



The impact of democracy and press freedom on corruption: Conditionality matters[☆]

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Abstract

This paper empirically analyzes the joint impact of democracy and press freedom on corruption. Based in the theoretical literature, we argue that both institutional features are complements rather than substitutes in controlling corruption. Our regressions are based on a cross section of 170 countries covering the period from 2005 to 2010 as well as on panel evidence for 175 countries from 1996 to 2010. The results show that democratic elections only work in controlling corruption, if there is a certain degree of press freedom in a country, vice versa. Our policy implication is that democratic reforms are more effective, if they are accompanied by institutional reforms strengthening the monitoring of politicians.

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1. Introduction

Corruption is a widespread phenomenon in particular among developing countries. According to the former World Bank president J.D. Wolfensohn “we need to deal with the cancer of corruption” (Wolfensohn, 2005, p. 50) in order to achieve growth and to reduce poverty. This view

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is strongly supported by the empirical and theoretical literature [see e.g. [Acemoglu & Verdier, 1998](#); [Mauro, 1995](#)].

The natural question that arises from this diagnosis is the question of the most effective therapy. Potentially effective instruments are democratic elections and press freedom. Several empirical studies find a significant and robust relationship between both means and the level of corruption [see e.g. [Brunetti & Weder, 2003](#); [Chowdhury, 2004](#); [Treisman, 2000](#)]. However, recent studies on the causes of corruption have demonstrated that the estimation of unconditional effects may lead to misleading policy conclusions, since the corruption alleviating effect of single corruption determinants may depend on others [see [Lessmann & Markwardt, 2010](#); [Saha, Gounder, & Su, 2009](#)]. We argue based on the theoretical literature that both instruments – democratic elections and press freedom – are complements rather than substitutes in reducing corruption. On the one hand, without a free press, the voters do not have unbiased information on corrupt activities by politicians and bureaucrats, therefore the accountability enhancing effect of democratic elections is questionable. On the other hand, just having a free press is also not a sufficient instrument in controlling corruption as people need free elections in order to punish revealed corrupt behavior. Therefore, the major contribution of our paper is to analyze the *joint impact* of democracy and press freedom on corruption.

Since the effects of press freedom and democracy on corruption should depend on each other, we use an interaction model which is able to estimate those conditional effects. We thereby extend the existing literature in several dimensions: (1) we use a broader dataset covering 170 countries for the period 2005–2010, (2) we use three alternative measures of corruption as well as alternative measures for the degree of press freedom and democracy, (3) we take a possible endogeneity bias into account by using an instrumental variable approach, (4) we consider a continuous interaction variable of press freedom and democracy, which puts less strong assumptions on the classification of countries as democratic or not, and (5) we also consider panel data for 175 countries from 1996 to 2010. We find that democracy and press freedom are indeed complements in reducing corruption in support of our main hypothesis. In particular, democracy – measured by the Vanhanen index – can increase corruption without a sufficiently high degree of press freedom. Our policy conclusion is straightforward: democratic reforms should be accompanied by a liberalization of the press. Otherwise, the effectiveness of reforms will be reduced significantly.

The remainder of the paper is organized as follows: Section 2 initiates in the related theoretical literature and derives our main hypothesis. Section 3 reviews the empirical literature. Section 4 presents our empirical analysis. Section 5 sums up and concludes.

2. The theoretical link between corruption, democracy and freedom of the press

Concerning the relationship between corruption, democracy, and freedom of the press, we discuss three basic models thereby highlighting the interaction between democracy and press freedom in the respective frameworks. These are the principal–agent model used by [Rose-Ackerman \(1978\)](#), the rent-seeking model by [Persson and Tabellini \(2002\)](#), and the industrial organization approach of [Shleifer and Vishny \(1993\)](#). Finally, we discuss the results of [Stroemberg \(2001\)](#) who models the role of the mass media explicitly.

In one of the first formal approaches that explains political corruption, [Rose-Ackerman \(1978\)](#) models asymmetric information between the voters (principal) and legislators (agent). The majority voting rule determines the election of legislators and policies. The principals cannot influence the policy outcome directly, since passing the laws depends on majority vote. Therefore, voters elect the legislator to whom they have the maximum accordance with. We are particularly

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