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Reassessing the trade-off hypothesis: How misery drives the corruption effect on presidential approval☆

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ABSTRACT

Do economic conditions drive voters to punish politicians that tolerate corruption? Previous scholarly work contends that citizens in young democracies support corrupt governments that are capable of promoting good economic outcomes, the so-called trade-off hypothesis. We test this hypothesis based on mass surveys in eighteen Latin American countries throughout 2004–2012. We find that citizens that report bribe attempts from bureaucrats are always more likely to report presidential disapproval than citizens that report no such attempts, that is, Latin American victims of corruption are not duped by good economic performance. However, we find some evidence for a weaker form of the trade-off hypothesis: presidential disapproval among corruption victims might be more pronounced in contexts of high inflation and high unemployment.

A vast number of economic and political analyses since the 1990s conclude that corruption is a serious impediment to growth (Ades and Di Tella, 1999; Mauro, 1995). The persistence of corruption in young democracies not only hampers their economic potential, but it undermines trust in government and delegitimizes the very institutions that should uphold the rule of law (Anderson and Tverdova, 2003; Chang and Chu, 2006; Della Porta, 2000; Seligson, 2002). Moreover, corruption increases political alienation and discourages political participation, creating a fertile ground for populist candidates who further weaken checks and balances to consolidate their hold on power (Davis, 2004; McCann and Domínguez, 1998).

Yet, corruption has not only persisted and taken new forms, but politicians with a tarnished reputation have been elected, and even re-elected, at the highest levels of government in several countries. To add insult to injury, democratically-elected politicians who have championed reforms with the goal of limiting opportunities for corruption often manipulated these reforms for personal gain. Some of the most notorious cases have happened in Latin America, the region that we investigate. For example, Carlos Menem (1989–99) was re-elected to a second term in Argentina on a record of strong economic performance despite widespread allegations of corruption involving him and high profile members of his administration. Much the same can be said about Brazilian President Luiz Inácio Lula da Silva (2003–2010), who presided over a period of unprecedented prosperity and won re-election despite a rash

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of scandals which forced out some of his closest cabinet members.

Why do people support leaders that condone corruption? A recent media report on Argentina expresses a widely-held view: "Social research confirms that there seems to be an 'implicit contract' of the Argentine people with their leaders which metaphorically says something like this: you give us jobs and consumption, and we tolerate your 'dirty' deals, but if benefits cease we will listen to those who expose you".[1] Indeed, research in the social sciences speaks of a "trade-off" hypothesis according to which citizens might fail to hold governments accountable for corruption when economic outcomes are positive (Kurer, 1993; Pereira et al., 2009; Rundquist et al., 1977).

We argue that inflation and unemployment, rather than poor economic growth, make citizens wary of their government's inability to curtail corruption. That is, we at best expect corruption to drive down government approval in contexts of high inflation and unemployment. In a nutshell, our expectation follows from knowledge that inflation affects everyone, whereas growth may have a varied impact on different social strata. We also make an important methodological contribution. Previous work relies on respondents' *perceptions* of corruption as predictors of vote choice or government approval rather than on actual *participation* in corrupt acts. Such studies hold perceptions to be genuine assessments of corruption, without grappling seriously with the notion that perceptions may be tainted by partisan affiliation or sympathy for the government; in fact, corruption perceptions may be endogenous to the very outcomes, like presidential approval, they purport to explain. To overcome this problem we use corruption victimization measures which minimize endogeneity bias produced by perception measurements (Gingerich, 2009; Seligson, 2002, 2006).

We base our analysis on 80+ surveys from the Latin American Public Opinion Project, which provide consistently-worded questions over several years in most Latin American countries. Focusing on countries with a shared history and similar developmental experiences yields unquestionable advantages. Specifically, the understanding of what corruption means is likely to be more similar in places like Peru or the Dominican Republic than in, say, Finland or Taiwan. Similarly, the fact that all Latin American countries in our sample are presidential regimes reduces the possibility of confounding because of extreme variations in "clarity of responsibility" for corruption (Powell and Whitten, 1993; Tavits, 2007), which would be more worrisome if our sample were to include parliamentary regimes.

The results are largely consistent with our hypotheses, but with a remarkable accent that makes us less pessimistic about the prospects of holding politicians accountable for corruption. Across a variety of economic situations—from high to low growth, from full employment to massive unemployment, and from stable to inflationary environments—citizens who experience corruption tend to disapprove of their president's performance. Contrary to a strong version of the trade-off hypothesis, victims of corruption give presidents low marks even under conditions of macroeconomic stability, high employment, and good economic growth. However, we uncover some evidence consistent with a weaker version of the trade-off hypothesis: Though citizens that experience corruption tend to chastise their presidents, they are much more likely to do so in situations of high inflation and unemployment. Monetary instability and lack of employment opportunities, but not dismal economic growth, are the catalyzers that turn citizens' experiences of corruption into low rates of presidential approval.

We develop our argument as follows. Section 1 frames our expectations regarding the conditional effect of corruption victimization on presidential approval within established research programs. Section 2 introduces the data on which we base our claims. We develop a multilevel model of presidential approval that accounts for the characteristics of our data in Section 3, and in Section 4 we discuss our main findings. We conclude in Section 5 that Latin American respondents are more sophisticated, demanding, and willing to hold presidents accountable for corruption than previously thought.

1. Why would economic outcomes drive variation in the corruption effect?

According to the trade-off hypothesis, individuals that perceive and/or suffer corruption do not always allow these perceptions and experiences to inform their attitudes toward incumbents, including levels of presidential approval, which is the outcome we inspect. When they do, we refer to the existence of a "corruption effect." Our goal in this paper is to evaluate whether economic outcomes—inflation, unemployment, growth—have an impact on the corruption effect. This requires that we first summarize existing knowledge about the effect of corruption, on the one hand, and of economic outcomes, on the other, on approval. Only then will we consider why the corruption effect might itself be affected by economic outcomes.

Academic analyses that address the puzzle of citizen support for corrupt politicians are a recent phenomenon. A few studies have tried to identify potential rationales behind this behavior. Two of the most important rationales concern information—voters continue to support corrupt politicians because they are ignorant of their corruption proclivities—and material gain—voters obtain tangible policy benefits from incumbents and are willing to overlook their corruption proclivities, even when these are known (Kurer, 2001; Golden, 2009). A number of empirical analyses of corruption build on the information rationale. Looking at Brazil, for example, Pereira et al. (2009) find that federal congressmen facing corruption charges are less likely to run for re-election, whereas Ferraz and Finan (2008) discover that voters penalize incumbents when judicial investigations and audit reports uncover corruption, particularly in electoral years. Two further case studies in Italy (Chang et al., 2010) and Brazil (Winters and Weitz-Shapiro, 2013) using different methodologies and research

[1] "Does Cristina Fernández have time to combat the scourges of insecurity and inflation?", *Merco Press*, Monday, September 9, 2013.