



Contents lists available at ScienceDirect

## European Journal of Political Economy

journal homepage: [www.elsevier.com/locate/ejpoleco](http://www.elsevier.com/locate/ejpoleco)Political cycles and corruption in Russian regions<sup>☆</sup>Oleg Sidorkin<sup>a</sup>, Dmitriy Vorobyev<sup>a,b,\*</sup><sup>a</sup> CERGE-EI, a joint workplace of Charles University and the Economics Institute of the Czech Academy of Sciences, Politických veznu 7, 111 21 Prague, Czech Republic<sup>b</sup> Graduate School of Economics and Management, Ural Federal University, Yekaterinburg, Russia

## ARTICLE INFO

## JEL classification:

D73  
O17  
P26

## Keywords:

Corruption  
Political cycles  
Russia

## ABSTRACT

It has been established that opportunistic incumbent politicians, both elected and appointed, adjust public policies in systematic ways over political cycles. We show that the corrupt behavior of appointed politicians also follows certain patterns which are driven by political cycles. Based on BEEPS data, exploiting variation in the dates of surveys and in the starting dates of Russian regional governors' terms of office, we find that corruption levels, as perceived by firms operating in different regions of Russia, are higher closer to the end of a regional governor's term. We argue that such a pattern cannot be explained by standard political budget cycle reasoning, but rather that the observed pattern may be generated by governors' accumulation of private information about their likelihood of remaining in office for another term. When a governor gradually learns that he will not be re-appointed once his current term has expired, he has increasing incentives to engage in corrupt activities in order to accumulate wealth before his departure. Alternatively, when a governor becomes more certain that he will remain in office, he may have higher incentives to smooth rent extraction over time and thus not to increase it. We test this explanation in several ways and consistently find supporting evidence.

## 1. Introduction

There is plentiful evidence showing that politicians change their behavior during terms of office in systematic ways. This is particularly true for elected politicians: in pre-election periods, elected incumbents tend to increase public expenditures, shift the composition of expenditures towards more publicly visible projects, stimulate job creation, release overly optimistic economic forecasts, and increase overt anti-corruption activities. However, evidence of clear patterns in the behavior of appointed politicians is scarce. In this paper, we use Russian regional data to demonstrate that political cycles substantially affect the incentives of appointed officials to engage in corrupt activities in completely different ways than they affect elected officials.

Opportunistic behavior by elected politicians is empirically well-documented in both developed and developing countries. A large body of research focuses on the patterns of fiscal behavior of incumbent politicians.<sup>1</sup> Although there is some degree of controversy, the literature on political budget cycles is generally consistent in its major findings. In developing countries, cycles in fiscal policies and public expenditures are usually of higher magnitude and often rewarded by voters (Akhmedov and Zhuravskaya, 2004; Guo, 2009; Ehrhart, 2011). In developed countries, cycles appear less often, are of a smaller magnitude, can be mitigated by properly designed institutions, and may even be punished by voters (Shi and Svensson, 2006; Brender and Drazen, 2008; Streb et al., 2009;

<sup>☆</sup> The work in this study was supported by individual Grant no 13-0512 from the Economics Education and Research Consortium, Inc., with funds provided by the Global Development Network and the Government of Sweden, and with institutional support RVO 67985998 from the Czech Academy of Sciences.

\* Corresponding author at: Ural Federal University, Yekaterinburg, Russia.

E-mail addresses: [oleg.sidorkin@cerge-ei.cz](mailto:oleg.sidorkin@cerge-ei.cz) (O. Sidorkin), [d.a.vorobyev@urfu.ru](mailto:d.a.vorobyev@urfu.ru) (D. Vorobyev).

<sup>1</sup> For a comprehensive review of the literature on political budgets cycles see, e.g. De Haan and Klomp (2013).

<http://dx.doi.org/10.1016/j.ejpoleco.2017.05.001>

Received 28 March 2016; Received in revised form 28 April 2017; Accepted 7 May 2017

0176-2680/© 2017 Elsevier B.V. All rights reserved.

Klomp and De Haan, 2013a; Baskaran et al., 2016). Often, in developed countries, politicians prefer to stabilize fiscal policies (Andrikopoulos et al., 2004) or to temporarily change the focus of public expenditures towards more visible projects in pre-election years (Brender, 2003; Schneider, 2009; Aidt et al., 2011). Cases in which public officials manipulate the composition of expenditures rather than levels are documented also for developing countries (Drazen and Eslava, 2010).

In this paper, we focus on corruption as a phenomenon that can be affected by the timing of political cycles. There is no need to emphasize that corruption is undesirable. Its effects on various social, economic, and political aspects have been well studied in the academic literature – theoretically, empirically and experimentally, and on both macro and micro levels. Corruption has been found to misallocate resources and human capital, distort income and wealth distribution, decrease levels and quality of investments, shift government expenditures towards less transparent activities, increase transaction costs, generate wasteful resource expenditures, and slow down economic growth, etc. (see, for example, Jain (2001) and Rose-Ackerman and Soreide (2011) for comprehensive reviews).

While it is well established that corruption in particular, and the quality and transparency of governance in general, are important determinants of political fiscal cycles (Shi and Svensson, 2006; Alt and Lassen, 2006; Klomp and De Haan, 2013b; Vergne, 2009), corruption appears to be subject to cycles itself. Intuitively, the proximity of elections may have effects on corrupt behavior similar to its effects on fiscal behavior: if voters appreciate a politician's integrity or ability to fight corruption, the incumbent may want to commit less corruption himself or to stimulate anti-corruption activities prior to elections to attract extra votes, for the same reasons he adjusts fiscal policies. Evidence of such behavior by elected politicians has been found by, e.g. Khemani (2004) and Vadlamannati (2015) in Indian states, and by Chen (2015) in Chinese municipalities. Mironov and Zhuravskaya (2016) highlight another mechanism behind the relationship between political cycles and corruption whereby politicians may engage in more corruption closer to elections to raise funds for their campaigns.

We further study the link between political cycles and the corrupt behavior of politicians, focusing on the incentives and actions of appointed officials rather than of elected officials. Although there are several works on the behavior of appointed politicians, the literature on the topic remains scarce. Several recent studies demonstrate that appointed politicians behave differently from elected officials in that those appointed are relatively less likely to be involved in opportunistic behavior. Enikolopov (2014) shows that appointed politicians are less likely to engage in targeted redistribution than their elected counterparts. Specifically, appointed chief executives in US local governments are less likely to use excessive public employment as a targeted redistribution tool than elected executives. Hessami (2017) demonstrates that elected German mayors attract more state grants for highly visible municipal investment projects in pre-election years, while in cities with appointed mayors, investment grants do not exhibit any cycle. We contribute to the discussion on the behavior of appointed politicians by studying their corrupt behavior over political cycles.

In particular, we investigate the example of Russian regional governors who were directly appointed by the president in the 2005–2012 period. We use a dataset on Russian regions based on the Business Environment and Enterprise Performance Survey (BEEPS) to estimate the effect of approaching expiration dates of regional governors' terms on the corruption levels perceived by local firms.<sup>2</sup> To do this, we exploit the variation in the dates of surveys and in the length and starting dates of governors' terms.

We make two specific contributions to the literature. First, we establish that corruption tends to increase towards the end of the incumbent governor's term. Second, we argue that this pattern could arise due to changes in governors' private information about their career prospects. Specifically, if a governor becomes more certain that he is leaving office once the current term ends, he may have increased incentives to engage in corrupt activities in order to accumulate wealth before his departure. Conversely, when a governor becomes more certain that he will remain in office for another term, he may have incentives to accumulate wealth through corruption more smoothly and thus maintain or even decrease the level of his engagement in corruption. As a result, the increasing corruption we observe may be generated mostly by the governors who become more certain that they will leave office when their current term expires. Although the data we use do not allow us to directly verify the existence of the relationship between governors' beliefs and their corrupt behavior, we are able to conduct several exercises to indirectly test the validity of this explanation. We show that all of our results are consistent with this explanation, while they are not fully consistent with a number of plausible alternatives.

The rest of the paper is organized as follows. In Section 2, we discuss the existing theories of political cycles to explain why appointed politicians would engage more in corruption closer to their term expiration. We then argue that existing approaches cannot rationalize such a behavior and suggest an alternative explanation. In Section 3, we provide our empirical analysis: we describe the data and our estimation strategy, demonstrate the robustness of the increasing pattern in politicians' corrupt behavior over their terms, and test the validity of our explanation in several ways. In Section 4, we summarize the results and discuss possible implications.

## 2. Corruption cycles in Russia

### Preview of our findings and existing theories of political cycles

In the first part of the paper, we study the evolution of corruption in Russian regions over the regional political cycles. We test whether corruption follows any pattern over the terms of regional governors. The existing theories of political cycles when applied to the setting where politicians are appointed may suggest that corruption should decrease close to the end of governors' terms.

<sup>2</sup> Our data do not allow us to distinguish between true corruption and reported corruption. Therefore, the expressions “firms perceive higher corruption”, “corruption increases”, “firms report higher corruption”, “firms experience higher corruption” and “governors engage more in corruption” should be understood as equivalent throughout this paper.

Download English Version:

<https://daneshyari.com/en/article/7351773>

Download Persian Version:

<https://daneshyari.com/article/7351773>

[Daneshyari.com](https://daneshyari.com)