

I

Introduction

Andimuthu Raja's arrest came on February 2, 2011. After being called in for questioning by India's Central Bureau of Investigation in the morning, he was detained later that day and placed in Delhi's notorious Tihar Prison. This marked the apex of a scandal that one journalist described as setting "a new national benchmark for corruption caused by the nexus between politics and business."¹ As India's communications minister, Raja had overseen the sale of 2G mobile spectrum licenses in 2008. Auditors accused the ministry of a plethora of violations: The implementation of the sale deviated from the procedure approved by the cabinet, and licenses were significantly undervalued. Deadlines were arbitrarily changed on short notice, eliminating companies without prior knowledge. Applications by others were processed even though documents were fake or missing.² Auditors concluded that the losses to the state, and the gains for telecommunications companies, were as high as \$40 billion. But the corporations were not the only one's who received a windfall: Raja is suspected of having pocketed millions for himself.³

Former US Congressman Walt Minnick also had a close relationship with the business sector and received a lot of money from it. He admitted that he spent "two or three hours a day as a congressman trying to raise money" because he "needed to raise \$10,000 to \$15,000 a day."⁴ Minnick

¹ "Spectrum Shadiness," *Caravan Magazine*, December 1, 2010.

² "Performance Audit of Issue of Licences and Allocation of 2G Spectrum of Union Government, Ministry of Communications and Information Technology," *Comptroller and Auditor General of India*, November 16, 2010.

³ "A Raja Made Rs 3,000cr in Bribes," *Times of India*, February 11, 2011; "Indian Authorities Arrest Ex-Telecoms Minister A Raja," *BBC News*, February 2, 2011.

⁴ "461: Take the Money and Run for Office," *This American Life*, March 30, 2012.

did not even wait to take office before he tried to capitalize on it. Only five days after he won his election in 2010, a couple of months before being sworn in, he was already busy making calls asking people to pay up. Two years later, the first-term representative with little clout in the legislature had amassed more than \$2.6 million.⁵ The major difference between Raja and Minnick is that whereas the former enriched himself personally, the latter spent the millions he raised on his reelection campaign to try to stay in office.

Finally, in September 2005, the heads of Russian and German energy companies signed an agreement to build a new gas pipeline through the Baltic Sea that was large enough to deliver almost 70 percent of Germany's annual gas supplies. Construction costs were estimated to exceed €4 billion (about \$4.9 billion given the exchange rate at the time). Both German Chancellor Gerhard Schröder and Russian President Vladimir Putin signed off on the project. Schröder did so despite considerable opposition at home and abroad. For example, the Polish prime minister lamented that “we were not able to convince the Germans that this is bad for them.”⁶ Schröder left office two months later. Only seventeen days thereafter, he accepted the position of chairman of the board of Nord Stream, the consortium building the pipeline, with an estimated salary of several hundred thousand dollars per year.⁷

All three cases are examples of elected politicians taking large sums of money. They all illustrate the potential for such money to influence policy in a way that runs counter to the preferences of the majority of voters, thus highlighting a fundamental tension in democratic politics. But they differ in *how* the politicians used the money. Raja enriched himself while in office, Minnick financed his reelection campaign, and Schröder accepted a lucrative “golden parachute” job after leaving office.

Why did these politicians use the money they had access to in different ways? Is it because of their arbitrary personal preferences, or are there more systematic underlying reasons? If there is a pattern, is the presence or absence of these different types of money in politics independent of each other and driven by separate causes? Or, if the forms are connected, can they be explained by common factors? Under what conditions is each type present, and does having less of one form mean there is more of another?

⁵ “Rep. Walt Minnick – Campaign Finance Summary,” *Center for Responsive Politics*.

⁶ “Polen sind sauer über Ostsee-Pipeline,” *Stern*, September 8, 2005; “Gaspipeline vereinbart,” *Zeit Online*, September 8, 2005.

⁷ “Schroeder Accepts Russian Pipeline Job,” *Washington Post*, December 10, 2005; “Die Gerhard-Schröder-AG,” *Manager Magazin*, April 9, 2010.

What does this imply for the effectiveness of regulation designed to limit money in politics? And what difference does it make for a democracy if politicians enrich themselves while in office, raise money to try to stay there, or cash in on their position after leaving it?

1.1 ARGUMENT: THE SYSTEM OF MONEY IN POLITICS

In this book, I answer these questions by arguing that the most common ways in which politicians use money – for self-enrichment, to fund campaigns, and by accepting golden parachute jobs – are all part of a *common system* and should therefore be analyzed in a *single framework*. My approach is distinct from most prior studies, which tend to either examine money in politics in a comparative manner, but without distinguishing between different types, or explore one form of money while ignoring the others, typically in a single country. Here, I look at *several* types of money in politics *together* while taking an explicitly *comparative* perspective. I develop and test a theoretical framework that: (1) shows how the different forms are connected to each other; (2) explains when money enters politics in what way; (3) illuminates how a change in one form affects the other types; and (4) reveals the consequences this has for democracy.

This analysis provides a string of novel, and often surprising, insights. It reveals that the different types of money are partially *fungible*, so a change in one form leads to important *second-order changes* in the opposite direction for the other types. For example, it is somewhat obvious that regulating campaign finance more strictly leads to less campaign spending. Yet it is less straightforward that the downstream effects of such regulation are *more* self-enrichment in office and *more* golden parachute employment. It is only once we examine the different forms of money as elements of a *common system* that we see how a change in one type leads to opposite effects in other types. Furthermore, various types of money in politics have different effects on numerous facets of democratic politics, such as voters' view of politicians or who wins elections. Thus, a change in one type of money leads not only to second-order changes in other forms; it also has *third-order effects* on the quality of democracy.

The connections between the different forms of money in politics, and the second- and third-order effects this implies, have received little attention in prior studies. Nor do they play a part in public discussion. I show that ignoring these connections leads to an incomplete, and possibly misleading, understanding of the topic. The central implication of this book is therefore that we can only fully understand the role of money in

politics if we think of it as a *system*. The rest of this section provides a brief overview of my argument, which I make in three steps.

The Connection between the Types of Money in Politics

In a first step, I argue that self-enrichment, campaign spending, and golden parachute jobs should neither be treated as equivalent nor as entirely separate. Instead, they are part of a *system* and should be analyzed in a common framework.

The link that connects all three is that they are crucial in advancing politicians' career goals. As Mayhew (1974) famously argued, one of politicians' central aims is to get reelected. But extensive research shows that they are also interested in improving their personal financial situation. Money furthers both of these goals. As utility-maximizing actors, politicians will seek to use money in the ways that best suit their needs, given the conditions they operate in. In other words, the different forms of money are partially *fungible*. This highlights the need to develop a framework that gives us an idea when each form is more or less prevalent, and what downstream effects an increase or decrease in one type has on the others.

How Money Enters Politics

Second, I develop a theoretical framework that clarifies when money enters politics for self-enrichment, for campaign spending, or comes in the form of golden parachute jobs, and how a change in one form affects the others. I examine the impact of two macro-level factors that systematically shape how much of each type there is.

The first is the *legal environment*. Different laws govern the three forms of money, and some are more strictly regulated than others. I argue that politicians arbitrage these disparities, which generates important *second-order effects*. If one type of money is subject to more rigid laws, it is – unsurprisingly – likely to become less prevalent. However, this does not necessarily mean that money simply disappears from politics: because the different forms are partially fungible, less of one type generally leads to more of the others.

The second factor that determines how money enters politics is the *electoral campaign environment*. While self-enrichment and golden parachute jobs benefit politicians directly, campaign spending has an indirect effect – increasing their chances of getting elected. How much politicians spend on a campaign depends on how demanding the campaign environment is,

in particular how competitive the race is likely to be and how effective the prevalent campaign strategies and technologies are. Because the different forms of money are part of a common system, this again has second-order consequences: politicians who spend less on elections are more likely to use the other types of money.

These two factors jointly determine how money enters politics. They help us predict whether politicians use the money they have access to for self-enrichment, as campaign spending, or in the form of a golden parachute job. Mapping the landscape in this way helps us understand the interconnected system of money in politics, and to explain why we see different types in different contexts. The map also offers insights into the downstream effects that an increase or decrease in one form of money is likely to have on other types. If we only look at one type in isolation, we miss these opposing second-order effects; they instead show up as unintended consequences.

Consequences for Democracy

In a final step, I argue that different forms of money have different repercussions for important aspects of *democratic politics*. The second-order consequences highlighted earlier are therefore followed by important *third-order effects*.

First, I show that voters react differently depending on whether politicians use the same amount of money for campaign spending, self-enrichment in office, or golden parachute employment. If, for whatever reason, one form becomes less common and causes another to become more prevalent, it changes how voters view their representatives. This has significant implications for the public's confidence in politics.

Second, how money enters politics influences who wins elections. Since campaign spending helps candidates win votes, conditions that lead to more of that type of money affect election outcomes. This is especially true when, as is usually the case, some candidates or parties have access to more money than others. And since changes in campaign spending can be brought about by changes in the other forms, *any* event that alters one form of money in politics potentially affects who wins elections, which has far-reaching consequences for democratic competition.

Evolving the Conversation about Money in Politics

Studying a single form of money in isolation thus overlooks crucial insights. This book highlights the need to move the conversation about

money in politics forward by treating the different forms as part of an interdependent *system*. This allows us to examine how they are linked and to anticipate the knock-on effects that a change to one of them may generate. This will improve our understanding of money in politics, and inform the implementation of policies that can more successfully keep its influence in check.

1.2 TESTING: CHALLENGES, EMPIRICAL APPROACH, AND CASE SELECTION

To test the argument that the different types of money in politics are part of a common system, and investigate the second- and third-order effects it generates, I must overcome a series of challenges.

The first and most obvious difficulty is what *data* to use, given that money in politics is often hidden from public view. A common solution to this challenge has been to use perception-based indicators. However, existing measures do not sufficiently differentiate between different forms of money, so they are not suitable for my purpose. Instead, I follow an increasing number of studies that make use of laws requiring the disclosure of relevant information, or use “forensic” approaches to indirectly infer the quantities of interest (cf. Golden and Picci, 2005; Di Tella and Weinschelbaum, 2008; Djankov et al., 2010; Fisman and Golden, 2017a). However, such studies typically focus on a single form of money, which obviously would not allow me to test an argument about the connections between the different types. In contrast to nearly all prior research, I need to study situations in which there is data on *several forms of money* at the same time.

A second challenge for the empirical sections of the book is the issue of *causality*. I argue that the legal and electoral campaign environments shape how money enters politics. However, the latter is also likely to affect the former. For example, campaign finance reforms tend to be passed in response to increases in campaign spending, and stricter regulation of enrichment in office often follows revelations of egregious self-dealing (see e.g. Pinto-Duschinsky, 2002; Fisman and Golden, 2017a).⁸ I therefore have to carefully identify situations that provide *plausibly exogenous variation* in the legal or electoral campaign

⁸ For discussions of reverse causality in the study of money and politics, see Lambsdorff (2006); Treisman (2007).

environments that should affect the relative prevalence of the three types of money in politics.

It is difficult – but not impossible – to obtain data on several types of money in situations that allow me to get a handle on the direction of the causal arrow. Several of the world’s largest democracies – India, Brazil, and the United States – make available the kind of information that permits me to study the connection between the different forms of money. I therefore use microlevel data from these contexts to conduct a series of within-country studies.

For India, I analyze detailed mandatory asset disclosure affidavits that politicians have to submit before each election. They enable me to assess how much their personal assets have grown over the course of a legislative period and how much resources they have accumulated for their reelection campaign. In the Brazilian case, I also assemble data on politicians’ asset development, as well as on their campaign spending. Finally, for the United States, I analyze the information provided in candidates’ campaign finance disclosure forms and assemble new data that tracks if (and when) thousands of state legislators left office and took up a golden parachute job.

In each instance, I use detailed case knowledge to identify situations that allow me to study the second-order consequences of a change in one form of money. Where possible, I exploit plausibly exogenous modifications to politicians’ legal and electoral campaign environments, for example as a result of redistricting, discontinuities in laws, or court rulings. Where it is not possible to exploit exogenous interventions, I carefully try to ensure that I am analyzing comparable cases. Finally, to test the third-order effects on voters’ attitudes and election outcomes, I conduct original survey experiments in India and the United States and exploit the staggered introduction of laws that regulate money in the US states.

Of course, these three countries are not a representative sample of democracies. Decisions about whether to make information publicly available are strategic (Hollyer, Rosendorff, and Vreeland, 2011; Berliner, 2014), and the demand for information on politicians is more pronounced in systems with an individualistic vision of representation (Carey, 2009). It is thus no accident that data mainly exists for first-past-the-post legislative or executive positions, which is what I examine in my three cases. Nevertheless, these countries are insightful to study. They all are large democracies in which money in politics plays an important role in public debate. They are also central to the academic study of the issue, so I am able to connect my findings to existing scholarship.

Nevertheless, the within-country examinations raise a third challenge: Do the patterns identified *within* these three democracies also hold when looking *between* countries? To address this question, I complement the single-country examinations with a series of shorter case studies to test my argument cross-nationally. This approach has a long tradition in the literature on money in politics (e.g. Scott, 1972; Johnston, 2005, 2014). I use sources such as previous academic studies, official statistics, and reports by anti-corruption groups and news organizations to analyze the connections between the different forms of money in various countries. The cases I examine vary along the two explanatory dimensions and show that my argument also explains why some forms of money are more common in some countries than in others.

This book thus takes a two-pronged empirical approach, using within-country quantitative as well as between-country qualitative analyses. It therefore combines attention to the broader cross-national patterns of how money enters politics with the within-country identification of the marginal effects of the explanatory variables. This approach allows me to provide a comprehensive set of empirical tests of my argument.

1.3 CONTRIBUTIONS OF THE BOOK

A contemporary review article of research on money in politics argues that “[a]sking how different forms of corruption accompany or substitute one another is perhaps the most important topic in ... corruption studies” (Mistree, 2015, 367). In this book, I seek to do just that. Focusing on *politicians*, my account combines the three most common ways they use money in a unifying framework. My argument and evidence demonstrate the benefits of treating self-enrichment, campaign financing, and golden parachute employment as parts of a single system. This study advances the academic literature on money in politics on several fronts. It also has important policy implications for how to think about and address the impact of money on the functioning of our democracies.

Understanding Money in Politics

Legal scholar Matthew Stephenson has made it his mission to maintain a constantly updated bibliography of research that studies corruption. As of May 2021, it is more than 700 pages long and has almost 8,800 entries (Stephenson, 2021). The role of money in politics is thus by no means

an understudied area. Broadly speaking, modern empirical studies of the flow of money to politicians fall into two camps.

The first camp took off when indicators such as Transparency International's Corruption Perceptions Index (CPI) became available. Such measures provided researchers with annual quantitative data to employ in large-n comparative studies. This literature has been successful at providing an overview of corruption, broadly conceived, around the world. We now have a much better idea of which countries have more or less of it, what drives these differences, and what the consequences are (for overviews see Treisman, 2000, 2007).

Studies in the second camp take a narrower approach. They typically focus on one or a small number of countries and use microlevel data on one form of money in politics. One such literature evaluates campaign contributions, mostly focusing on the United States, while another studies politicians' enrichment in office. And a small but growing literature assesses politicians' moves to the private sector. These studies have refined our understanding by examining in detail how politicians use money.

Despite the considerable scientific advances made by each of these two camps, the resulting bifurcation of the literature has limited our understanding of money in politics. Imagine each approach represents a different type of map (cf. Giere, 1990; Clarke and Primo, 2012). The first camp would comprise world maps that show all countries; they would have a high level of abstraction and display only broad shapes. The second camp would be depicted by maps that provide detailed pictures of single countries, but only with respect to a particular characteristic: one map might limit itself to displaying a country's highways, and another only its train tracks.

Both approaches are very useful, and have improved our understanding of money in politics. But they have also led to a number of blind spots. This book represents a step toward addressing those blind spots. I combine the strengths of each camp by studying the *mechanisms* of how money enters politics in a *comparative* framework. We can gain many additional insights this way, and we can solve a number of puzzles that the current approaches to studying money in politics pose.

Solving Puzzles of the “Black Box” Approach

Studies that use large-n cross-country research designs provide a large, but abstract, world map that often lacks depth. Cross-national indicators such as the CPI aggregate many different forms of money at various levels, ranging from bribe-extorting policemen to government ministers who

embezzle millions or illegally finance their campaigns. They thus have a *black box* quality to them.⁹

Such studies identify broad reasons why some countries are, on aggregate, more corrupt than others, but cannot examine the causes and consequences of the specific ways in which money enters politics. If a country, for instance, experiences a change in one of the determinants, then its corruption score will increase or decrease. This implicitly conveys that different forms of money in politics go together. However, even a cursory look at the three countries that Andimuthu Raja, Walt Minnick, and Gerhard Schröder hail from reveals this not to be the case.

The United States is well known for its expensive election campaigns. Upwards of \$14 billion was spent in the 2020 elections on federal races alone¹⁰ – more than the annual GDP of Armenia, Nicaragua, or Namibia. At the same time, the majority of members of Congress become lobbyists or join corporate boards after leaving office.¹¹ However, US lawmakers rarely enrich themselves while in office.¹²

Elections in India are also expensive. The 2019 campaign was estimated to have cost more than \$8.5 billion.¹³ And Andimuthu Raja is only one of many Indian politicians suspected of having enriched themselves in office. Yet the phenomenon of politicians leaving office to take up lucrative private sector jobs is unknown in India. In fact, observers often lament the opposite problem – that the country's politicians hardly ever see the necessity to exit politics.

Finally, Gerhard Schröder is not the only German politician to have taken up a private sector job after leaving office: More than a third of his cabinet did as well, as do many members of parliament.¹⁴ Yet parties in Germany spend less on their entire national election campaigns than some US senators do on a single race, and enrichment while in office is practically unheard of in German politics.¹⁵

⁹ The Varieties of Democracy project (Lindberg et al., 2014) has developed a number of indicators that distinguish between the arenas in which corruption occurs, such as the legislative or the executive. However, these measures do not distinguish between different forms of money.

¹⁰ “2020 Election to Cost \$14 Billion, Blowing Away Spending Records,” *Center for Responsive Politics*, October 28, 2020.

¹¹ Lazarus, McKay, and Herbel (2016); Palmer and Schneer (2016, 2019).

¹² Eggers and Hainmueller (2013, 2014).

¹³ “India’s Election Spending Surges Past US to Record High,” *CNN*, June 8, 2019.

¹⁴ See Klein and Höntzsch (2007); Edinger and Schwarz (2009); Dörrenbächer (2016).

¹⁵ McKay (2003); “Why Germany’s Politics Are Much Saner, Cheaper, and Nicer Than Ours,” *The Atlantic*, September 30, 2013.