Democracy and political corruption: A cross-national comparison

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Abstract. Past research on democracy and political corruption produced mixed results because of differences in sampling and analytical methods. Moreover, an important shortcoming has been researchers' focus on detecting linear effects alone. In the current study, I statistically controlled for potentially confounding economic factors and used hierarchical polynomial regression to evaluate the form of the democracy-corruption relationship. Results showed that a cubic function best fitted the data. Despite eruptions of corruption among intermediate democracies, the consolidation of advanced democratic institutions eventually reduced corruption. Ultimately, the initial political conditions and the final democratic achievements determined the magnitude of political corruption in a country.

That democratization influences political corruption in a profound way is an indisputable truism, yet the directions of the impact of democratic reforms on incidence of corruption remain hotly contested. Research findings on the relationship between democracy and corruption have even been described as simply "contradictory" (Harris-White & White, 1996, p.3). The main reason for the disagreement among scholars resides in the multidimensionality of the concept of "democracy" or "democratization." Whereas certain aspects of the democratic process – such as party-based competition and free elections – motivate unscrupulous politicians to prevail over their rivals through vote buying or illegal party financing (Little, 1996; Johnston, 1997; della Porta and Vannucci, 1999), the protection of freedom of speech nurtures a professional investigative journalism that exposes and deters corrupt public dealings (Giglioli, 1996; da Silva, 2000). By the same token, the defense of civil liberties and the materialization of an independent judiciary – key elements that define a "liberal" democracy – can restrain corruptive influences, and maximize the efficacy of anti-corruption campaigns, respectively (Rose-Ackerman, 1999; Schwartz, 1999; Jamieson, 2000; Moran, 2001). Such is the confused state of affairs, that a recent review of the issue concluded that "democratization is in practice a complex phenomenon with unpredictable effects" (Moran, 2001: p. 390).

When insightful qualitative studies found democracy to be a multifaceted process affecting corruption in numerous and sometimes conflicting manners,

statistical analyses have mostly detected a linear and negative democracy-corruption association (Goldsmith, 1999; Sandholtz and Koetzle, 2000; see Treisman's work (2000) for exception). This finding is both assuring and disturbing. On the one hand, the positive statistical link between firmer democratic institutions and lower levels of corruption seems to corroborate the widely accepted belief about the ability of democratic reforms to bring about transparent and accountable governance. On the other hand, it flies in the face of numerous observations of renewed corrupt practices induced by political liberalization in Southeast Asia, Latin America, and former Soviet republics (Cohen, 1995; Harris-White and White, 1996). This conceptual quagmire shows that corruption theory and research are still in their infancy.

What proves clearer is the anti-corruption efficacy of improved economic performance in many countries that have implemented broad economic or market reforms along with democratization. Independent of labor productivity and economic output, greater democratic achievements lead to higher wages (Goldsmith, 1995; Rodrik, 1999), which in turn reduce incentives and opportunities for corruption among elected and appointed officials (Sandholtz and Koetzle, 2000; Van Rijckeghem and Weder, 2001). Also, direct democracy impels monetary, fiscal, and social policy-making toward fuller employment, greater welfare spending, and a bigger public sector (Barro, 1997; Frey and Stutzer, 2000; Boix, 2001). As citizens' participation in political processes brings micro- and macroeconomic outcomes closer to voters' preferences, life satisfaction increases and corruption decreases. This indirect check of democracy on corruption via material wellbeing can easily be confounded with the process democratization itself in empirical evaluations, if no adequate controls are in place.

In the study presented in this article, I examined the relationship between democracy and corruption in various cross-sections of countries. The goal was to empirically isolate the democratization process from its economic correlates, which have been known to influence corruption opportunities, and to determine the direction and magnitude of its impact on political corruption. Results from this analysis provided the field of corruption research with some of the empirical discipline needed to make the debate policy-relevant.

Exploring the democracy-corruption link

If very few relationships in political science are exactly linear in shape, democracy and democratization are nonlinear phenomena par excellence. Mobilizing public preferences to determine who gets what, when, and how, and building functioning institutions to process them, are such a complex endeavor that studies on democracy and economic growth, income distribution,

and war-making all reported curvilinear functions as better solutions (Barro, 1997; Burkhart, 1997; Hegre, Ellingsen and Gates, 2001). The degree of non-linearity in these relationships was so evident that linear equations were considered inadequate even for approximation.

Unfortunately, the few statistical analyses of the democracy-corruption connection only assumed, and thus found almost exclusively, a linear correspondence between the two variables (Goldsmith, 1999; Sandholtz and Koetzle, 2000). The study that did not find significant relationship between democracy and corruption, only tested the linear hypothesis (Treisman, 2000). Although this simplistic linear approach was able to uncover statistically significant results, it remains unable to accommodate a larger amount of qualitative data that contradicts the democracy-reduces-corruption axiom. Ethnographic or country-specific studies completed in the 1990s emphasized how democratization may actually increment the opportunities and magnitude of corruption without strengthening countervailing institutional capacities. The radical embrace of democratic rules cast discredit on previous authoritarian, albeit sometimes effective, controls over corruption without providing an alternative set. Incentives for corrupt behavior in emerging democracies stem from the enormous costs of mounting electoral campaigns, the luring attractiveness of public assets and influence, and the openness of the state apparatus to the ambitions of elite groups.

Far from reducing corruption in the short term, political liberalization has made matters worse in most of those countries that embarked on the democratic transition in the 1980s and 1990s. Once-celebrated reborn democracies like Argentina, Philippines, and Russia have become prototypes of poor governance. However, social scientists refuse to give up on democracy. They argue that corruption may well be a transitional phenomenon common in fledgling democracies where procedural practices have not been underpinned by a firm liberal culture and effective institutions (Harris-White and White 1996; Rose-Ackerman, 1999). Democratization opens up a long-term prospect of institutional remedies for corruption that require sustained efforts to make them work successfully. This view has recently been supported by Gabriella R. Montinola and Robert W. Jackman's cross-national studies (2002), which hinted toward a nonlinear relationship between political democracy and corruption. Their analysis of corruption data from the 1980s found that corruption was typically lower in dictatorships than in partial democracies, but once attained a threshold, democratic practices suppress corruption. Nevertheless, the small size of the sample (n = 66), the unstable statistical significance of the key findings, and the aged data used in the analysis render Montinola and Jackman's conclusions very informative but of limited gen-

eralizability. Most importantly, only one type of nonlinear hypothesis – the quadratic form – was considered in that study.

Following the same thread of exploration, the study presented in this article tested three statistical equations (linear, quadratic, and cubic) using recent data covering a larger number of countries to assess the link between democratization and corruption. These simple equations represent major forms of statistical relationships in social sciences. The linear model predicts a straightforward positive or negative correspondence between democracy and corruption and can be expressed as *corruption = f (democracy)*. The quadratic equation, ascribed by Montinola and Jackman, hypothesizes that as democratization progresses, political corruption first increases and then decreases, or first decreases and then increases. It can be represented as *corruption = f (democracy, democracy^2)*. And lastly, the cubic model anticipates that as democratic institutions consolidate, levels of corruption can either increase, then decrease, then increase, or decrease, then increase, then decrease. This polynomial function is expressed as follows: *corruption = f (democracy, democracy^2, democracy^3)*.

Instead of focusing on individual components of democratic polity, I adopted Moran's comprehensive definition that democratization is a process typified by "the vote as a basis for constitutional mechanisms for the transfer of power; political competition through parties; guaranteed individual liberties; freedoms to form public organizations and private organizations" (2001: pp. 379–380). Despite the broadness of this approach, Moran's study conceptually and empirically distinguished the liberalization of the political system itself from its economic outcomes. Finally, by comparing a large collection of countries, my analysis generated findings of very high generalizability that transcend the unique features and histories of single societies.

Data, variables and methods

The study sample comprised 103 countries that have complete information on both the Political Rights Index compiled by the Freedom House and the 1995–2000 annual Corruption Perceptions Index (CPI) compiled by Transparency International, an international non-governmental organization devoted to measuring and combating corruption with 80 international chapters around the world (see Appendix). The Freedom House indicator of democracy measures citizens' rights to vote, efficacy of elected representatives, multi-party system, meaningful opposition, and exercise of sovereignty over national territories (Karatnycky, 2001), thus it operationally defines a valid and holistic construct of democracy. The CPI is a secondary rating system compiled from a number of surveys of business executives' perceptions of

Table 1. Description of variables (N = 416)

Name	Description and data source	Minimum	Maximum	Mean	Std. Dev.
Corruption index	Inverted Corruption Perceptions Index, –10 = extremely non-corrupt; 0 = extremely corrupt (Transparency International)	–10.00	–.69	–5.01	2.49
Democracy index	Inverted Political Rights Index, –7 = strongly undemocratic; –1 = strongly democratic (Freedom House)	–7.00	–1.00	–2.59	1.90
Purchasing power parity	Purchasing power parity (International Monetary Fund)	.01	21.73	1.33	3.03
Unemployment rate	% work force unemployed from (The Economist Intelligence Unit)	.40	27.50	8.64	5.14
Inflation rate	Inflation rate (International Monetary Fund)	–8.50	325.00	11.86	28.28

corruption among politicians and public officials conducted by different organizations (Transparency International, 2002). Both indicators were inverted (by multiplying by –1) in this study, for readability. Measures of purchasing power, unemployment, and inflation were incorporated in multivariate analyses to control for the potential disturbances from economic hardships. These indicators were obtained from the International Monetary Fund (2002) and The Economic Intelligence Unit (2002). The resulting time-series cross-section data contained 520 country-year units.

Since bivariate measures such as the Pearson correlation do not capture curvilinear relationships, only multivariate tests were conducted. As the pooled Durbin-Watson *d* statistics for the linear model of 1.83 indicated the absence of a serious problem of serially correlated errors, there was no need to implement additional procedures such as adding a lagged dependent variable in the regression equations or transforming the error terms to correct for this common problem in pooled time series data (Beck and Katz, 1995). Only year-specific dummy variables were included to correct for unique disturbance effects in time (Sayrs, 1989). Polynomial regression results were analyzed to judge the form and magnitude of the relationship. Because the coefficient of multiple determination (R^2) increases with each addition of
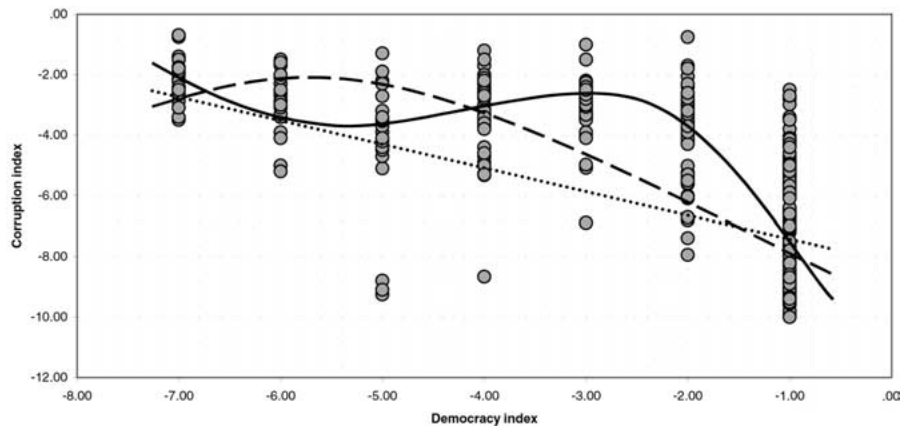
Figure 1. Scatterplot showing relationship between democracy and political corruption.

predictors, adjusted R^2 were presented, although discussion of findings was solely based on unadjusted coefficients.

Results

All three models yielded statistically and substantively significant goodness of fit, although the coefficients of multiple determination notably differed in size. In other words, while all models were useful in interpreting changes in the levels of corruption, some achieved considerably larger reductions in prediction errors and thus were more powerful in interpreting the vicissitudes of democracy-corruption connections.

The linear model accounted for 45% of the variation in political corruption and detected a statistically powerful negative effect of democracy on corruption. Controlling for disturbances from the economic factors, a one-point increase in democracy index was associated with a .737-point decrease in the scale of political corruption. This association is stout by conventional social science standards. Economic factors also made an influential contribution to the explanatory power of the model: unemployment and inflation positively and strongly correlated with the outcome variable, confirming the thesis that economic hardships foster dishonest practices among government officials.

The quadratic model improved the explanatory power of the equation by 5 percentage points, raising the R^2 to .516. In other words, the inclusion of the second-order polynomial term enhanced the model's goodness of fit by 14%. The two democracy variables retained the same statistical significance level of .001. An unmistakable answer existed regarding the form of this curvilinear relationship. The negative sign attached to the second-degree

Table 2. Results from hierarchical polynomial regression (N = 416)

	Linear model	Quadratic model	Cubic model
Purchasing power parity	−.016	.020	.005
	(.035)	(/033)	(.030)
Unemployment rate	.122***	.114***	.121***
	(.020)	(.019)	(.017)
Inflation rate	.001*	.001*	.008*
	(.004)	(.004)	(.003)
Democracy index	−.737***	−2.210***	−7.881***
	(.056)	(.231)	(.672)
Democracy index: quadratic term	—	−.207***	−2.038***
		(.032)	(.208)
Democracy index: cubic term	—	—	−.163***
			(.018)
Year 1995	−.640	−.610	−.685
	(.391)	(.368)	(.331)
Year 1996	−.654	−.241	−.326
	(.357)	(.336)	(.302)
Year 1997	−.153	.021	−.128
	(.364)	(.344)	(.309)
Year 1998	−.200	−.156	−.214
	(.310)	(.291)	(.262)
Year 2000	−.117	−.075	.025
	(.305)	(.287)	(.208)
R^2	.452***	.516***	.611***
(Adjusted R^2)	(.437***)	(.501***)	(.598***)
Incremental R^2	.450***	.064***	.095***

* $p < .05$; ** $p < .01$; *** $p < .001$.
NOTE: Regression coefficients and standard errors (between parentheses) are reported.

polynomial democracy indicator revealed that a concave function better fitted the data than the simple linear function. This mound-shaped relationship changed its direction at the point $X = -\beta_{democracy}/2\beta_{democracy\ squared}$ (Agresti and Finlay, 1997), which was the point –5.34 on the democracy scale for this sample. Undemocratic countries with extremely low scores on the democratic index experienced an increase in political corruption in the early stage of democratization until they reached the –5.34 point, at which the average score of corruption reached its maximum (see Figure 1). Beyond this critical point, countries began to reap very important anti-corruption benefits from strengthening their democratic institutions, as the steady downward slope indicated. The slope also implied that transitional countries with an initial democracy index score above the critical point were likely to see immediate anti-corruption effects as soon as political reforms took place. The overall long-term trend of the entire process might resemble the downward slope portrayed by the simple linear function, but the quadratic function was able to discriminate experiences of undemocratic countries from the performances of highly democratic countries or democratizing countries with better initial political conditions.

Best regression results were observed for the cubic model, whose R^2 of .611 increased the same coefficients for the linear and quadratic equations by 35% and 18% respectively. The regression coefficients showed a negative linear term, negative squared term, and negative cubed term, which meant that, beginning at the origin (which is negative due to the inversion of the democracy and corruption index scores), the function first tended downward, then upward, then downward again (see Figure 1). The association began with a convex shape whose curvature changed at the point of inflection ($Y = -\beta_{democracysquared}/3\beta_{democracy\ cubed} = -4.17$), to be continued by a concave shape. The average corruption index in the convex range reached its minimum at the democracy index score –5.50 ($Z_{min} = Y+(\text{sqrt}(-3\beta_{democracy\ cubed}\ \beta_{democracy\ squared})/3_{democracy\ cubed}))$, whereas the average corruption score in the following concave range was at its maximum at the democracy score –2.74 ($Z_{max} = Y-(\text{sqrt}(-3\beta_{democracy\ cubed}\ \beta_{democracy\ squared})/3_{democracy\ cubed}))$. Therefore, in general terms, three moments distinguished this cubic relationship: an initial negative democracy-corruption connection among undemocratic countries with a democracy index score lower than –5.50, followed by a positive association among partly democratic countries with democracy scores between –5.50 and –2.74, and finally a steep downward slope among advanced democracies beyond the last critical point.

The most undemocratic countries (rated –7 on the democracy scale) were likely to experience a slight improvement in the transparency and accountability of governance during the very beginning stage of their democratization.

But as they entered a fairly lengthy intermediate phase of the process, they tended to suffer worsening corruption as new values and institutions took root amidst continuous power realignments and resource reallocation. For countries that began their democratization journey at an intermediate level of political liberalization (rated between –6 and –3), a growing problem of corruption was a common occurrence. The persistence and advancement of undemocratic countries and intermediate democracies in their progression toward a firmer and more mature democratic polity yielded substantial reductions in corruption once their democracy scoring reached –2. The achievement of honest and efficient government was even more substantial among developed democracies at the highest rank of –1. This curvilinear relationship clearly implies that the manner in which democracy affected corruption depended on the initial democratic conditions as well as on the eventual democratic attainments of each country. Greatest rewards (in the form of a clean and transparent state) were granted to countries that were able not only to realize but also to maintain the strongest and healthiest democratic institutions.

Conclusion

Just as the different pictures painted by qualitative studies and statistical research on democracy and corruption complement each other, findings from the three models tested in this study shed more light on the problem if interpreted side by side. Democratization generally, and eventually, decreases corruption (as evidenced by the valid linear model). But it should be recognized that temporary upsurges in government corruption are to be expected during the early stages of the process of political liberalization (as demonstrated by the stronger quadratic model). Yet most importantly, it is the initial conditions and the final achievements of each society, rather than the democratization process itself, that determine the shape and magnitude of the impact of democratic reforms on political institutions.

Although democracy and market reform are partly meant to clean up public life in developing countries, corruption proves resistant to intervention efforts. For countries that depart from a long history of authoritarianism or totalitarianism, the enthusiasm and optimism aroused by the early expansion of political rights are often cooled down by an alarming growth in corruption and "money politics" (Moran, 2001). The massive scale of political bickering and state restructuring (including the privatization of state-owned enterprises) make democratization open to suspicion. The ability to check on the power of the elites and to garner enough support for deepening institutional reforms (i.e. erecting an independent judiciary, and protecting freedom of speech, which fosters an investigative journalism) then become the most critical tasks

the government, the business community, and the civil society must together undertake. Escalation of corruption in democratizing countries is a product of a changing environment as well as the result of illiberal practices (Rose-Ackerman, 1999; Bunce, 2000). When efforts at consolidating checks and balances of state powers and establishing a firmer rule of law are aborted, more often than not by corrupt elite groups (Mbaku, 1995; Weyland, 1998; Fairbanks, 2001), the country risks drifting back into authoritarianism or away into a kleptocracy.

Findings from this study make a relevant contribution to the stagnant debate about whether international donors and lenders should promote the liberal democratic form of political organization when attaching anti-corruption requirements to their assistance packages (Marquette, 2001). The stalemate was mainly caused by the lack of consensus on the link between democracy, development, and corruption. As evidence points to a descending curvilinear democracy-corruption relationship, international agencies should recognize the role of the political system in determining the efficient utilization of foreign assistance; and they should encourage aid recipients to broaden citizens' participation in political processes, to create an environment friendly to the successful implementation of anti-corruption policies.

Appendix

Year-country units with complete democracy and corruption data included in the study.

Country	1995	1996	1997	1998	1999	2000
Albania					X	
Andorra			X			
Angola						X
Argentina	X	X	X	X	X	X
Armenia					X	X
Australia	X	X	X	X	X	X
Austria	X	X	X	X	X	X
Azerbaijan					X	X
Bangladesh		X				
Belarus				X	X	X
Belgium	X	X	X	X	X	X
Bolivia		X	X	X	X	X
Botswana				X	X	X
Brazil	X	X	X	X	X	X
Bulgaria				X	X	X
Burkina Faso						
Cameroon		X		X	X	X
Canada	X	X	X	X	X	X
Chile	X	X	X	X	X	X
China	X	X	X	X	X	X
Colombia	X	X	X	X	X	X
Costa Rica			X	X	X	X

Appendix – continuation

Country	1995	1996	1997	1998	1999	2000
Cote d'Ivoire				X	X	X
Croatia					X	X
Czech Republic	X	X	X	X	X	X
Denmark		X	X	X	X	X
Ecuador		X		X	X	X
Egypt		X		X	X	X
El Salvador				X	X	X
Estonia				X	X	X
Ethiopia						X
Finland	X	X	X	X	X	X
France	X	X	X	X	X	X
Georgia					X	
Germany	X	X	X	X	X	X
Ghana				X	X	X
Greece	X	X	X	X	X	X
Guatemala				X	X	
Honduras				X	X	
Hungary	X	X	X	X	X	X
Iceland				X	X	X
India	X	X	X	X	X	X
Indonesia		X	X	X	X	X
Ireland	X	X	X	X	X	X
Israel		X	X	X	X	X
Italy	X	X	X	X	X	X
Jamaica				X	X	
Japan		X	X	X	X	X
Jordan		X		X	X	X
Kazakhstan				X	X	
Kenya		X		X	X	X
Korea, Rep. of	X	X	X	X	X	X
Kyrgyz Republic					X	

Appendix – continuation

Country	1995	1996	1997	1998	1999	2000
Latvia				X	X	X
Lithuania					X	X
Luxembourg	X		X	X	X	X
Macedonia					X	
Malawi				X	X	X
Malaysia	X	X	X	X	X	X
Mauritius				X	X	X
Mexico	X	X	X	X	X	X
Moldova					X	X
Mongolia					X	
Morocco				X	X	X
Mozambique					X	X
Namibia				X	X	X
Netherlands	X	X	X	X	X	X
New Zealand	X	X	X	X	X	X
Nicaragua					X	X
Nigeria		X	X	X	X	X
Norway	X	X	X	X	X	X
Pakistan	X	X	X	X	X	
Paraguay					X	X
Peru					X	X
Philippines	X	X	X	X	X	X
Poland		X	X	X	X	X
Portugal	X	X	X	X	X	X
Romania				X	X	X
Russia		X	X	X	X	X
Senegal					X	X
Singapore	X	X	X	X	X	X
Slovakia				X	X	X
Slovenia					X	X
South Africa	X	X	X	X	X	X

Appendix – continuation

Country	1995	1996	1997	1998	1999	2000
Spain	X	X	X	X	X	X
Sweden	X	X	X	X	X	X
Switzerland	X	X	X	X	X	X
Taiwan	X	X	X	X	X	X
Tanzania				X	X	X
Thailand	X	X	X	X	X	X
Tunisia				X	X	X
Turkey	X	X	X	X	X	X
Uganda		X		X	X	X
Ukraine				X	X	X
United Kingdom	X	X	X	X	X	X
United States	X	X	X	X	X	X
Uruguay			X	X	X	
Uzbekistan					X	X
Venezuela	X	X	X	X	X	X
Vietnam				X	X	X
Yugoslavia				X	X	X
Zambia				X	X	X
Zimbabwe				X	X	X

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