Political Corruption and Electoral Funding: A Cross-National Analysis

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Abstract

The aim of this article is to study the suspect nature of private campaign finance, understood as the donors' hidden intentions and delayed exchange of reciprocities with incumbents. In particular, I explore whether electoral contributions from private corporations lead to political corruption. On the basis of a cross-national analysis, I find that, first, private financing reduces corruption because the use of this legal mechanism is enough to guarantee that the donors' interests will be achieved. Second, donors recognize that they have gained influence over policy outcomes, although in the spirit of the electoral laws this is not intended to occur. This increases corruption because incumbents use their positions of power to bend the rules and to adjust regulations and decisions in favor of their financial supporters. This paradox suggests law neutralization.

Keywords

comparative crime/justice, crime policy, courts/law, critical criminology

Introduction

Elections are an essential part of the democratic process. In democracies, citizens participate in elections not only with their votes but also by contributing from their pockets. Citizens and corporations in general pay for the cost of elections, be it as taxpayers, party members, or voluntary donors. However, it has been argued that when private money flows into the political system, it usually tries to influence political parties' decisions, and indeed, their policy-making processes (Della Porta & Vannucci, 1999; Harstad & Svensson, 2011; Johnston, 2005; Nassmacher, 2003; Rose-Ackerman, 1999; Williams, 2000). Thus, elected public officials bring their power and influence to bear in order to compensate their financial supporters. Favorable legislation and regulations are introduced; contracts, job appointments, and different kinds of compensation are awarded in return for the financial support provided.

The analysis of this problematic relationship between donors and incumbents has not been ignored in the literature, but it has, perhaps remarkably, remained largely unnoticed by

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criminologists. Although this issue was initially discussed by Nelken and Levi (1996) and has been briefly mentioned by Friedrichs (2004), Green and Ward (2004), Zimring and Johnson (2005), and Shichor and Geis (2007), no research on campaign finance has been conducted from a criminological perspective. Research on campaign finance has, in particular, been conducted by congressional scholars, who have focused on the subsidiary benefits that accrue to private donors once the politicians have entered office, taking a cross-sectional approach at the level of the firms involved (see Smith (1995) and Stratmann (2004) for literature reviews). A limited number of scholarly investigations of this type of compensation have been studied at the cross-national level (Pinto-Duschinsky, 2002; Stratmann, 2003). However, cross-national studies have not provided conclusive evidence of the relationship between electoral financing and political corruption.¹

I address this gap in the literature—and in particular in the criminological literature—by analyzing data from 78 countries that links the electoral financing system to political corruption. This article is positioned among the cross-national studies on crime that set out to understand the relationships between democratization and crime. This new line of inquiry in cross-national criminology incorporates political as well as economic factors to understand the emergence of crime after the latest wave of democratization (Stamatel, 2009). Traditional cross-national criminology usually centers on understanding homicide rates, larceny, robbery, and other traditional crimes and their causal relationship with socioeconomic factors. In the new emerging area of criminological studies, the focus is on offences related to corruption, property rights, and intellectual property rights (Piquero & Piquero, 2006; Sung, 2004).

The theoretical foundations of this article are taken from Becker's approach to crime. Becker (1968) argued that citizens do not always obey the law. Crime can originate in both legal and illegal actions; therefore, to prevent crime, resources should be allocated to apprehend, convict, and punish offenders. In the case of political corruption, this approach was extended by Rose-Ackerman (1975, 1999), who incorporated market structures and the institutional capacity of government agencies in order to explain this phenomenon. According to Rose-Ackerman, interests, incentives, and mechanisms of control are the key elements behind corrupt exchanges. These elements should not be thought isolated, but rather part of the market structure that encourages them—a consequence of the weakness in the institutions of power that corrupters use to bend government policies and services to their own advantage. Although Rose-Ackerman did not take the legalistic approach when relating illegality to corruption, some scholars who have used Becker's approach to crime have overlooked the legalistic relationship between illegality and crime. Criminologists have pointed out that this is mistaken. In this regard, McBarnet (2006) has argued that the successful manipulation of the law enables deviant behaviors, since offenders act with impunity with the protection of the law. McBarnet has called this legal neutralization.

The heart of the problem addressed in this article is the fact that a legal action can lead to illegal results, as Becker suggested. In particular, I explore whether electoral contributions from private corporations can bring about political corruption. I am not concerned here with presenting an ideological debate on market structures. In the case of campaign finance, electoral donors are protected by the law because it is legal to give financial support to political candidates; however, donors expect that their generosity will be reciprocated in the future once the candidates are in office.² They are also aware that the weakness of the electoral system makes it impossible to track and take legal action against the reciprocities delivered to their companies. So, it is not only incentives and interests that facilitate the emergence of electoral financing as a corrupt action: It is also the fact that donors use the weaknesses of the control mechanisms to obtain favorable outcomes. This approach complements Rose-Ackerman's theory of corruption, while in essence following the same line as Becker's.

This article is organized as follows. The first section presents the previous research on the subject of electoral donations. The reader should note that most of the studies have been produced by

political economists. Based on the state of the field, I present the hypotheses to be explored here. The second section describes the data used in the analysis. Issues regarding the validity of the information and the concepts measured are specially considered. The third section presents the results of the statistical analysis, followed by sections in which the findings and conclusions are discussed.

Previous Research

The conflicting character of campaign contributions has been a matter of intense discussion. An early review of the literature (Smith, 1995) reported that in a large number of studies (nineteen in total) scholars found a significant relationship between donations made by corporate donors and the voting decisions of members of the U.S. Congress, although in a few cases (seven studies) campaign contributions were largely unrelated to voting decisions in the Congress. In the case of roll-call decisions (six studies in total), Smith (1995) observed that contributions have significant impact on policy outcomes when the visibility of the issue is low, specialized, or nonpartisan; when the public are indifferent; when the position of the interest group is unopposed by other interest groups; or when an election is approaching. In recent studies, the approach is different. Scholars conceive of the donors' rationale as being strategic, and have therefore focused on understanding how electoral donations have been used by contributors (Stratmann, 2004). For example, contributions are made to achieve strategic ends, such as neutralizing the impact of donations made by business competitors (Hersch & McDougall, 2000), shaping the legislative agenda (Apollonio & La Raja, 2004), and influencing the way Congress votes on bills (Stratmann, 1992). Other studies have also reported that donations are delivered strategically at specific times. Companies whose aim is to achieve visibility make donations between elections, when there is little electoral activity (Zullo, 2006), or time them to coincide with key legislative events (Stratmann, 1998), as a means of preventing potentially unreliable legislators from reneging. There is a general belief that electoral contributions are intended to produce influence on decisions and policy outcomes. For example, congressional scholars in the United States have found that levels of state control have fallen for those operators of nuclear plants that made large contributions to political campaigns (Gordon, 2001). Specific contracts were awarded to building-sector firms that made visible donations to incumbents in the period prior to an election (Zullo, 2006). Favorable regulations and tax policies were introduced that benefited donors from the high-tech sector (Hart, 2001).

Longitudinal studies have also found that companies do indeed receive benefits as a result of their electoral donations. In a study of Brazilian companies, Claessens, Feijen, and Leaven (2008) have reported that those that gave financial contributions to political leaders in the 1998 and 2002 elections substantially increased their bank leverage after each election in comparison with the control group. This produced higher stock returns for these firms. In studies conducted in the United States, McCarty (2000) found that in the Congressional elections of 1994, political action committees (PACs)³ began to donate to the Republicans rather than the Democrats once the Republicans had taken control of the Congress. In the case of the New York City elections of 1998, Fuchis, Adler, and Mitchell (2000) found a similar situation. Big companies switched their support to candidates who were leading in the opinion polls in order to guarantee that their investment would pay off. However, this lack of loyalty on the part of the contributors was not well received by the parties and their members. McCarty and Rothenberg (1996) found that contributors who did not provide continuous support to members of the lower chamber in the US election cycles of 1993–1994 and 1995–1996 were punished by the party politicians.

In view of the fact that campaign finance affects the way politicians behave in office, electoral donations have been viewed with suspicion, because the use of these resources can seal connections and guarantee benefits to politicians and private-sector associates. In the literature on political corruption, scholars have been more radical. Grossman and Helpman (1994), Austen-Smith

(1998), Kaufmann and Vicente (2011), and Harstad and Svensson (2011) argue that electoral donations correspond to a form of corruption or bribery, for incumbents use their power to bring about policy decisions in favor of their supporters. This is a problematic approach because a practice cannot be simultaneously legal and illegal. I, however, believe that a legal norm can be used in an improper way to achieve undue benefits. By taking this approach, rather than to focus on normative analysis, I intend to carry the issue of the illegality of electoral donations further into a criminological discussion centered on the concept of law neutralization. Therefore, it is relevant to explore whether private corporations use the idea of legality offered by the electoral law to neutralize the impact on policy outcomes, the point being to avoid seeing their contributions as a form of corruption or bribe notion, examined using the following hypotheses:

Hypothesis 1: The impact of campaign contributions increases political corruption. Is there more political corruption in countries where legal campaign finance has a major influence on public policy outcomes?

Hypothesis 2: The private electoral funding system increases political corruption. Is there more political corruption in countries where elections are funded privately?

The role that electoral regulations have is also considered here. A number of cross-national studies have claimed that bad regulations create corrupt incentives for private actors who want to maximize their income (Broadman & Recanati, 1999; Djankov, Fredriksson, & Mani, 2002; Gatti, 1999; Svensson, 2005). Like Lambsdorff (2008) and Rose-Ackerman (1999), I argue that the effective electoral regulations are the ones that destroy the certainty of expected reciprocity between donors and incumbents. Therefore, in the presence of effective regulations there is less corruption. This statement will be explored using the following hypothesis:

Hypothesis 3: Electoral regulations reduce political corruption. Is there less political corruption in countries where there is public disclosure and ceilings on campaign contributions and expenses?

Data Used in the Analysis

A cross-national comparison is used to identify whether electoral financing brings about political corruption. The basic assumption shared by scholars who use cross-comparisons to study political corruption—and the one adopted here—is that political corruption is a rent-seeking activity in which various parties interact to maximize their income by mechanisms that operate outside the law (Rose-Ackerman, 1999). To avoid the methodological problems frequently observed in this kind of analysis due to the limited coverage of the sample and the lack of control variables (Berk, 2010; Stamatel, 2006), I use a sample of 78 countries (in contrast to the average sample of 40 countries), as well as two control variables that have been widely used in other cross-national studies on corruption.

To conduct the cross-national comparison, I gathered data on electoral campaign finance and political corruption. Data were individually collected from the different original sources and then aggregated in a database to produce a comprehensive material (data is not shown, but it is available upon request). In some cases, the sources only provided information on certain countries and/or variables, which had an impact on the size of the sample ultimately obtained. After aggregating the available information, I was only able to collect full information for 78 countries, which were duly used as the sample.⁴ The names of the countries included in the analysis are listed in Appendix A, while the variables, described below, are outlined in Appendix B and their descriptive statistics reported in Appendix C.

Defining and Measuring Corruption

There have been a number of attempts to provide a definition of corruption, but no agreement has been reached. A comprehensive review of scholarly definitions of corruption is offered in Johnston and Heidenheimer (2009), according to whom there are different types of definitions of this phenomenon. Some characterizations center on the site where the offence occurs, such as public office, the market, or society in general, while others look to the magnitude of the phenomenon—whether it adopts petty or grand forms of corruption. Cultural interpretations have emerged to denote corruption as black, gray, or white practices, while moralistic and legalistic approaches have presented more exclusionary definitional approaches. In this article, I do not offer a new definition of corruption, instead I use the characterization introduced by Rose-Ackerman to enhance the synchronism with the theoretical framework employed here. Rose-Ackerman (1999, p. 91) defines “Corruption as the misuse of power for private gain.” In the case of the topic studied here, corruption emerges when incumbents use their power, for example, to deliver favorable legislation and tax benefits to their financial supporters, to influence the appointment of contracts to electoral donors, or to reduce controls on donor corporations, as already noted (Apollonio & La Raja, 2004; Gordon, 2001; Hart, 2001; Stratmann, 1992; Zullo, 2006).

Rose-Ackerman’s definition has been widely used by scholars and major international organizations in the field, although some nuances appear depending on which elements of the definition are stressed. For example, Transparency International (2011) defines corruption as the “abuse of entrusted power for private gain,” while emphasizing a legalistic approach that limits corruption to actions that are “against the rules,” whereas the World Bank (1997, p. 8) defines corruption as “the abuse of public office for private gain,” which opens the possibility of focusing their international assistance efforts on improving public institutions’ performance.⁵ Some criminologists, for example, claim that Rose-Ackerman’s definition should be restricted to the “illegal use of power for personal gain,” because the use of power is not illegal in itself, but only when intended harm is caused (Zimring & Johnson, 2005, p. 6). I agree that the use of power is not illegal; however, corruption cannot be verified only in the light of legally prescribed acts. The legalistic approach ignores the fact that laws can be created or manipulated to avoid being labeled corrupt (Gambetta, 2002; Mackenzie & Green, 2008; McBarnet, 2006; Nelken & Levi, 1996; Passas, 2005).

To collect information on corruption is a difficult task, easily as complex as attempting to define the phenomenon. In cross-national studies of political corruption such as this, scholars have to rely on the available data, despite the limitations (Johnston, 2009). There are aggregated indexes produced by certain international organizations, specific surveys on corruption, and individual measurements of the phenomenon. Data produced in aggregated indexes—Transparency International’s Corruption Perception Index and the World Bank’s Graft Index—have been severely criticized, although they have been extensively used in cross-national analyses (Lambsdorff, 2006). The known problems with these indexes are the interdependence of the sources, the poorly constructed validity of what the terms represent, and the missing information about the magnitude of the problem—because the indexes represent an ordinal rank, and the marginal effect of sample variations on the index over time (Arndt & Oman, 2006; Knack, 2006; Søreide, 2006; Thompson & Shah, 2005). Survey data on corruption—the Business Environment and Enterprise Performance Survey and the World Business Environment Survey—have different purposes and limitations. They center on evaluating hypothetical cases or specific practices of corruption such as state capture, bribery, and patronage, which does not correspond entirely with international definitions of the phenomenon. Survey data usually cover a limited number of countries in certain geographical regions and are not regularly updated.

To avoid the aforementioned difficulties, I used an individual measurement of corruption produced by the Political Risk Service (PRS). The PRS produces annual data on corruption based on the opinions of business leaders. It covers 140 countries worldwide. The PRS (2006) measures corruption as bribery,

patronage, nepotism, job reservations, favor-for-favors, and suspiciously close ties between politics and business. These practices have been identified by the PRS as generating a far greater risk of corruption for private corporations. The PRS uses a standardized methodology to collect data in each country, which guarantees the reliability of the information produced. Informants grade corruption, as previously defined, with a number between 0 and 6, where 0 indicates widespread corruption and 6 a lack of corruption. The country qualification is based on the average of the individual responses.

PRS data on corruption offer three advantages over other available sources of data. First, PRS data refer exclusively to the behavior of private corporations, which is the focus of study here, in contrast to aggregated indexes and survey data in which information on corruption is provided by households, public officials, and private corporations. Second, the magnitude of the problem in each country is reported in the PRS data, whereas aggregated indexes present an ordinal rank of the countries studied according to how corrupt they are. Third, PRS data is collected using the same methodology in all of the countries included in the sample, while aggregated indexes use information collected using different methods and organizations. Despite the aforementioned advantages, there is a limitation when using PRS data. This source collects data based on perceptions—the same being true of aggregated indexes and survey data. The reader must be aware that there are no sources of data on corruption that provide factual information as such, since corporations, citizens, and public officials do not usually report to the police, for example, that they have paid or received bribes.⁶ This would indicate that factual data on corruption is not available, while perceptual data is. To enhance synchronism with the independent variables, I use the PRS data on corruption from 2006.

Electoral Funding System and Regulations

Before proceeding, it is worth mentioning that no perfect electoral campaign finance model exists. My interest here is not to argue that public funding is better than private funding, or vice versa, but rather to determine whether political corruption is more likely to emerge under certain conditions. The main source of information on electoral financing employed here is the data published by the ACE Electoral Knowledge Network. ACE (which originally stood for Administration and Cost of Elections) is a collaborative effort for the provision of technical assistance in election management, mainly funded by the United Nations through its development and electoral assistance programs, and administered by the International Institute for Democracy and Electoral Assistance. In the database published by ACE (2006), information on different issues related to the electoral process is available. In this article, I have used ACE data on the funding of elections.

ACE data distinguish between two types of funding: Public and private. I created two variables (whose names are given in italics) to indicate whether parties or candidates were entitled to private financing (*Private financing*) or public funding (*Public financing*) during election periods. Each type of funding is coded as a dummy variable, where 1 identifies the respective type of funding and 0 otherwise. Countries that allow mixed forms of financing (public and private financing, simultaneously) have been coded 1 for both of these variables. I also use a set of regulatory measurements intended to promote accountability on the part of political candidates by demanding the disclosure of contributions and election expenditure and by guaranteeing equity among competitors by imposing ceilings on donations and electoral expenditures. The electoral regulations (with the names given to the variables in italics), are the public disclosure of the contributors' identity (*Disclosure of contributors*); the public disclosure of expenditure during the campaign period (*Disclosure of expenditures*); the existence of ceilings on how much money can be raised from an individual donor (*Ceilings on contributions*); and the existence of ceilings on election expenses that each campaign is allowed to use (*Ceilings on expenditures*). Since the ACE database distinguishes between the regulation of political parties and of individual candidates, the two were unified to avoid having cells with fewer than five observations in the contingency analysis that could affect the statistical

calculations. A dummy coding was applied on the basis of the classification obtained: 1 when the regulation was observed and 0 when it was not.

To capture the application of private electoral funding in everyday politics, I included a specific measure of the impact that legal contributions have on policy outcomes (*Impact of contributions*). The Global Competitiveness Report (GCR), produced by the World Economic Forum (2006), provides information on this matter, as it surveys business executives on their perception of the impact that donations have on the activities of their corporations.⁷ I obtained information on this issue by using the following question: "To what extent do legal contributions to political parties have a direct influence on specific public policy outcomes?" (World Economic Forum, 2006, p. 422). In the GCR, the data collected is ordinal, with countries being ranked into seven categories, where 1 indicates a very close link between contributions and policy and 7 very little influence on policy outcomes. The reliability of this source is ensured by the methodology used to design the sample and the instruments used to collect the information in the participating countries. However, the GCR does not provide specific measurements of data reliability, which can raise concerns about the quality of this specific variable. Taking into account the results of the study on reticence conducted by Clausen, Kraay, and Murrell (2010), it can be assumed that the level of reticence of the variable *Impact of contributions* is low. The basis for this assumption is that information on the impact that legal contributions have on public policy outcomes was collected as part of an extended survey focused mainly on economic issues that affect the performance of corporations in different countries. Therefore, it is reasonable to believe that firms are not disposed to underreport misconduct when asked about concepts related to political corruption in surveys that are mainly concerned with other kinds of issues.

Control Variables: Gross Domestic Product (GDP) and Democracy

A number of economic, institutional, and cultural variables have been reported to influence the incidence of corruption (see Lambsdorff, 2006 for literature review). This suggests that the set of possible controls is large as well as diverse; however, Xenakis (2010) has questioned the relevance of using certain control variables in cross-national studies on corruption, because they introduce biases in the political domain. With this limitation in mind, I have selected a set of control variables intended to represent background conditions. I reviewed the 32 cross-national studies on the causes of corruption reported in Lambsdorff's literature review and found that GDP and Democracy have been widely used as control variables by scholars.⁸ In particular, GDP has been used in all of the 32 studies and Democracy in 21 of them. Bearing in mind that the purpose of this article is not to explain corruption as a phenomenon, I selected *Democracy* and *GDP* as control variables, because, under certain political and economic conditions, they mean that political corruption can emerge with greater clarity.

With the adoption and consolidation of democracy, elections are called to legitimize those in power. However, the advent of elections is no direct guarantee that corruption will disappear. Sung (2004) has demonstrated that corrupt behaviors in new democracies have fluctuations. While at the beginning the direct consequence of the introduction of democratic rule is a reduction in levels of corruption, the pattern is not sustainable. In the middle term, corruption tends to increase because political and economic systems adjust to the new ruling conditions, while in the long term, corruption is reduced again, once stability has been reached. In the statistical model, I use the measurement of *Democracy* provided by Treisman (2000), which captures the break-even point of democratic consolidation. Treisman found that countries that have had 46 or more years of democracy show lower levels of political corruption than countries that have been governed democratically for shorter periods. This means that the measurement of *Democracy* used here captures not only the existence of democratic elections but also the presence of stable governments and consolidated public institutions.

La Porta, Lopez-De-Silanes, Shleifer, and Vishny (1999) have reported that economic prosperity helps countries to reduce corruption. In particular, they have found that in countries with higher GDP

per capita the public sector performs better, with less political corruption and bureaucratic delay. I use *GDP* as a control variable to evaluate the impact that economic prosperity has on reducing corruption in democracies.

Results

Table 1 presents the regressions results on which the analysis is based.

Table 1 contains the β coefficients, standard errors, and *p*-values for the variables included in the different models examined. Model 1 is a benchmark regression, in which the set of control variables is introduced. The results obtained confirm Treisman's findings (2000) regarding the impact that democratic rule has on political corruption. The model reported that there is less political corruption in nations characterized by longer and uninterrupted periods of democracy—at least 46 years—indicating that when democracy has stabilized for long periods following its adoption, there is less political corruption. Both the signal and the coefficient obtained for the variable *Democracy* (−1.209) are similar to the one reported by Treisman (2000, p. 417; −1.02). In the case of the second control variable, *GDP* enters with the signal described by La Porta et al. (1999). This means that in countries with higher levels of economic development, there is less political corruption. However, the coefficient obtained in Model 1 for *GDP*, −.397, is lower than the −.7725 reported by La Porta et al. (1999). This can be explained by the fact that they also included other variables in their model (ethnolinguistic fraction, religion, legal origin, and latitude), which are not relevant for the current analysis, as early mentioned.

In Hypotheses 1 and 2, I explore whether corruption increases as a consequence of the adoption of a specific type of electoral funding system. I first introduce the independent variables in Model 2 and, after backward elimination of the nonsignificant variables, I report Model 3. Results obtained in Model 3 indicate that *Private financing* is inversely related with *Corruption*, while the *Impact of contributions* has a direct relation with it. That *Impact of contributions* has a significant relation with *Corruption* was expected on the basis of Hypothesis 1. This means that when legal contributions have a greater influence on public policy outcomes, there is more *Corruption*. However, the results obtained for the variable *Private financing* were unexpected. The signal obtained for the variable *Private financing* is the opposite of the one hypothesized in Hypothesis 2. According to Model 3, *Private financing* reduces *Corruption*. How can *Private financing* reduce corruption while the impact of giving this funding increases it? What are the implications of this contradictory outcome?

The results obtained for Hypotheses 1 and 2 illustrate what McBarnet (2006) calls law neutralization. On one hand, the impact of donations increases corruption since incumbents use their power to compensate their donors. On the other hand, electoral donors consider that their contributions reduce corruption because their use is determined by law.⁹ Therefore, what turns out to be illegal here is the reciprocation, but not the delivery, of donations. These results imply that while electoral donors are protected by law when paying the money that can give them influence on policy outcomes, incumbents can be said to be corrupt if reciprocation is detected. Can one accept a justification that sees only one of the parts of a corrupt exchange as an illegal act while the other wrongdoer enjoys legal protection? Does this justification hold when it can be demonstrated that electoral donations have been delivered to target specific incumbents or candidates with the sole purpose of achieving strategic interests: For example, when electoral donations are made to candidates who support the same interests as the company, when electoral donations are given to undecided or unreliable candidates, when donations are given after a competitor has already provided financial support to the same incumbent or candidate, when electoral donations are turned in favor of those candidates leading in the polls, or when electoral donations are given simultaneously to members of political parties in opposition? Congressional scholars have reported that corporations have different strategic reasons for the delivery of their financial support, which confirms the idea that electoral donations are not made to provide ideological support as they

Table 1. Ordinary least squares (OLS) Regression Results.

Variables	Dependent variable: corruption by PRS				
	Model 1	Model 2	Model 3	Model 4	Model 5 ^a
GDP	-.397 (.105) [.000]	-.183 (.106) [.088]	-.202 (.094) [.035]	-.330 (.086) [.000]	-.201 (.087) [.024]
Democracy	-1.209 (.308) [.000]	-.820 (.296) [.007]	-.747 (.269) [.007]		-.747 (.250) [.004]
Private financing		-.995 (.329) [.004]	-1.033 (.309) [.001]	-1.151 (.319) [.001]	-.666 (.323) [.043]
Public financing		.288 (.347) [.409]			
Impact of contributions		.729 (.135) [.000]	.715 (.125) [.000]	.817 (.125) [.000]	.733 (.117) [.000]
Disclosure of contributors		.043 (.365) [.907]			
Disclosure of expenditures		-.023 (.325) [.945]			
Ceilings on contributions		-.241 (.286) [.402]			
Ceilings on expenditures		.033 (.325) [.920]			
Constant	.445 (.765) [.000]	2.353 (.908) [.012]	2.701 (.755) [.001]	4.008 (.617) [.000]	2.423 (.765) [.002]
Adjusted R ²	.527	.652	.670	.640	.698
Observations	78	78	78	78	75
F	33.957 [.000]	17.049 [.000]	40.033 [.000]	46.587 [.000]	43.702 [.000]

Note. PRS = Political Risk Service.

The table shows β coefficients, standard errors in parentheses, and significance in brackets.

^aThis model excludes three outliers: Kenya, Zambia, and Zimbabwe.

should, but to achieve the strategic purposes of the donors. Does this mean that something is wrong with the control mechanism adopted to prevent corruption in these types of case?

Model 3 indicates that the role of electoral regulations in promoting transparency is limited. In fact, none of the electoral regulations appear to be a significant explanation of *Corruption*. This suggests that Hypothesis 3 cannot stand. Although there have been fewer studies that evaluate the impact of electoral regulations on preventing incumbents from delivering reciprocities, the findings obtained in Model 3 are in line with the scarce available evidence. Reports by international organizations show that the limited deterrent effect of electoral regulations possibly reflects implementation problems rather than design deficiencies in the electoral laws. In the 2010 Report of the European Commission on Corruption, it is argued that in a large proportion of member states electoral regulations have been adopted but not implemented due to a lack of political will on the part of those responsible for enforcing the regulations, and a weak or even absent civil society that might otherwise demand the adoption of such measures (Doublet, 2010). A similar observation was made by International IDEA in the particular case of Latin American and African countries (Nassmacher, 2003).

The fact is that we face a dual problem: Electoral regulations only exist in a limited number of countries; and there is no guarantee that they will be properly enforced in the countries where they have been adopted.¹⁰ Under these circumstances, it is logical to believe that donors, like incumbents, are protected by the law because the electoral law allows law neutralization—in the case of donors—and does not prevent corrupt behaviors from arising—in the case of incumbents.

As a hypothesis-testing exercise, the results presented here are focused on exploring the relation between electoral variables and corruption. I use two control variables, knowing that the impact of background conditions cannot be discounted. However, this does not mean that I can be certain that the model incorporates all possible explanations for corruption. It is clear that corruption can stem from other causes that are not considered here.

Robustness

In this section, I address the potential problems of multicollinearity, influential points, and the validity of PRS data. First, multicollinearity. After conducting the multicollinearity tests, the collinearity diagnostics reveal that the variable *Democracy* has problems with multicollinearity.¹¹ To evaluate this particular problem, I made a new regression excluding the variable *Democracy*. Results are shown in Model 4. In Model 4, I obtained greater coefficients for the variables *Impact of contributions*, *Private financing*, and *GDP*. Results from the test of collinearity for Model 4 indicate that after the exclusion of *Democracy*, the model obtained (Model 4) did not show evidence of multicollinearity (data not shown, but available upon request). So, I had to decide whether or not to remove this variable from the model to avoid multicollinearity. There are three particular considerations to bear in mind here. I found no reason to exclude the variable *Democracy* from the model because the presence of multicollinearity does not indicate that the model is not valid: It only shows that the multicollinear variables have a pattern of performance similar to other predictors. I also examined the partial correlations between the variables included in Model 4 and found that there was no correlation between the concepts evaluated and the variable *Democracy* (partial correlation coefficients are given in Appendix D). The only highly reported correlations were between the variable *Democracy* and the variables *Impact of contributions* and *GDP* (−.519 and .662, respectively). However, the results of the multicollinearity test indicated that there was no collinearity between them (data not shown, but available upon request). Finally, the existence of some collinearity is possibly explained by the fact that the control variable *Democracy* provides the framework in which elections take place and the electoral financing mechanisms are used, but this is only one of the characteristics evaluated with this variable. The control variable *Democracy* denotes the

existence of democratic elections, but also whether a country has attained government stability and institutional development. This suggests that the concepts measured by the variable *Democracy* are different from those evaluated with the independent variables. Therefore, multicollinearity is not a problem.

The second issue is the presence of outliers in the data. I first conducted a histogram of the residuals and did not find any negative residuals (graphic not shown). This indicates that there were no underperforming residuals in the data. However, when plotting the results of the residuals by predicted values, I observed three probable outliers: Kenya, Zambia, and Zimbabwe. Although the residuals of these countries were close to the majority of cases, this may suggest overperformance. I conducted a new regression analysis with a sample that excluded the three potential outliers. Results are shown in Model 5. I found that after the exclusion of these three cases, there was a slight increase in the model's fit. No new variables were entered into the model or were removed from it. Considering that there is no particular reason for excluding these nations from the sample of countries, it can be concluded that Model 3 reports a valid model.

A third concern was the validity of using PRS data on corruption. To assure that the use of this source of data is not an issue, I conducted a new statistical analysis using other proxies, selecting the Graft Index and the Corruption Perception Index (CPI; see Appendix B for descriptions) as alternative measures of corruption since they have been widely used by scholars (Lambsdorff, 2006). I first evaluated the correlation between the different measurements of corruption. Data shown in Appendix E indicate that these three proxies strongly correlate. This shows that these variables represent similar measurements of the concept of corruption under evaluation; it also suggests that the corruption problem faced by corporations—reported in the PRS data—has similar patterns to the general corruption problem perceived by households, public officials, and corporations—reported in the Graft index and the CPI. Given that these variables can be interchanged, I then tested the initial model using the alternative measurements of corruption; results are shown in Appendix F. The results obtained in Model 2 (Appendix F) and Model 4 (Appendix F) are consistent with Model 3 (Table 1). This indicates that there is no reason to believe that the data provided by the PRS is not a valid measure of corruption.

Discussion

The results obtained provide evidence that corruption can emerge from actions that are legal, as has been argued by Becker (1968). Donors are reciprocated for their contributions, although this is illegal; however, they claim that corruption has not increased because the delivery of these resources is a legal action. The statistical models also reveal that electoral regulations do not play a significant role in preventing corruption. This suggests that private corporations use the electoral law to avoid being labeled as criminals, knowing that the deterrent effect of the electoral regulations is limited.

These findings are not a contradiction, but signal that the use of this mechanism has its own morality. In fact, reciprocating electoral financial support runs contrary to the principles of the electoral law;¹² nonetheless, it is part of everyday politics. The problem, as some criminologists have argued, is that the electoral law legalizes the entrance of interested money into politics, while at the same time this law is incapable of preventing reciprocation from incumbents (Friedrichs, 2004; Green & Ward, 2004; Nelken & Levi, 1996; Shichor & Geis, 2007). In this regard, Haller and Shore (2005, p. 12) have claimed that “people know how the system of favours works and how to work it.” This suggests that the electoral law does not change the traditional approach of making electoral donations, while guaranteeing that incumbents can keep running their political careers and donors are protected by the law. It is reasonable to believe that incumbents do not want to upset their electoral donors by limiting the presence of private money in political elections because this could put their political careers at risk. As for electoral donors, it is to be expected that the money paid to

incumbents should provide financial returns for their companies. Thus, the electoral law is a source of conflict because of the contradictions that it displays. Admittedly, this is a complex issue.

It would be naïve to believe that private corporations only bring influence to bear on incumbents by giving them electoral donations. Both donors and incumbents can use the electoral regulations to evade the law in many other ways. Friedrichs (2004) has reported that companies fragment their total financial support according to the ceiling on individual contributions, and give them as many times as high executives and their family members can be involved. By doing so, the donors' ceiling on individual contributions is apparently respected, but it is flouted in aggregate. The disclosure of donors' identities is another regulation that can be easily circumvented. By and large, corporations funnel resources through PAC or corporate associations that are not obliged to report the origin of their funds (Friedrichs, 2004; Shichor & Geis, 2007). Something similar has been observed in the case of ceilings on electoral expenses. This particular regulation can be sidestepped by giving in-kind support that can be easily underreported or completely omitted from the official records of the incumbents or candidates (Friedrichs, 2004; Green & Ward, 2004). These behaviors cannot be written off as an isolated incident or uncommon practice—rather, it signals sophisticated legal work. In line with Becker (1968), McBarnet (2006) has argued that the crime can be traced back to a manipulative use of the law. This praxis emerges when perpetrators search for anything that can be construed as an absolute rule, but use it in an unintended way, while at the same time claiming to be acting according to the rule. McBarnet argues that law-abiding corporations use the weakness of the legal system to their own advantage, knowing that prosecution and sentencing are unusual.

In all these instances, it is clear that private corporations can make intentional use of the law, either operating within its borders or outside them, when aiming to maximize the impact of their actions. These companies not only know that their legal donations will not have any legal repercussions for them, but they also realize that electoral regulations can be easily contravened. Corporate donors get involved in this kind of action not because of a lack of resources but because they want to obtain greater returns for their companies. Seen as an investment for the corporations, electoral donations should be a source of profit for those who make them—a particular type of behavior identified as the maximizer (Murphy & Robinson, 2008).

Reckoned to be the commonest practice in the business world, maximization is a mode of behavior that refers to the acceptance and simultaneous use of legitimate and illegitimate means of opportunity to pursue the American Dream: Profit and wealth. Introduced by Murphy and Robinson (2008), the maximizer corresponds to a new form of adaptation of Merton's theories of anomie and strain. Murphy and Robinson (2008, p. 512) argue that "in the business world, maximization is the preferred strategy used to increase profits and wealth." Maximization and law neutralization go hand-to-hand. The law can be respected but used in an unintended way to increase the corporation's profits. Here, we are dealing with perpetrators who have high expectations of reciprocity. Law-abiding corporations want to obtain maximum revenue from their actions.

In the presence of maximizing behaviors, the issue is whether illegality can be detected and punished. As Friedrichs (2004) has argued, no corporations have been ever convicted for giving this type of electoral support. Murphy and Robinson (2008) note that neither perpetrators (corporate executives) nor society are willing to accept that these highly respectable people, who are straining every nerve to fulfill the American Dream, are white-collar criminals. This is a challenge that demands creative responses. If corporate donors use the electoral law to obtain benefits while acting simultaneously outside the law to breach electoral regulations, then it is logical to expect the practice of making electoral donations exists not to strengthen democracy but to increase the profits of the corporations that they represent. Recalling the argument that crime can emerge as a consequence of democratization, and taking into account that the funding of elections has provided some evidence in this regard, then why not change the discussion of the control of electoral donations to a debate on the convenience of allowing the entrance of these kinds of resources into politics; this is obviously a difficult task.

Conclusions

On the basis of the cross-national analyses, this article points to two paradoxes. First, although private campaign contributions reduce corruption, donations have a significant impact on policy outcomes. Electoral donations are not necessarily realized immediately in policy; instead, their effect is evident more generally in a longer term shaping of the competitive conditions of the market or in the institutional leadership's attempts to reshape political relationships. Second, however, regulatory measures intended to prevent corruption do not impose constraints on the offenders' anticipated reciprocity. Their impact is limited.

Appendix A

List of Countries Included in the Analysis

Income level	Countries
High income	Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Luxemburg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, United Kingdom, United States, and the region of Hong Kong
Medium income	Argentina, Bolivia, Botswana, Brazil, Bulgaria, Chile, Colombia, Costa Rica, Czech Republic, Dominican Republic, Ecuador, Egypt, Guatemala, Honduras, Hungary, Indonesia, Jamaica, Jordan, Latvia, Malaysia, Mexico, Morocco, Namibia, Nicaragua, Panama, Paraguay, Peru, Philippines, Poland, Romania, Russia, Slovakia, South Korea, Sri Lanka, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, Uruguay, and Venezuela
Low income	Algeria, Angola, Bangladesh, Cameroon, India, Kenya, Malawi, Nigeria, Pakistan, Zambia, and Zimbabwe

Appendix B

The Variables Used in the Analysis

Variable Name	Scale	Definition	Source	Number of countries covered
Corruption	0–6 ^a	Higher values indicate less political corruption	PRS (2006)	140
Private financing	0–1	Are political parties entitled to private funding? 1 = yes/0 = no	ACE (2006)	193
Public financing	0–1	Do political parties receive direct/indirect public funding? 1 = yes/0 = no.	ACE (2006)	193
Disclosure of contributions	0–1	Is there public disclosure of party/candidate contributions? 1 = yes/0 = no	ACE (2006)	120 ^b
Disclosure of expenditures	0–1	Is there public disclosure of party/candidate campaign expenditures? 1 = yes/0 = no	ACE (2006)	120 ^b

(continued)

(continued)

Variable Name	Scale	Definition	Source	Number of countries covered
Ceilings on contributions	0–1	Are there ceilings on how much money a party/ candidate can raise? 1 = yes/0 = no	ACE (2006)	120 ^b
Ceilings on expenditures	0–1	Are there ceilings on party/ candidate election expenses? 1 = yes/0 = no	ACE (2006)	120 ^b
Impact of contributions	1–7 ^a	Higher values indicate less influence on policy outcomes	World Economic Forum (2006)	131
GDP	Continuous	(ln) real GDP per capita averaged from 1970 to 1995	La Porta et al. (1999)	161
Democracy	1–0	Has the country been a democracy for the whole of the past 46 years? 1 = yes/0 = no	Treisman (2000)	99
Graft index	–2.5–2.5 ^a	Higher values indicate less political corruption	Kaufmann, Kraay, and Mastruzzi (2009)	208
CPI	0–7 ^a	Higher values indicate less political corruption	Lambsdorff (2007)	163

Note. ^aIn the model, the scale was inverted, multiplying by –1 to facilitate readability.

^bData on electoral regulations was only available for 120 countries of the 193 studied by ACE in 2006.

Appendix C

Descriptive Statistics and the Frequency Observed

Variable name	N	Minimum	Maximum	M	SD	Frequency observed (number of countries)
Corruption	78	0	6.00	2.9359	1.31267	
Private financing	78	0	1	0.8974	0.30535	Yes = 70 No = 8
Public financing	78	0	1	0.9231	0.26819	Yes = 72 No = 6
Disclosure of contributions	78	0	1	0.3590	0.48280	Yes = 28 No = 50
Disclosure of expenditures	78	0	1	0.3077	0.46453	Yes = 24 No = 54
Ceilings on contributions	78	0	1	0.1538	0.36314	Yes = 12 No = 66
Ceilings on expenditures	78	0	1	0.2564	0.43948	Yes = 20 No = 58
Impact of contributions	78	2.60	6.20	4.1269	0.91505	
GDP	78	5.06	10.15	7.7032	1.30550	
Democracy	78	0	1	0.2692	0.44643	Yes = 21 No = 57
Graft index	78	–1.25	2.60	0.3346	1.13856	
CPI	78	2.00	9.40	4.9000	2.41929	

Appendix D

Partial Correlation Coefficients

Variables	Private financing	Public financing	Disclosure of contributors	Disclosure of expenditures	Ceilings on contributions	Ceilings on expenditures	Impact of contributions	GDP
Private financing								
Public financing	-.098							
Disclosure of contributors	.253	.216						
Disclosure of expenditures	.225	.192	.775					
Ceilings on contributions	.144	.123	.348	.332				
Ceilings on expenditures	.199	.170	.723	.626	.482			
Impact of contributions	.236	-.061	-.128	-.041	.165	.121		
GDP	.136	.108	.352	.355	.140	.177	-.531	
Democracy	.110	.175	.329	.159	-.018	.107	-.519	.662

Appendix E

Partial Correlation Coefficients

Variables	Corruption by PRS	Graft index
Graft index	.877	
CPI	.860	.993

Appendix F

OLS Regression Results With Alternative Dependent Variables

Variables	Dependent variable: corruption			
	Graft index		CPI	
	Model 1	Model 2	Model 3	Model 4
GDP	-.410 (.055) [.000]	-.411 (.049) [.000]	-.915 (.115) [.000]	-.815 (.298) [.008]
Democracy	-.504 (.154) [.002]	-.469 (.142) [.001]	-.848 (.324) [.011]	-.915 (.104) [.000]
Private financing	-.506 (.171) [.004]	-.489 (.162) [.004]	-1.117 (.359) [.003]	-1.071 (.342) [.003]
Public financing	.121 (.180) [.506]		.124 (.379) [.745]	
Impact of contributions	.576 (.070) [.000]	.522 (.066) [.000]	1.253 (.148) [.000]	1.191 (.138) [.000]
Disclosure of contributors	.174 (.190) [.362]		.340 (.399) [.398]	
Disclosure of expenditures	.053 (.169) [.753]		.170 (.355) [.633]	
Ceilings on contributions	-.053 (.149) [.723]		-.055 (.312) [.861]	
Ceilings on expenditures	-.222 (.169) [.193]		-.580 (.355) [.106]	
Constant	5.664 (.472) [.000]	5.670 (.397) [.000]	8.417 (.992) [.000]	8.245 (.838) [.000]
Adjusted R ²	.875	.878	.878	.888
Observations	78	78	78	78
F	61.014 [.000]	140.144 [.000]	62.446 [.000]	142.723 [.000]

Note. The table shows β coefficients, standard errors in parentheses, and significance in brackets.

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Notes

1. Pinto-Duschinsky (2002) only presents a descriptive overview of the sources of financial funding and the electoral legislation in 104 countries. Stratmann (2003)—who does study the correlation between electoral financing and political corruption cross-nationally—only uses data from 14 developed countries. Stratmann omits control variables from the analysis, which raises concerns about the validity of his results.
2. According to Lambsdorff and Cornelius (2000), it is the expectation of long-term reciprocation that motivates corrupt exchanges.
3. PACs are private groups created to represent special interests. PACs can receive and raise money from their relevant group's constituents and then make donations to political campaigns.
4. The sample consisted of 25 high-income countries, 42 medium-income countries and 11 low-income countries (see Appendix A). Although a sample of this characteristics can raise concerns of representativity, I decided not to disaggregate the analysis based on the development level of the countries included in the sample. Instead, I used the aggregated sample to approach the problem from a general perspective.
5. The similarity between Rose-Ackerman's definition and Transparency International's and the World Bank's is not a coincidence. Rose-Ackerman is a special advisor to the Board of Directors of Transparency International and founder member of TI-USA. She was responsible for defining the World Bank's anticorruption strategy in 1997. Rose-Ackerman is considered the most influential scholar in this field.
6. The composite index of organized crime and corruption compiled by Buscaglia and van Dijk (2003) aggregates victimization data on petty corruption and perceptual data on large-scale corruption. Therefore, this index suffers partially from the same problems as identified in other aggregated indicators.
7. The data collected by the World Economic Forum only refer to the behavior of private corporations, which correspond to the focus of this article. This implies that the opinions of business associations and individual donors are not considered here.
8. Other conditions such as latitude, continent, legal origin, dominant religion, and ethnolinguistic fractions have been used in a more limited number of studies (14 in total). These variables were not included in the present analysis because I would argue that they introduce biases on political domain, as suggested by Xenakis (2010).
9. Harstad and Svensson (2011) have demonstrated that corruption is reduced because illegal mechanisms—bribes, for example—are substituted for legal ones—such as electoral donations—but not because of greater transparency in the system at large.
10. *Disclosure of contributions* exist only in 28 countries of the 78 included in the sample, *Disclosure of expenditures* in 24 countries, *Ceilings on expenditures* in 20 countries, and *Ceilings on contributions* in 10 countries (data shown in Appendix C).
11. The eigenvalue is close to zero (.096), but the condition index is lower than 15 (6.676), which indicates that perhaps multicollinearity is not a serious problem.

12. The core principle of the electoral law is that donations should not be reciprocated. Additionally, it is expected that the adoption of regulations on disclosure and ceilings on contributors and expenses will prevent the delivery of benefits to donors.

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