

What Shapes Elections and Corruption in Emerging and Developing Countries ?

Lavinia Dudaş

"Vasile Goldis" Western University of Arad

laviniamustea@gmail.com

Lavinia Mihit

West University of Timișoara

lavinia.mihit@gmail.com

Abstract

Over time it can be observed an increase in publication investigating the corruption and elections impact on country economic development, especially after a major economic and financial crisis. This paper aims to bring together theoretical and empirical studies that are analyzing corruption and elections periods focusing on emerging and developing countries between 2008-2018. To best achieve the research objective, we made use of content analysis focusing on two directions: (1) methodologies used for measuring and (2) the variables of interest. Our results reveal a scarce literature that investigates elections, while an increasing literature on corruption and that the empirical approaches are more often used in favor of theoretical ones. Moreover, corruption is related on the one hand, with the decrease of the economic growth, scheduled elections or a low level of government effectiveness and rule of law, public wages and on the other hand with the existence of mobile phones and internet access, expected years of schooling. Furthermore, electoral years impact the public expenditure structure. The probability of being reelected is positively associated with an increase in the economic growth, government subsidies and a decrease in the inflation rate, while the budget deficit has no significant impact.

Key words: corruption, elections, developing countries

J.E.L. classification: D72, D73, F62

1. Introduction

In order to establish a functioning democracy, countries need to provide for their citizens the possibility to choose the parties to represent them, hence to organize elections, but also to ensure a low level of corruption for a better employment of the public resources.

Several decades ago a functional link between economic cycles and political cycles has been highlighted in the literature. It outlines how economic cycles are influenced by the parties in power through budgetary, fiscal and monetary measures that they generate and adopt, depending on the electoral calendar. There have been two important moments in which political-economic cycles have been defined. In a first phase in 1975 Nordhaus and Lindbeck in 1976 described the "opportunistic" cycles, and in 1977 Hibbs described the "partisan" model.

In the beginning, scholarly literature has investigated the relation between elections and economic and social variables mostly in developed economies or "old democracies" mainly due to more available data. Nowadays, there is an expanding body of literature that is trying to understand the elections period impact on economic variables in developing countries or "new democracies". Among other things, the literature suggests that the electorate can have an impact on the degree of fragmentation of the party system and the wider effectiveness of the government. There is also an effect on the results of public policy as well as on the behavior of the policymakers and the resulting links of responsibility. In addition, some researchers have argued that several electoral

systems have more chances to ease or exacerbate conflict, while others started to investigate electoral malpractice and the effects on the economy.

Turning to the corruption phenomena, we can observe it throughout history, but worldwide scandals, e.g. Watergate, Enron, have increased academic interest on this topic and also the anti-corruption legislation. In the last thirty years, major international institutions started to assess corruption effects and to fight it all around the world. To this end, in April 2018 the International Monetary Fund (IMF) presented a new framework for measuring corruption and weak governance firstly in their member countries. One year later, in the April 2019 IMF Fiscal Monitor, it is revealed that at the same level of development the least corrupt government collect tax revenues of 4 percent of GDP more than the country with the highest level of corruption.

In what concerns the scholarly literature tackling the topic of corruption in emerging and developing countries after 2000, Cintra et al. (2018) observed that published paper where concentrated in five important periods, namely (i) between 2000-2002 with a special interest in corruption and emerging economies, (ii) 2003-2005 where a theoretical basis can be observed, (iii) 2006-2008 characterized by theoretical maturity, and (iv) 2008 -2014 with only a hand of publications and (v) 2015-2018 with a rebirth of the corruption topic and a special focus on empirical approaches.

The presence of corruption at increased levels in one country is associated with the impossibility to maintain a long-lasting positive trend of economic growth. Moreover, the country economy suffers on varied dimensions starting with the improper use of public expenditure, the ability to attract FDIs, the stability of the country, e.g. government failure even the press freedom is affected.

In this paper, we gather studies published in scholarly literature between 2008 – 2018 in order to observe the trend in investing the relation between economic and social variables with, on the one hand corruption and on the other hand elections in developing and emerging countries. The rest of the paper is structured as follows: section 2 provides a brief literature review, section 3 presents the applied methodology to select the studies, section 4 the main findings and section 5 concludes.

2. Literature review

It is worth noticing that economists and academia have an increased interest in the relation between electoral systems and the level of corruption and it seems only natural to briefly define the two concepts. To this end, a concise description of electoral system design is provided in Table 1.

Turning to corruption, the definition can range from an individual moral problem to a political or economic problem. According to Andvig et al. (2000), the strict definition of corruption is an act of bribery involving a public servant and a transfer of tangible resources. Moreover, corruption is a behavior that deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private-regarding motives such as wealth, power, or status (Khan, 1996, p.12). Institution like World Bank (1997), Transparency International (1998) and others point out that corruption is the abuse of public power for private benefit (or profit).

The relation between corruption and elections has been investigated from different points of view during the years and in different countries. We observed that a special attention was given to elections in the United States of America mainly due to the existence of data. Myerson (1993), considered a pioneer in investigating the above mention relation, suggested that political corruption can be reduce if the entry to political market is accessible. More recently, analyzing Italian districts Chang and Golden (2007) observe that corruption becomes more severe when there is an open list proportional representation (PR) practice for big magnitude districts, while a closed list PR practice for small magnitude districts (page 117).

Moreover, there is a part of scholarly literature that has been investigating if corruption charges have an impact on the reelection prospects. Thus, Peters and Welch (1980) observed that corruption charges slightly reduce the number of expected votes of one incumbent and allegation of corruption have no impact on the turnout. This conclusion, namely that there is no significant negative impact of corruption charges on reelection expectation is supported also by recent literature (Zechmeister and Zizumbo-Colunga 2013, Costas-Perez et al. 2012, Chang et al. 2010, S Pereira et al. 2009).

Additionally, corruption and elections have been analyzed together with other economic variables. Klasnja and Tucker (2013) reveal that corruption has a negative impact on voters, regardless of the state of the economy in a developed, low corrupted country like Sweden, while in Moldavia, a developing and high corruption country, voters are negatively influenced only when the country economic climate is poor. Analyzing a sample of 35 countries, Krause and Mendez (2009) observed that in addition to corruption, lower GDP growth and high inflation generate a loss in votes for the incumbent.

Table no. 1 Electoral systems

TYPE OF VOTING SYSTEMS			Examples of countries in which a given system is applied (the number of countries)
MAJORITY/PLURALITY	First-past-the-post	Single-member districts	Great Britain, India, Canada (44)
		Multi-member districts	Kuwait, Lebanon, Tuvalu (9)
	Majority system		France, Vietnam (18)
PROPORTIONAL	Lists ' type	closed	Austria, Chile, Island, Israel, Morocco, Norway
		Open	Dania, Latvia, Poland, Sweden
		free	Switzerland, Luxemburg, Ecuador
	Voting formula	the highest average methods	Argentina, Poland, Sweden, Norway,
		the largest remainder methods	Algeria, Cyprus, Colombia, Russia
MIXED	Parallel		Bulgaria, Lithuania, Mexico (23)
	Personalized		Germany, Hungary, Romania (9)
OTHERS	Alternative vote		Australia (2)
	Single Transferable Vote		Ireland, Malta (2)
	Single Non-transferable Vote		Afghanistan, Vanuatu (4)
	Borda method		(0)

Source: Joanna Dzionek-Kozłowska (2014) *Political Corruption and Electoral Systems Seen with Economists' Lenses*, page 85.

3. Research methodology

We make use of content analysis in order to best respond to the research objectives on the assessment of corruption costs and elections impact in emerging and developing economies. We performed two important steps in order to carry out the search. Firstly, the selection has been carried out using Sciencedirect and Web of Science platforms. Secondly, we started the research using, on the one hand, the words "corruption", "developing countries", "emerging countries", and on the other hand the words "elections", "developing countries", "emerging countries". Furthermore, we have restricted the period for publication between 2008-2018. We have selected only the literature that is investigating the macroeconomic effects of corruption and elections at country level and not at company level. Afterward, based on the title and abstract, full papers have been recovered in order to perform the actual content analysis.

Special attention was given on the one hand to the identification of the variables that were analyzed in relation with corruption, elections periods respectively and on the other hand to the identification of the methodology that was used.

4. Elections and corruption throughout the literature

A complex analysis of elections periods is carried out by Vergne (2009) in 42 developing countries. First, analyzing the government expenditures structure before and during the election year, he reveals an increase in current government expenditures, while a decrease in capital expenditures and no significant change in infrastructure expenditures. Moreover, he determines that public wages and subsidies are the subcategories that are increasing in the pre-election year, especially since these are immediately providing economic benefits for the population. Klomp and de Haan (2013) encountered that the increase in the budget deficit and government spending generates support for the political parties in the government, especially in developing countries and that inflation and growth influence the incumbent popularity.

Analyzing the probability of reelection in 74 developed and less developed countries, Brender and Drazen (2008) reveal that (i) the budget deficit has no impact in any type of country, (ii) higher growth rates of real GDP increase the chances to be reelected only in less developed countries and new democracies and (iii) that the inflation rate has a statistically significant negative impact only in developed countries. Furthermore, they pointed out that a 1 percent increase in the central government surplus ratio to GDP is increasing by 3-5 percent the probability to be reelected in developed countries and by 7-9 percent in developing countries (p. 2219). Focusing on the direct payments from the government to individuals in 229 counties from Chile, Cerda and Vergara (2008) established a positive relation with the votes obtained by the incumbent.

Turning to elections manipulation, Beaulieu and Hyde (2009) demonstrate that the presence of international monitors increases the probability of elections boycotts on a data set of 453 elections from 107 countries. They also endorse the idea that international pressure is building electoral politics in developing countries (p. 410). Similar results are produced by Daxecker (2014) for African countries, namely that the presence of electoral observers support pre-election violence incidents. More recent, Kerr and Lührmann (2017) encountered that the public trust in election is increased by the existence of autonomy in election administration, while reduced by media freedom.

Table 2 and Table 3 illustrate published studies between 2008-2018 by highlighting the authors, the publication year, the applied methodology and the analyzed variables besides election and corruption respectively.

Table no. 2. 2008 – 2018 studies on elections in developing countries

Authors	Publication year	Method	Variables
Brender and Drazen	2008	Regression	Growth, inflation, budget deficit
Cerda and Vergara	2008	Regression (panel)	Government subsidies
Beaulieu and Hyde	2009	Regression (logit)	Presence of international monitors
Vergne	2009	Regression GMM model	Current government expenditure, capital government expenditure and expenditures in infrastructure, wages subsidies
Klomp and de Haan	2013	Regression Multilevel model	Budget balance, total spending, inflation, economic growth
Daxecker	2014	Regression	Presence of international election observers
Kerr and Lührmann	2017	Regression	autonomy of election administration, media freedom

Source: Authors compilation based on above-mentioned studies

The impact of corruption on the economic growth of one country is a topic that was studied since the early studies on corruption and still continues in the recent literature. The direct impact of corruption on the economic growth variable is investigated by D'Agostino et al. (2016) on a sample of 48 African countries and reveals a negative impact of corruption and military spending on economic growth. Lin (2018) discovered that public infrastructure investments have no impact on increasing growth and only anti-corruption policies in a middle-income African economy with high levels of corruption.

The literature is also focusing on the relation between corruption and variables that generate a stable fiscal space and a healthy development of a country economy. To this end, Berdiev et al. (2013) reveal that in non-OECD countries, remittances generate an increase in the corruption level, while An and Kweon (2017) show that a 1 unit increase in public wages will decrease corruption by 0.26 units. Cooray and Dzhumashev (2018) confirm that higher wages and regulatory quality tend to reduce the level of corruption, mentioning also the negative impact of corruption on the labour force participation rate and the employment rate. In the same line, Dutta et al. (2017) observe that countries with lower levels of corruption show an increase in human capital accumulation.

Analyzing Brazil municipalities, Ferraz and Finan (2008) observe that political selection appears if citizens are informed about the corruption in the district. Investigating the relation between corruption and election, Vladamannati (2015) observes an increase in the registered corruption cases during scheduled elections. Corruption levels are found to decrease in countries where the use of mobile phones and the internet are not restricted (Kanyam, 2017). The same study encountered a negative correlation between corruption and government effectiveness and the rule of law in 44 Sub-Saharan African countries. Canalizing on the same region, Sulemana (2018) established that higher levels of income inequalities are linked with lower levels of corruption. Furthermore, in countries with a lower level of corruption the expected years of schooling in public higher education increases and decreases in countries with higher corruption (Duerrenberger and Warning, 2018). Considering 71 countries Menard and Weill (2016) found no significant causal relationship between aid and corruption.

Table no. 3. 2008 – 2018 studies on corruption in developing countries

Authors	Publication year	Method	Variables
Ferraz and Finan	2008	Regression	Citizen level of information regarding elections
Berdiev et al.	2013	Regression	Remittances
Vladamannati	2015	Regression	Scheduled elections
D'Agostino et al.	2016	Endogenous growth model	Military spending and economic growth
Menard and Weill	2016	GMM model	Aid
An and Kweon	2017	Dynamic principal agent model	Public wages
Dutta et al.	2017	GMM model	Human capital and FDI
Kanyam	2017	Regression GMM model	Mobile phone and internet Government effectiveness and rule of law
Cooray and Dzhumashev	2018	Theoretical model	Labour force participation rate and employment rate wages, regulatory quality and consumption
Duerrenberger and Warning	2018	Regression	Expected years of schooling
Lim	2018	Endogenous growth model	Public infrastructure investment
Sulemana	2018	OLS	Income inequalities

Source: Authors compilation based on above-mentioned studies

5. Conclusions

Although corruption probably appeared at the same time with the first known societies and evolved together, only relatively recently, namely starting with the '70s, anti-corruption law regulation started to be put in place. Furthermore, major international institutions recognized the negative effects of corruption on the economy and developed indices and indicators to measure it and also measures to fight it.

After performing the content analysis on the above mentioned studies we observed that empirical approaches are far more used than theoretical approaches. Furthermore, higher levels of corruption are found to decrease the economic growth of the country and the expected years of schooling, is higher before electoral years and in countries with lower public wages. The presence of mobile phones and unrestricted internet access in one country will generate a decrease in the corruption level.

Turning to elections in developing and emerging countries, our results revealed a scarce literature and the fact that empirical estimations are preferred. Government spending, especially current expenditures like public wages and subsidies, are found to be increasing before and during the elections in order to improve the chances to be reelected. Moreover, the presence of international observers is increasing the possibility of elections boycotts or violence, while media freedom reduces the people trust in elections in developing countries.

Future research needs to consider why perceived corruption in the public sector increases before elections and which are the major determinants of this phenomena.

6. Acknowledgment

This work was supported by a grant of Ministry of Research and Innovation, CNCS – UEFISCDI, project number PN-III-P1-1.1-PD-2016-0780, within PNCDI III. Lavinia Dudaş acknowledges the financial support.

7. References

- An, W. and Kweon, Y., 2017. Do higher government wages induce less corruption? Cross-country panel evidence. *Journal of Policy Modeling*, 39, 809–826.
- Andvig, J., Fjeldstad, O., Amundsen, I., Sissener, T. and Søreide T., 2000. Research on Corruption: A Policy Oriented Survey. *Norwegian Agency for Development Co-operation (NORAD) Report*.
- Beaulieu, E. and Hyde, S., 2009. In the Shadow of Democracy Promotion Strategic Manipulation, International Observers, and Election Boycotts. *Comparative Political Studies*, 42, 392–415.
- Berdiev, A.N., Kim Y., and Chang, C-P., 2013. Remittances and corruption. *Economics Letters*, 118, 182–185.
- Brender, A. and Drazen, A., 2008. How Do Budget Deficits and Economic Growth Affect Reelection Prospects? Evidence from a Large Panel of Countries. *American Economic Review*, 98, 2203–2220.
- Cerda, R. and Vergara, R., 2008. Government Subsidies and Presidential Election Outcomes: Evidence for a Developing Country. *World Development*, 36, 2470–2488.
- Chang, E., Golden, M. and Hill, S., 2010. Legislative Malfeasance and Political Accountability. *World Politics*, 62, 177–220.
- Chang, E. and Golden, M., 2007. Electoral Systems, District Magnitude and Corruption. *British Journal of Political Science*, 37, 115–137.
- Cintra R.F, Cassol A., and Ribeiro, I., 2018. Corruption and emerging markets: Systematic review of the most cited. *International Business and Finance*, 45, 607–619.
- Cooray, A. and Dzhumashev, R., 2018. The effect of corruption on labour market outcomes. *Economic Modelling*, 74, 207–218.
- Costas-Perez, E., Sole-Olle, A. and Sorribas-Navarro, P., 2012. Corruption Scandals, Voter Information, and Accountability. *European Journal of Political Economy*, 28, 469–484.
- D'Agostino, G., Dunne, J.P. and Pieroni L., 2016. Corruption and growth in Africa. *European Journal of Political Economy*, 43, 71–88.
- Daxecker, U. 2014. All quiet on election day? International election observation and incentives for pre-election violence in African elections. *Electoral Studies*, 34, 232–243.

- Duerrenberger, N. and Warning, S., 2018. Corruption and education in developing countries: The role of public vs. private funding of higher education. *International Journal of Educational Development*, 62, 217-225.
- Dutta, N., Kar, S. and Saha, S., 2017. Human capital and FDI: How does corruption affect the relationship?. *Economic Analysis and Policy*, 56, 126-134.
- Dzionek-Kozłowska, J., 2014. Political Corruption and Electoral Systems Seen with Economists' Lenses. *Annales. Ethics in Economic Life*, 17, 79-92.
- Ferraz, C., and Finan, F., 2008. Exposing corrupt politicians: the effects of Brazil's publicly released audits on electoral outcomes. *The Quarterly Journal of Economics*, 123 (2), 703–745.
- Hibbs, D., 1977. Political Parties and Macroeconomic Policy. *American Political Science Review*, 71, 1467-1487.
- Kanyam, D. A., Kostandini, G. and Ferreira, S., 2017. The Mobile Phone Revolution: Have Mobile Phones and the Internet Reduced Corruption in Sub-Saharan Africa?. *World Development*, 99, 271-284.
- Kerr, N. and Lührmann, A., 2017. Public trust in manipulated elections: The role of election administration and media freedom. *Electoral Studies*, 50, 50-67.
- Khan, M.H., 1996. A Typology of Corrupt Transactions in Developing Countries. *IDS Bulletin: Liberalization and the New Corruption*, 27, 12-21.
- Klasnja, M. and Tucker, J., 2013. The economy, corruption, and the vote: Evidence from experiments in Sweden and Moldova. *Electoral Studies*, 32, 536–543.
- Klomp, J. and de Haan, J., 2013. Political budget cycles and election outcomes. *Public Choice* , 157, 245-267.
- Krause, S. and Mendez, F., 2009. Corruption and election: An empirical study for a cross-section selection of countries. *Economics and Politics*, 21, 179-200.
- Lim, K.Y., 2018. Modelling the dynamics of corruption and unemployment with heterogeneous labour. *Economic Modelling*, article in press, 20p.
- Lindbeck, A., 1976. Stabilization Policy in Open Economies with Endogenous Politicians. *The American Economic Review*, 66(2), 1-19.
- Myerson, R., 1993. Effectiveness of Electoral Systems for Reducing Government Corruption: A Game-Theoretic Analysis. *Games and Economic Behavior*, 5, 118-132.
- Menard, A-R. and Weil, L., 2016. Understanding the link between aid and corruption: A causality analysis. *Economic Systems*, 40, 260-272.
- Nordhaus, W.D., 1975. The political business cycle. *Revue of Economic Studies*. 42, 169-190.
- Pereira, C., Melo, M. and Figueiredo, C., 2009. The Corruption-Enhancing Role of Re-Election Incentives? Counterintuitive Evidence from Brazil's Audit Reports, *Political Research Quarterly*, 62, 731-744.
- Peters, J. and Welch, S., 1980. The Effects of Charges of Corruption on Voting Behavior in Congressional Election. *American Political Science Review*, 74, 697-708.
- Sulemana, I. and Kpienbaareh, D., 2018. An empirical examination of the relationship between income inequality and corruption in Africa. *Economic Analysis and Policy*, 60, 27-42.
- Transparency International, 2013. Website. Available at: <https://www.transparency.org/>
- Vadlamannati, K. C., 2015. Fighting corruption or elections? The politics of anti-corruption policies in India: A subnational study. *Journal of Comparative Economics*, 43 (4), 1035-1052.
- Vergne, C., 2009. Democracy, elections and allocation of public expenditures in developing countries. *European Journal of Political Economy*, 25, 63-77.
- World Bank 1997. Helping Countries Combat Corruption. *The World Bank, Poverty Reduction and Economic Management Program*, Washington, D.C.
- Zechmeister, E. and Zizumbo-Colunga, D., 2013. The Varying Political Toll of Concerns about Corruption in Good versus Bad Economic Times. *Comparative Political Studies*, 46, 1190-1218.