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# Institutions and Political Corruption: A Framework

## 1.1 Introduction

A question of fundamental importance for the health and longevity of democratic governance is how the format of institutions may be fashioned to prevent electoral victors from drawing on the resources of the state to perpetuate themselves in power. For the citizens of the world's so-called third-wave democracies, recently emergent from the dark shadow of military government and rule by fiat, this question has established itself as perhaps *the* core democratic dilemma of the early twenty-first century.

The considerable moment attributed to this question in new democracies arises from the fact that these republics are generally characterized by a significant overlap between the electoral and bureaucratic domains of the polity. This overlap manifests itself in a coalescence of bureaucratic and political careers, dual loyalties to the conflicting missions of state organs and political patrons, and when said loyalties become skewed in favor of the latter, the illicit redirection of public resources into political activity. The consequence of this perverse conflation of political and bureaucratic power is that the bureaucratic apparatus in many developing countries – with much greater potential for good or ill than its counterpart in the industrialized world – often abdicates its role as a catalyst for economic development and social equity.

The potential conflict between the practice of democratic politics and the development of a modern and effective state bureaucracy has long been of great concern to students of political development. No less an authority than Max Weber suggested that "democracy creates obvious ruptures and blockages to bureaucratic organization" (Weber 1946, 231). By this he meant that the cornerstone of modern bureaucratic organization in the nation-state, the separation between the political leadership entrusted

with shaping policy and the personnel charged with enacting it, may be undermined both by democratic principles and the exigencies of political competition. In principle, Weber thought, democracy's egalitarian disposition proscribes the emergence of an insulated caste of public officials, making it difficult to limit dismissal by election to a narrow band of public servants at the top of the administrative hierarchy. In practice, political parties may be tempted to use the posts and resources of the state bureaucracy to bolster their electoral support.

Deeply troubled by Weber's premonition about the inherent tension between efficient administration and democratic politics, in this book I examine how changes in formal institutions – the written, codified rules of the game – may affect one of the great scourges of democratic representation: political corruption. The broad aim of this text is to provide a general theoretical framework by which to clarify the costs and benefits engendered by specific institutional reform proposals on the level of corruption. The more narrow aim is to examine how certain key features of democratic institutional design modify the incentive structure of political and bureaucratic actors in ways that contribute to the level and form of political corruption found in a given polity.

Which features of democratic institutional design demand attention in a book dedicated to understanding political corruption? There is no lack of options to choose from. The contemporary democratic experience contains a nearly infinite variety of potential configurations of institutions that determine the manner in which the ruled delegate power to (or rescind it from) their rulers. Modern democracies differ along such dimensions as the manner in which the executive is selected and dismissed, rules that delimit the executive's ability to initiate legislation, stipulations for reelection to legislative and executive offices, the number of legislative seats up for grabs in electoral districts, and the manner in which citizens cast their votes – just to name a few widely studied components of democratic institutional structure.

In deciding which aspect of democratic institutional design to focus on, I adopted a pragmatic approach. I chose to cast my sails for waters where the policy debate is both pressing and unresolved and where the academic debate is active and highly contested. These criteria led me naturally to focus on the impact of ballot structure, specifically a move from an open-list proportional representation electoral system to a closed-list proportional representation system (or vice versa). In the parlance of contemporary social science, this is the study's primary independent variable. The impact of a reform in ballot structure, in turn, is evaluated in

terms of its effect on political corruption. This is the study's dependent variable.

*Ballot structure* refers to the way in which citizens cast votes for candidates to legislative office; depending on the structure of a polity's constitution, such offices may be found at the national, state, or municipal level. In the various polities of the world, one can find a wide variety of mechanisms by which such votes are cast. However, in the Latin American context – the principal focus of this study – two means of electing candidates to the legislature have traditionally dominated: multiseat, proportional representation elections combined with closed lists, in which political parties establish the rank ordering of their candidates before legislative elections are held, and multiseat, proportional representation elections combined with open lists, in which voters can indicate their preference for particular candidates within a party list. This relatively fine-grained difference in the way in which legislators obtain their seats may not, at first glance, jump out at the casual reader as an obvious cause of major differences in the quality of democratic representation found across polities. And yet, according to hundreds of political activists, commentators and politicians in Latin America – as well as numerous political scientists around the globe – this subtle institutional variation makes all the difference in the world.

In a public debate organized by the Brazilian newspaper *Folha de São Paulo* and the Instituto de Direito Político e Eleitoral on September 15, 2005, Federal Deputy José Eduardo Cardozo (PT-SP) encapsulated the view of many Brazilians when he referred to Brazil's open-list version of proportional representation as "the entryway of corruption," particularly corruption related to the financing of political campaigns ("Parlamentares defendem voto em lista fechada," *Folha de São Paulo,* September 19, 2005, p. A-14). This position was seconded by Federal Deputy Ronaldo Caiado (PFL-GO) (sponsor of a political reform bill that sought, among other things, to transform Brazil's electoral system from an open-list system to a closed-list system), who referred to Brazil's electoral system as "an open door for *caixa dois* [illicit campaign financing] and campaign bagmen" (translation mine). Such discontent with open lists in Brazil permeates the popular discourse. Newsweeklies such as *Veja*, for instance, have decried open lists in Brazil for producing extraordinarily expensive campaigns that make "corruption inevitable" ("O Marketing e a Corrupção," *Veja,* August 31, 2005, pp. 40–49).

Strong feelings about ballot structure can be found elsewhere in the Americas, however, and not necessarily in the same way as they are found

in Brazil. On May 17, 2004, more than a dozen Argentine nongovernmental organizations (NGOs) and civil society organizations – grouped under the banner of the movement Reforma Política YA! (Political Reform NOW!) – delivered half a million signatures to Argentina's Senate president in an effort to bring about the end of that country's system of *listas sabanas*, or closed-list proportional representation ("Scioli recibío proyectos de una ONG," *La Prensa*, May 18, 2004, p. 3). According to these groups, closed lists in Argentina are an important contributor to systematic patterns of machine politics and corruption especially prevalent in the provincial-level politics of that country.

The strongly differing perspectives of activists and policy makers on the merits of open versus closed lists – exemplified by the debates in Argentina and Brazil – are reproduced in much academic work on the subject. One strand of thought in the literature, in line with the arguments of many reformers in Brazil, suggests that open-list systems tend to produce greater levels of corruption than their closed-list counterparts. This is so purportedly because open lists spark intense intraparty competition, which, in turn, encourages high levels of personalism in legislative campaigns, thus magnifying their cost and increasing the attractiveness of accepting illicit monies to cover campaign expenses (cf. Mainwaring 1991; Chang 2005; Golden and Chang 2001). Another strand of thought in the literature, more in line with the arguments of reformers in Argentina, suggests that closed lists produce more corruption than open lists. The argument here is that closed lists prevent voters from singling out and punishing individual representatives for bad behavior in office, whereas open lists, which allow for individual preference votes, do provide voters with the ability to reward or punish specific legislators (cf. Persson, Tabellini, and Trebbi 2003; Kunicová and Ackerman 2005).

In light of this state of affairs, a focus on the impact of ballot structure on political corruption seems warranted first, because millions of citizens in the Americas believe that it makes a difference in terms of the degree to which corruption mars political life, second, because much serious academic scholarship also claims that ballot structure has an important impact on corruption, and third, because political reform proposals advocating the reorganization of ballot structure are already on the table – yet no consensus exists as to whether it is open or closed lists that produce greater levels of corruption. It is clear to many that ballot structure matters. Precisely how it matters is much less certain. Obviously, there is much to be gained by careful reflection and analysis of the precise forms by which ballot structure exerts an influence on political corruption.

Having established the intrinsic importance of understanding how changes in ballot structure may induce changes in political corruption, the question remains as to how one might best frame one's analysis of the impact of institutional reform. The very fact that the policy debate on ballot structure and corruption features such radically opposing viewpoints suggests that something may be missing from existing frameworks used to think about the consequences of variation in democratic institutional design. I would submit that this *something* can be captured in a single phrase: the bureaucracy.

To the extent that we seek to account for differences across polities in the degree to which state resources are illicitly deployed for the purpose of electoral competition – what I understand to be the essence of political corruption – then it stands to reason that we ought to pay attention to the state and the people who inhabit it. This means that focusing on the behavior of nonelected public servants is at least as important as focusing on that of elected ones and that understanding the mechanisms of illicit exchange between bureaucrats and politicians – and the role that institutions play in mediating these mechanisms – is crucial.

With these concerns in mind, this book adopts a novel approach for thinking about the consequences of restructuring democratic structures, one that is attentive to the crucial role of the bureaucracy in the political life of many developing countries. Borrowing the language of microeconomics, I refer to the approach as a *general equilibrium account of institutional change*.

In its traditional usage, *general equilibrium* refers to the establishment of an equilibrium schedule of prices and output levels for a set of goods produced in the context of interdependent markets (cf. Samuelson 1947). My use of the term in this text is conceptually consistent with this definition but novel in terms of the realm of application. Motivated by the overlap of bureaucratic and electoral activity in the developing world in general and Latin America in particular, I adopt the label to describe equilibrium political and bureaucratic behavior in the context of polities in which (1) public bureaucracies are highly politically penetrated and (2) electoral outcomes are highly contingent on the allocation of state resources. The interdependent markets of concern in this book, then, consist of the electoral arena and the bureaucratic arena.

The book conceptualizes the long-run steady-state behavior of political and bureaucratic actors as emerging from highly interdependent decision processes, in which the return to courses of action in one arena of the polity depend on the decisions made in the other. Such a view has

important implications for the analysis of institutional reform in both the electoral arena (e.g., party and electoral law reform) and the bureaucratic arena (e.g., "accountability" reforms within the bureaucracy). Among these is a greater appreciation of the considerable contingency of institutional reform, that is, the fact that the impact of institutional change in one arena will depend n the institutions that characterize the other. Equally important is a deepened understanding of the often subtle mechanisms by which institutional reform exerts its impact. It is in this last respect, the heightened appreciation for the nuance and subtlety of institutional change, that this work parts ways with much of the "new institutionalist" literature that has come to dominate the study of the quality of government in developing countries.

In terms of understanding the overall impact of a reform in ballot structure – a reform that, in essence, modifies certain rules in the electoral arena – the general equilibrium approach counsels us to consider not only the ramifications of such a change for the behaviors of parties and politicians on the campaign trail or in the legislature but also to consider how such change might modify the interactions between actors in the political and bureaucratic arenas and thus the particular channels by which the resources of corruption are actually generated. In this sense, by focusing explicitly on the consequences of variation in political institutions on bureaucratic behavior, this book represents a fairly radical break from standard analyses of corruption in political science, which have tended to concentrate most of their analytical energies on the consequences of institutional variation for the behavior of politicians or voters.

Drawing on the general equilibrium perspective, the core claim of this text is that a reform in ballot structure is likely to produce countervailing causal effects that, in the end, may cancel each other out. On the one hand, a rich body of theory and empirics in comparative politics has established that electoral systems that encourage high levels of intra-party competition, such as open-list proportional representation, produce costly campaigns and generate a high demand among legislative candidates for electoral resources. Throughout this book I take the findings of this work – which establish a demand-side linkage between ballot structure and political corruption – as given. On the other hand, the text is dedicated to establishing – both theoretically and empirically – that an alternative channel between ballot structure and political corruption exists. This is accomplished by providing an in-depth examination of the consequences of electoral rules for the industrial organization of corruption within the bureaucracy. In this regard, the book shows that electoral systems that

invest significant discretionary power over political careers in the hands of the party leadership, such as closed-list proportional representation, tend to be characterized by robust and well-disciplined political corruption networks within the bureaucracy. In such contexts, the extraction of resources from the state is facilitated. This is the supply-side linkage between ballot structure and political corruption.

Given the identification of these distinct causal pathways, one can conclude that a reform in ballot structure will engender two distinct effects that work at odds with one another: a demand-side effect that refers to the impact of ballot structure on candidates' demand for the resources from corruption and a supply-side effect that refers to the impact of ballot structure on the ability of political actors to extract resources from the state. The upshot is that even though ballot reform has important effects on political corruption, these effects may be more of form than of overall level. This being the case, policy makers and citizens deeply concerned with corruption may be best served by placing other reform proposals foremost on the policy agenda.

This is a book that advances general claims about the impact of institutional reform on political corruption. As such, it speaks to a broad body of work in political science on the relationship between institutions and the quality of government. At the same time, this is a book deeply seeped in the area-studies tradition. As such, it seeks to increase knowledge about bureaucratic quality and the scope of political corruption within the state in a particular region of the world: Latin America. In this regard, specific propositions that emerge from this book's conceptual framework are subjected to extensive statistical tests using data from a large-scale public employee survey I conducted in three countries in the region: Bolivia, Brazil, and Chile. In total, nearly 3,000 public employees in 30 different institutions in three different countries participated in the project. This was one of the largest corruption surveys ever conducted and the first to use a specific survey methodology, randomized response, to guarantee the anonymity of respondents regarding highly sensitive questions. The choice of Latin America as the geographic domain of this book is not coincidental: perhaps more so than other regions of the world, the Latin American experience cries out for a general equilibrium treatment of political reform.

In sum, this book very much shares in the spirit of institution-oriented scholarship, which proclaims, with a wealth of empirical evidence under its belt, that political "institutions matter" for the quality of democratic governance in the developing world (Lederman, Loayza, and Soares 2005). Yet I would hasten to add an addendum to this statement. Institutions and

institutional change matters, to be sure, but they often matter in rather subtle ways and may even produce countervailing effects not readily apparent on the institutional architect's drafting board. An emphasis on general equilibrium rather than partial equilibrium can help to bring the subtleties of institutional change out into the light. Armed with a conceptual framework attuned to the interdependency of electoral politics and the bureaucracy in the developing world, we can better understand the totality of consequences entailed by political reform.

## 1.2 Defining the Terms of the Debate

No progress can be made in explaining the incidence of corruption, from a general equilibrium approach or otherwise, until we have established a concrete definition of the phenomenon we seek to explain. This is a matter of no small consequence: some of the most methodologically sophisticated studies of corruption have been bedeviled by a certain degree of ambiguity regarding the precise nature of the dependent variable. Here I hope to clarify what corruption is (and is not) and to further specify the particular form of corruption with which this text is concerned.

In classical political thought, corruption was principally used to denote the deviation of the moral and political order from an ideal state of purity (Dobel 1978). It was from this vantage point that Aristotle refered to tyranny as the corruption of monarchy, oligarchy as the corruption of aristocracy, and so forth (Aristotle, *Politics*, 3.7, p. 79, trans. Ellis). The core division between the corrupted regime and its ideal, unspoiled counterpart was the degree of public spiritedness with which the polity was ruled.

Heavily laden with a focus on the moral quality of the intentions of political actors, the classical conception of corruption brings to mind Saint Bernard of Clairvaux's time-honored admonishment that the road to hell is, in fact, paved with good intentions. Because the world is inhabited by men and women with a nearly infinite diversity of viewpoints about what constitutes the common good, the classical conception seems much too generous in terms of behaviors it would exclude from the rubric of corruption. A president buying the votes of deputies in Congress to shore up support for his legislative program, to take one example, would not be engaged in corruption according to the classical definition as long as he felt that said program was in the country's best interest. Neither would a mayor funneling kickbacks on municipal contracts to his party leadership for use in upcoming elections as long as he felt that a good showing by his party was in the national interest, not just his own.

Because it is axiomatic that politicians are highly invested in attaining and maintaining power, and probably most feel that their having such power is good for their country, if not for themselves, excluding such crimes of power from the definition of corruption is much too limiting. Moreover, absent a window into the thoughts and desires of public officials, the classical conceptualization of corruption makes operationalization impossible. We cannot know corruption when we see it because we can never see it – it manifests itself not in particular actions but primarily in the mental state of the relevant actors.

With these limitations of the classical conception in mind, many scholars have adopted a definition of corruption that emphasizes process and formal roles and lends itself more readily to operationalization. This is the so-called public-office conceptualization of corruption. The work of Joseph Nye provides a good example of such a view:

> Corruption is behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence. (Nye 1967, 419)

From this perspective, the moral value of an agent's intentions is absent from the metric of corruption. The behavior of a public official either corresponds to the relevant set of rules or guidelines or it does not. Lack of public spiritedness and high regard for personal benefit may produce behavior that can be categorized as corrupt, but only because the specific actions of public servants exceed certain thresholds of permissible conduct, not because of the psychological state of the actors nor due to any lack of loyalty to the polity.

I adopt the preceding definition of corruption in this text with one very important distinction – I reject the notion that pecuniary or status gains are necessarily the primary motivating factors driving corrupt behavior.[1] The

[1] For many researchers, especially those whose work is in the anthropological tradition, definitions of corruption that emphasize formal rules or procedures are considered highly problematic. Such scholars have noted that a set of equivalent behaviors might be given a very different status under different legal frameworks (Scott 1969a). If taken to the extreme, a strictly legalistic conceptualization of corruption might threaten to produce a stream of works documenting little more than commonalities and differences in legal statutes with little relevance for understanding the causes of variation in important behavior regularities across polities. Ultimately, the relevance of this critique depends on the domain of the analysis to be conducted. It is especially relevant for scholars who seek to understand the origins of variation in corrupt practice in different time periods or in radically different cultural contexts. However, for scholars engaged in studies such as this one, where the

misguided emphasis on these two stimuli is an error in the conceptualization of corruption that has been reproduced many times in empirical work and one that has had substantial influence on how corruption is measured. The deficiency is perhaps best illustrated by the unfolding pages of recent history: the major corruption scandals that have rocked countries as diverse as Brazil, Canada, France, Mexico, and South Korea in the years preceding the writing of this document have only peripherally, if at all, involved the use of public resources for the purpose of personal enrichment. Rather, these cases have revolved principally around the exigencies of financing political activity – political campaigns and party operating expenses – and the degree to which the assets or power of the public administration has been used to cover such expenses. Not only does a focus on pecuniary gain paint an incomplete picture of the type of behavior one might reasonably consider corrupt, but it also misses the central component of much of this behavior.

A general definition of corruption should be expansive enough to cover activity oriented toward personal enrichment as well as activity oriented toward political advancement. Herein *corruption* is defined as behavior on the part of public officials, elected or nonelected, that advances either an individual's or group's financial well-being or a political goal through the misuse of the authority or resources of an official position.

Conceived of in this way, corruption can be disaggregated into two components: personal corruption and political corruption. *Personal corruption* simply refers to the first part of this definition: the abuse of public office for the economic benefit of the officeholder and/or those close to him or her. *Political corruption* refers to the second part of the definition: the abuse of public office to advance a political goal. More often than not, advancing a political goal entails using public resources directly or indirectly to support a particular candidacy, faction, party organization, or coalition. The lion's share of examples discussed in this book consist of precisely such behavior. Note, however, that the definition is broader than this: using public monies without the necessary authorization to support foreign fighters engaged in a sympathetic cause would qualify, as would the misappropriation of funds from the defense budget to pay for school lunches.

Readers are forewarned that the definition of political corruption provided here is different from that which they might find in other sources. Transparency International (TI), a Berlin-based NGO dedicated to the fight

domain of analysis consists of contemporary democracies with similar legal traditions in a single region of the world, such concerns do not seem particularly consequential.