Corruption and political stability: Does the youth bulge matter?[☆]

Mohammad Reza Farzanegan[a,b,c,*], Stefan Witthuhn[d]

[a] Philipps-Universität Marburg, Center for Near and Middle Eastern Studies (CNMS), Economics of the Middle East Research Group MACIE, Marburg, Germany
[b] CESifo, Munich, Germany
[c] ERF, Cairo, Egypt
[d] Berghof Foundation, Tübingen, Germany

ABSTRACT

This study shows that the relative size of the youth bulge matters in how corruption affects the internal stability of a political system. Using panel data covering the 1984–2012 period for more than 100 countries, we find that the effect of corruption on political stability depends on the youth bulge. Corruption is a destabilizing factor for political systems when the share of the youth population in the adult population exceeds a critical level of approximately 20%. The moderating effect of the youth bulge in the stability–corruption nexus is robust, controlling for country and year fixed effects, a set of control variables that may affect internal political stability, an alternative operationalization of the youth bulge, corruption, and a dynamic panel estimation method.

1. Introduction

We aim to illuminate better the influence of the perception of corruption on political stability[1] and the moderating role of demography. Does the effect of corruption on political stability depend on the level of the youth bulge size? The answer to this question will guide policy makers and international organizations in allocating the anti-corruption budget better, taking into account the demographic structure of societies and the risk of political instability. The tangible economic costs of corruption are significant. According to the World Bank, estimations from sources such as worldwide surveys of enterprises, and household surveys, more than US$1 trillion is paid in bribes each year (Dreher et al., 2007). These estimations, however, exclude the extent of embezzlement of public funds and the theft (or misuse) of public assets. The costs of corruption will increase if we take into account the significant losses in investment, private sector development, and economic growth, or to the increases in infant mortality, poverty, and inequality, all resulting from corruption and misgoverning. The World Bank calculations show that there is a 400% governance dividend in control of corruption: countries that improve on control of corruption and rule of law can expect (on average) and in the

[1] In this study, we follow Bjorvatn and Farzanegan (2015) and use "internal conflict" and "political instability" interchangeably. We use the internal conflict index of the International Country Risk Guide (ICRG, 2015) published by the Political Risk Services (PRS) group.

long run a four-fold increase in incomes per capita.[2]

In addition, the political costs of corruption are sizeable. Across world regions, the Middle East and North Africa (MENA) region provides a significant example of the costs of conflict and instability. A recent study by Rother et al. (2016) shows the massive costs of conflicts in the MENA region; for example, after four years of civil war, GDP in Syria in 2015 sank to less than half its pre-conflict level in 2010. Yemen is another major example whose economic loss due to conflict is estimated at 25–35% of its GDP in 2015. The costs of conflict are not limited to the MENA borders but extend also to the ongoing flow of refugees that has affected the budgets and security of other countries around the world. Corruption is often cited as one of the key drivers of these massive and ongoing conflicts and instabilities in the MENA region. About five years before the Arab Spring, the results of the Zogby International (Zogby, 2005) poll showed that besides expanding employment opportunities and improving the health care system, ending corruption and nepotism was among the top three concerns in the Arab world. According to Diwan (2013), "the perceived corruption of the political and business elites was a key driving force of popular discontent." He quotes the Pew survey in 2010, in which the corruption was ranked as the main concern of 46% of Egyptians, ahead of other concerns such as the lack of democracy and poor economic conditions. Corruption is also argued to be behind the emergence and persistence of terrorist groups in Iraq and Nigeria and their success in attracting the marginalized parts of the population and, in particular, the youth bulge (Onuoha, 2014 and Transparency International, 2015).

There are arguments in the literature for both the positive and negative effects of corruption on political stability. We show that one key intermediary factor in the stability–corruption nexus is the relative size of the youth bulge of population. Mobilization of protests in corrupt countries requires a sizable youth population that is suffering more than others from corruption. Corruption, as a regressive tax, puts more pressures on smaller enterprises and poorer households. The youth participation in the Arab Spring (since 2011), the Iranian Green Movement (the post-2009 presidential election), and the Color revolutions (e.g., in Yugoslavia's Bulldozer Revolution [2000], in Georgia's Rose Revolution [2003], and in the Ukraine's Orange Revolution [2004]) is well documented (Diuk, 2013; Nesvaderani and Memarian, 2010).

The importance of the youth bulge as an *agent of change* is also emphasized by Samuel P. Huntington in his well-known book, *The Clash of Civilizations and the Remaking of World Order*. Huntington (1996) presents some historical examples on the population structure of countries before the political changes and concludes that (p. 261): "[s]*hifts in the demographic balances and youth bulges of 20 percent or more account for many of the intercivilizational conflicts of the late twentieth century. They do not, however, explain all of them.*" We show that youth bulge is a trigger factor in the stability–corruption nexus. Thus, we support Huntington's argument that youth bulge by itself does not explain all conflicts. The joint effect of corruption and the youth bulge matters significantly. As our contribution to the political stability–corruption literature, we take into account the youthful demographic structure of countries in determining the effect of corruption on stability of political systems.

We use panel data country and year fixed-effect regressions for more than 100 countries from 1984 to 2012. By controlling for the main drivers of political stability, our results show that the final effects of corruption on political stability depend on the youth bulge. This result is robust to different measurements of the youth bulge, corruption, and the inclusion of other relevant interaction terms. Increasing corruption in countries that have a sizable youth bulge (larger than approximately 20% of the adult population) leads to political instability. Anti-corruption budgets will be more effective and needed in countries with a high relative size of youth population.

The remainder of this paper is structured as follows. Section 2 discusses the literature on political stability–corruption and political stability–youth bulge. It also explains how the effects of corruption on economic development may have implications for political stability. Section 3 presents the data and our empirical strategy. The results and robustness checks are presented and discussed in Section 4. Section 5 concludes the paper.

2. Review of literature

2.1. Political stability and corruption

Corruption, which is defined as abuse of public office for private benefits (e.g., Shleifer and Vishny, 1993), has characteristics that may either stabilize or destabilize the political system. Rose-Ackerman (1999); Manzetti and Wilson (2007) suggest that political corruption is misusing state resources to expand political power. The expansion of power can happen by buying political loyalty through illegitimate distribution of private gains and privileges by public office holders among elites or selected parts of the population. Such gains and privileges include, among others, tax exemptions and subsidies, low-interest loans to selective layers of society, access to highly subsidized foreign currency for connected firms and individuals, public employment, land allocations, lucrative licenses for imports and exports, and discriminatory enforcements of the law. Political corruption through these illegitimate rents distributions produces so-called patronage politics (see Johnston, 1986; Acemoglu et al., 2004). Patronage politics aims to secure reelection and regime stability, practicing frequently in resource-rich countries (Alesina et al., 1998; Auty, 2001; Robinson et al., 2006; Bjorvatn and Farzanegan, 2013). Clients in such patronage politics in return announce their loyalty to the patron who is giving them access to the rents.

Allocation of national budget funds in politically corrupt economies is also distorted toward well-connected elites. Dizaji et al. (2016) show that autocratic and often corrupt regimes spend more on their militaries and less on education and health. The latter

---