0.1339) (0.6237) (0.8342) (0.0267)
R-Squared = 0.373877, Adj. R-Squared = 0.311265, Durbin Watson Stat = 0.553283

Discussion of Findings

The major finding of this study reveals that corruption impacts negatively on economic growth as evidenced from the results of our analysis. This may cost the economy so much that development will be slowed down if not restricted. The causal relationship of the variables also shows that corruption impairs economic growth and that its consequences and effects are also on the increase. This is because based on the regression result, it clearly shows that a negative causal relationship really exist as it shown by the negative sign on the coefficient of the corruption index. Therefore, it is obvious that in a bid to minimize corruption in order to restore the fame and dignity of the economy making it an environment for rapid economic growth, the identified issues and problems of corruption setting back the economy over time must be seriously identified and tackled. The findings also shows that as the rate of unemployment are increasing, the Nigerian Economic Growth will keep on increasing as evidenced from the analysis with a positive sign. This is because if you look at most of the developed countries of the World now were no longer using labour-intensive method but the capital intensive method. So, instead of employing unqualified people into the different sectors of the Country as the employment criterion in the case of Nigeria is based on who you are and who do you know instead of based on merit, the Government should use the money to be spend on employing this type of workers and bring the modern machines that will do the work of the labourers in the country which will be on the side of boosting the economy.

On the other hand, the finding also reveals a negative effect of Debt Stocks on the Economic Growth of Nigeria as proxied to GDP within the scope of this study. Based on the finding as evidenced from the result of the analysis, any increase in the domestic debt of the country will led to backwardness in the economic Growth of the Country. This is because any country that so much depend on borrowing from Non-Governmental Agencies and other Countries of the World, it will surely end up on paying the Debt collected every fiscal year and instead of the country increasing the growth of it economic, it will be contributing to the economic growth of other country. Therefore, although no Country of the World will grow without the contribution of any Agency or Country, but if it under most that the country should borrow then the borrowing should be wise and with a concrete reason as in the case of security. Lastly, the findings also shows strong positive impacts of Government Expenditure on Economic Growth of Nigeria within the context of this study as evidenced from the regression result of the analysis. This means that Economic Growth of Nigeria to some extent depend on the Nigerian Government Spending on every fiscal year. Based on the result, it shows that if a good portion of the fiscal budget of the Country is allocated to the Capital Expenditure as against Recurrent Expenditure, where the money will be spend on construction (such Roads, Bridges, Dams, etc.), infrastructures etc instead of allocating the money to few percentage of Citizens who are unproductive to the Nation with the name allowances, the Country will Economic will be competing with the G-20 Economic Countries of the World.

Conclusion and Recommendations

Corruption is an enemy to every society and nation at large. It cripples economic activities and reduces the relevance and image of a nation as well as its people. Foreign direct investment is on a low rise because investors are skeptical about their investments in the country. Nigeria so endowed in natural resources, yet so poor. Instruments of monetary and fiscal policies can be used to counter recession and bring about economic growth economic development. Therefore, both corruption and recession has strong negative effects on economic growth in Nigeria.

In line with the findings from this study; both corruption and recession has effects on economic growth in Nigeria. The following policy prescriptions were suggested:

1. Government should remove it hands from any case charge against anybody and leave the case to the concerned authorities such like EFCC and ICPC.
2. Furthermore, government should monitor its economic gains by ensuring that the benefits of development are measured by all and

sundry as well as implementation of development projects should be properly monitored and investigated to avoid duplication in other areas where others have none, and ensure an even spread.

3. Monetary authority can pursue accommodating/easy monetary policy to stimulate economic activities. This is a situation where monetary authorities lower the cost of credit. This can be achieved by lowering interest rate, and lowering of eligibility conditions for banks to access the monetary authority's window. When monetary authority lowers interest rate, it is to encourage individuals and businesses to borrow more funds to finance consumption or expand productive capacity. Individuals and businesses pay less interest on borrowing thereby making it possible for them to repay the interest and the principal amount borrowed. When consumption increases, companies produce more, hire more workers and buy more raw materials for production, and in the process stimulate economic activities that would end recession.
4. At other times, monetary authority can also embark on unconventional monetary policy or quantitative easing (use of things other than interest rate and market forces to affect money supply) to stimulate the economy. This is done when monetary authorities inject money into the banking system to shore up banks‟ balance sheet or by buying government securities from the secondary market (market where securities like bonds are traded), thereby injecting money into the economy to stimulate activities.
5. Fiscal authority can pursue loose fiscal policy to bring economy back to growth from recession. Government can lower taxes on individuals and businesses thereby freeing additional resources to the household and businesses for consumption and investment. Another instrument at the disposal of government is to increase their spending in real activities during recession to bring about growth. When taxes are lowered for individuals and businesses, extra money is made available for consumption or investment. If consumption rises, businesses spend more to produce additional goods and services, which would result in more employment and results ultimately in increased economic growth.
6. Government could also embark on essential structural reforms in order to improve transparency and stability of both financial system, and fiscal activities to restore confidence in the economy during recession.

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