The role of political competition in the link between electoral systems and corruption: The Italian case

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ABSTRACT

The effects of electoral systems on corruption have been widely studied in economic and political literature. However, in explaining this relationship, very little attention has been paid to the role of political competition. We hypothesize that the degree of proportionality of the electoral system has a direct and indirect impact on corruption, via the degree of electoral competition among political parties. The estimated results, on a sample of the 20 Italian regions over 26 years, show that both the direct and the indirect effects are relevant in explaining corruption. As the electoral system becomes more proportional, corruption directly decreases. This beneficial effect can be reinforced or reduced depending on how the variation in political competition follows a variation in the degree of proportionality of the electoral system.

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1. Introduction

Understanding the causes of corruption is critical in terms of its implications for a country's growth and development (see Lui, 1985; Leff, 1964; Huntington, 1968; Bardhan, 1997; Mauro, 1995, 1998). One of the most important *political* determinants of corruption is the *electoral system*. Schumpeter (1950) was the first to consider the role of electoral systems – expressions of a democratic environment – as a way of reducing corruption. In the following years, theoretical literature studying the link between electoral systems and corruption gave ambiguous results. One field of the theory argues that majoritarian elections reduce political rents because of the direct accountability of elected officials to voters. Conversely, another field argues that a proportional electoral system, with a large district size, leads to lower incumbent rent because it reduces barriers to entry for honest competitors. The empirical literature on cross-country data have confirmed that countries with proportional systems have much more widespread corruption than countries with majoritarian representations.

However, in analysing the relationship between electoral rules and corruption, both theoretical and empirical literature seem to ignore the role of *political competition*, that is the competition among political parties to obtain votes at elections. There is a complex web wrapping together electoral systems, political competition and corruption to which studies have paid little attention so far. On one hand, when the impact of political competition on corruption is considered, it is possible to identify different effects. On the other hand, political competition is certainly affected by electoral rules, which shape the political market structure[3]; the way in which this happens, to the best of our knowledge, is still unexplored.

Therefore, it can be assumed that the effect of electoral systems on corruption is twofold: a *direct effect* (already investigated by the literature) and an *indirect effect*, via political competition. This work is part of the empirical literature on the determinants of corruption; its contribution is to test the hypothesis of both the *direct* and the *indirect* effect of the degree of proportionality of the electoral system on corruption. The two effects may drive corruption in the same direction or in the opposite one; therefore, the total effect of the degree of proportionality of the electoral formula on corruption is the sum of the two effects.

The empirical analysis, performed on a panel of the 20 Italian Regions over 26 years, uses yearly data on corruption

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[3] The concept of political competition we are dealing with is different from that of "number of parties". As better explained in the following, the political competition refers to the distribution of votes in the hands of many or few political parties at the election and depends on the electoral outcomes.

crimes in public administration as a dependent variable. The two regressors of interest are two political indexes: the *Gallagher (dis)proportionality index* as a proxy for the degree of proportionality of the electoral system, and the *normalized Herfindahl concentration index* to proxy political competitiveness among political parties. The indirect effect can be understood through an interaction variable between the two political indexes. Results showed that both the direct and the indirect effects are significant. On one side, the direct effect of the degree of disproportionality of the electoral system on corruption is positive: it means that an increase in the proportionality implies a decrease in corruption. On the other side, the indirect effect shows that the way in which political competition affects corruption depends on the degree of proportionality of the electoral rule. More precisely, there is a threshold of the degree of proportionality that allows us to separate an increase from a decrease of corruption due to an increase in the concentration of votes in the hands of political parties. Our findings (robust to different estimation techniques, control variables and dis-proportionality indexes) shed light on two interesting aspects: first, it can be misleading to analyze the impact of electoral rules on corruption regardless of the role of political competition; second, the overall effect of the degree of proportionality of the electoral system on corruption depends on *how* the level of political competition reacts to changes in the degree of proportionality of the electoral system. This last issue is, at least to our knowledge, still unexplored.

The paper is organized as follows. Section 2 summarizes the theoretical and empirical literature; Section 3 describes the Italian scenario. Section 4 is about variables and the econometric specification; Section 5 shows the results and Section 6 presents the concluding remarks.

2. Electoral rules and corruption: literature and hypothesis

This section starts with the analysis of the theoretical and empirical literature linking electoral systems, political competition and corruption; this helps to explain why they are said to be wrapped in a complex web. Moreover, studying this web will allow us to justify the testing hypothesis of the role played by political competition within the relationship between the electoral system and corruption.

The impact of electoral rules on corruption has so far been explored within two categories: the district size (i.e. the number of seats in a district) and the electoral formula (i.e. how votes are translated into seats). Regarding the *district size*, majoritarian systems tend to have small districts (small district size) where only one candidate is elected in each district; the incumbent is more likely to reach a relative majority because he/she is already well known in the constituency. In this context, corruption will tend to be high since it will be hard (and will have a higher ideological cost) to remove the well established party from office. Therefore, small districts contribute to increase barriers to entry for competing politicians (possibly the most honest ones). Indeed, in proportional systems with large districts, several candidates who get a minority of votes can be appointed. This means stiffer competition and smaller incumbent rents due to the decreased entry barriers (Myerson, 1993; Ferejohn, 1986). Hereafter we will refer to this situation as the "barrier to entry" effect.

Referring to the *electoral formula*, in majoritarian representations, when individual candidates are voted for, there is a direct link between individual performance and reappointment (*accountability*): the valuation of representatives is based on their ability to represent the interests of the community. Thus, the incumbent faces strong incentives not to act in a corrupt manner in order to maximize the probability of re-election. On the contrary, in proportional systems voters vote for a list of candidates drawn up by political parties, without expressing a preference for any particular candidate: the incentive for corruption is higher than in a majoritarian system (Persson and Tabellini, 1999a,b, 2000). Hereafter we will refer to this situation as the "accountability" effect.

Hence, the impact of electoral systems on corruption is complex: if the barriers to entry effect dominate the accountability effect, majoritarian systems will be more corrupt than proportional ones; otherwise, the reverse happens. The empirical works of Persson et al. (2003), Gagliarducci et al. (2011) and Kunicova and Rose-Ackerman (2005) suggest that countries with proportional systems have much more widespread corruption than countries with majoritarian systems. Chang and Golden (2007) have found that, both at cross-national and at national (Italian) level, open-list PR systems (which allows voters to select individual candidates from party lists) is associated with greater corruption than closed-list systems (where candidate selection is controlled by the national party leadership) once the district sizes exceed a certain threshold.

The theoretical literature seems to confirm that the *direct* effect of electoral systems on corruption depends on contrasting forces; thus, empirical analysis has the task of specifying the impact of these forces.

So far, the literature has assigned only a marginal weight to the role of political competition in the relationship between electoral system and corruption; the mentioned role of political competition represents the value added of our paper. In this regards two aspects have to be underlined. The first aspect is the link between party competition and corruption and we hypothesize that it may influence the effect of the electoral system on corruption: this is what we call the *indirect effect* of electoral rule on corruption. Political competition is defined as the competition among political parties to collect votes at elections; it is, therefore, the competition for political power (Bardhan and Yang, 2004).[4] As a determinant of corruption, political competition is viewed as the *accountability for incumbents* (Persson et al., 1997): an intense political competition implies that the incumbent politician is more accountable for his actions in office: the incumbent has an incentive for good performance, or he can be easily removed and replaced (Mulligan and Tsui, 2006).[5] Otherwise, if competition in the votes market is viewed as competition in the goods market (Stigler, 1972), an intense political competition may also lead to a low probability of re-election for the incumbent, as for a firm that may lose a share of the market if the latter becomes more competitive; in this case, an incumbent can act in a myopic manner, maximizing rents during his remaining time in office. To sum up, also the overall effect of political competition on corruption is complex and difficult to define.

The other fundamental aspect is the relationship between electoral systems and political competition. To the best of our knowledge, there are no theoretical or empirical analysis that shed light on how the degree of proportionality of the electoral system determines the degree of competition among political parties. By affecting the party's formation, different electoral rules produce different levels of competition among parties. According to Duverger's (1972) Law, majority rules lead to a two-party system, while proportional systems favour multi-party systems and thus competition among many political bodies. However, Duverger's Law links the electoral system to the *number* of political parties competing at elections, not to their relative size. Based on the definition given

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[4] The concept of political competition we refer to is close to that of *electoral competition*.

[5] If there is a lack of competition, voters do not have many alternatives to choose from: so re-election is secure no matter how a politician performs and, consequently, there is a higher chance that he gets engaged in corrupt activities.