Danger: Local corruption is contagious!☆

Beatriz G. López-Valcárcel [a], Juan Luis Jiménez [b,*], Jordi Perdiguero [c]

[a] *Universidad de Las Palmas de Gran Canaria, Departamento de Métodos Cuantitativos, Facultad de Economía,
Empresa y Turismo, Despacho D, 4-24, Campus de Tafira, 35017 Las Palmas, Spain*
[b] *Universidad de Las Palmas de Gran Canaria, Departamento de Análisis Económico Aplicado, Facultad de Economía,
Empresa y Turismo, Despacho D, 2-12, Campus de Tafira, 35017 Las Palmas, Spain*
[c] *Universitat Autònoma de Barcelona, Departament d'Economia Aplicada, Research Group of "Economia Aplicada"
(GEAP), Spain*

Abstract

Corruption is a major problem, and not only in developing countries. It impedes economic growth, weakens the rule of law and undermines the legitimacy of institutions. Although it has been studied at national level from different perspectives, there is a recent growing body of research on local corruption. As far as we know, these latter studies focused on corruption and its effects on votes. However, a further question arises as to whether there is a mimetic effect on neighbouring municipalities? We employ data from Spain, and the boom in local corruption in the 2000s, to respond to this question. Specifically we have constructed a panel database (2001–2010) on local characteristics, economic factors and corruption at local level in order to achieve this. Our spatial econometrics methodology supports the hypothesis that corruption is not local-specific, and leads to two opposing outcomes: on the one hand, local corruption is contagious and the probability of being 'infected' increases by 3.1% for each corrupt neighbouring municipality; on the other hand the likelihood of a municipality being taken to court increases by 6.7% for each neighbouring municipality accused. Although the former is alarming, the latter provides hope in the fight against local corruption.
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1. Introduction

Corruption is a major problem, and not only in developing countries. It impedes economic growth (Mauro, 1995), weakens the rule of law and undermines the legitimacy of institutions. Corrupt governments or officials can only be 'punished' periodically at the ballot box (or not).[1]

In Spain corruption is a growing problem as can be seen in CIS' surveys from the 1980's until the present day.[2] These surveys show that recently between 35% and 40% of those surveyed believe that corruption is one of the main problems of the nation, after unemployment. This opinion is not only unique to Spain. As can be seen in the recent report of the European Commission (2014), 76% of respondents believe that corruption is widespread in their country. This percentage is even higher in countries such as Greece (99%), Italy (97%), Lithuania and the Czech Republic (95%). Therefore, it is a problem that people view with great and growing concern.

The World Bank defines corruption as "*the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests*" (Kaufmann, Kraay, & Mastruzzi, 2010). It additionally emphasizes the "*capacity of the government to effectively formulate and implement sound policies*". In developed countries, corruption is above all, political corruption (Jiménez, 2013), committed by government officials who use their powers and trade in influence for illegitimate private gain. This is the kind of corruption on which we focus in this investigation.

Although studies have analyzed the possible spread of corruption among countries (Becker, Egger, & Seidel, 2009), and the effect of local corruption on variables such as voting intentions (Costas-Pérez, Solé-Ollé, & Sorribas-Navarro, 2012; Ferraz & Finan, 2008; Jiménez & García, 2017), we were unable to identify any paper in the literature that has analyzed the possible spatial spread of *local* corruption.[3] This is an interesting issue because political and economic integration at local level is larger and therefore the theoretical basis for spatial spread in more plausible.

This paper aims to fill this gap by providing empirical evidence on whether there is spatial contagion in cases of corruption. In fact we split our analysis whether it is at the time it is committed or when the legal system detects it (this will be expanded upon and clarified below). First it seeks to identify if corruption has a knock-on effect in neighbouring municipalities. In this case, an act of corruption would not only generate welfare losses in the municipality that carries it out, but also in neighbouring municipalities, since it increases the likelihood that these municipalities commit corrupt acts in the future. Second, if the accusation of a municipality for the realization of a corrupt act increased the likelihood of nearby municipalities being charged, this would mean that there is some positive externality in the legal investigation. Once the law identifies a case of corruption, there is an increased likelihood of nearby municipalities being charged in the future.

Providing empirical evidence of the existence of this spatial pattern is the main contribution of this paper. To perform the empirical analysis we have constructed a single database that includes all cases of accused municipal corruption in Spain from 2000 to 2011.[4]

The empirical results show the existence of a clear pattern of spatial clustering in the corruption cases that have been identified by the legal system. These results allow us to draw conclusions for

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[1] See detailed references in section two.

[2] CIS is the Spanish acronym for the Sociological Research Centre, a public organization that is part of the Ministry of the Presidency and undertakes statistical public opinion surveys.

[3] As we will explain at next section, there are some papers that analyze this topic but not at local level.

[4] Using a US legal system approach, this term is similar to 'indicted' or 'implicated'. A limitation of our study is that data on verdicts is not available.