

Party System Competitiveness and Corruption

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Abstract:

This paper examines why democratic competition sometimes fails to curb governmental corruption. We argue that in democracies party system competitiveness, which shapes the ability of voters to effectively select and control their politicians through elections, plays a critical role in conditioning the scope for corruption. For voters, governmental corruption is a classical principal-agent problem and its magnitude is mediated by the extent to which the competitiveness of a party system helps to make information and effective choices available to the electorate. Informed voters who can co-ordinate on credible alternatives to under-performing and corrupt incumbents, we argue, can select politicians who are likely to curb corruption, and hold accountable those who do not. We test this argument through a controlled comparative analysis of corruption in 70 democracies around the world and find broad support for our hypotheses.

Key words:

Party systems, corruption, electoral control of politicians, controlled comparative analysis.

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Even in fully democratic political systems governmental corruption is strikingly common. This raises a series of questions: Why does democratic competition sometimes fail to curb malfeasance? Why can elections help corrupt politicians to power? and Why do voters often fail to punish corrupt or under-performing incumbents? These questions are puzzling because electoral competition should in principle allow voters to select politicians who will curb corruption and to replace representatives who do not. Yet, empirically, this is often not the case. This paper examines under what conditions electoral competition can fail to secure clean government in the interest of the people. Our argument is that party system competitiveness, which shapes the effectiveness of elections as tools to select and control politicians, plays a critical role in conditioning the scope for governmental corruption.

In advancing this argument, we build on two distinct literatures in political science: empirical work that comments on the relationship between corruption and party system competitiveness, and positive democratic theory. Among the empirical literature, case-oriented work presents abundant evidence that party systems exert a powerful influence on corruption (della Porta 2004, Geddes and Ribeiro Neto 1992, Giliomee 1998). Comparative work has also probed the implications of party system competitiveness for governmental corruption (Scheiner 2005, Tavits 2007, Charron forthcoming). However, the theoretical claims and empirical results generated by this literature are contradictory. While some of this literature argues that competitiveness rises as effective opposition parties enter a party system and help constrain corruption, other authors suggest that larger numbers of parties hamper effective accountability and give greater scope to corruption. As a result, no consistent argument has emerged about the effects of competitiveness on malfeasance.

In this paper we draw on the insights of work in the positive theory tradition to address the contradictory conclusions that have characterized the empirical literature to date. Following the theoretical work, we conceive of corruption as a classical principal-agent problem that can arise between voters (the ultimate democratic principal) and politicians (their agents). The magnitude of

this agency problem is conditioned by the information available to voters about their politicians and the effectiveness of their electoral choices in controlling their representatives. Informed voters, who can co-ordinate on credible alternatives to incumbents that permit or engage in corruption, we argue, can select better types of politicians and hold accountable those who turn out to be bad types. Party system competitiveness influences the scope for corruption because it shapes both the information and the effectiveness of the choices available to the electorate. By focussing on these two critical mechanisms, we are able to clarify conceptually how party system competitiveness is shaped by fragmentation and governing party dominance, and how it affects governmental corruption. Our main argument is that competitiveness can be expected to reduce the latitude for corruption, but its relationship to fragmentation is non-linear and governing party dominance constitutes a distinct dimension of competitiveness. We test these arguments through a controlled comparative analysis of corruption in 70 democracies around the world and find broad support for our hypotheses.

The paper proceeds as follows. The next section introduces the findings of existing research on party system competitiveness and corruption. We then outline our theoretical approach and develop testable hypotheses before introducing the data, variable operationalisations and model choice. The final sections present our results and robustness checks before we conclude.

The Literature on Party System Competitiveness and Corruption

A striking feature of the work that examines the effects of competitiveness on accountability and corruption is that it follows two entirely divergent lines of reasoning. One set of arguments emphasizes the *corruption-reducing effects of competition*. From this perspective, competition is viewed as essential in giving rise to opposition parties that can inform the electorate about corruption and give voters the opportunity to “remove those in government who have abused their power” (Della Porta 2004: 49). When effective competition from opposition parties is reduced - work on Italy, Japan and South Africa suggests - democratic accountability is at risk, and even deeply

unpopular under-performing and corrupt incumbents can survive in office for prolonged periods of time (Mershon 2002, Scheiner 2005, Giliomee 1998),

A second line of argument, however, stresses the potentially *corruption-enhancing effects of competition*. From this perspective, clarity of responsibility and voter co-ordination are the critical mechanisms in ensuring accountability and curbing corruption. Work in this tradition argues that effective accountability can only operate if voters can clearly identify which parties are responsible for government performance and if they can co-ordinate on a clear alternative to the incumbents in order to remove them from office. More competitive multi-party systems, and the coalition governments that typically ensue, are thought to make it more difficult for voters to identify who is responsible for government policy and to co-ordinate on an alternative to the incumbent in elections (Anderson 2000, Lewis-Beck 1988). For both of these reasons systems that feature larger numbers of parties are expected to give greater latitude to corruption (Tavits 2007: 221, Charron forthcoming).

The empirical results reported by these studies replicate the apparent theoretical confusion. While Tavits (2007) finds that corruption rises with party system fragmentation and Charron (forthcoming) reports that corruption is reduced by two-party systems (at least in the context of single member district electoral systems), case-oriented work suggests that party systems with a low effective number of parties feature raised levels of corruption (Scheiner 2005, Giliomee 1998).

A problem besetting this literature is that it lacks conceptual clarity about the relationship between the number of parties that compete and the competitiveness of the party system. The assumption implicit in some of this work is that competitiveness rises in number of competitors, while the assumption of the remaining work is that the number of competitors is inversely related to competitiveness. Both sets of arguments conceive of the relationship between the number of competitors and the scope for corruption as linear, but it is clearly impossible for both assumptions to be correct. A more accurate and general account of how competitiveness affects the latitude for corruption must therefore clarify these conceptual relationships. In what follows we develop such an account.

Effective Elections, the Selection and Control of Politicians and Corruption

We conceive of governmental corruption as the misuse of public office for personal or political gain, as well as the acquiescence in such misuse by bureaucrats (Key 1936, Tavits 2007). This definition encompasses all forms of governmental corruption - grand and petty forms of theft, bribery and rent-seeking by public officials. We therefore view governmental corruption as a *public policy outcome* for which politicians are in principle accountable – they may invest resources in fighting it, or tolerate it or possibly even engage in it.

Surveys around the world indicate that citizens perceive corruption as a deleterious public policy outcome that results when their political agents - elected politicians - are unwilling or unable to redress malfeasance by public officials. This is true even in the context of clientelistic politics as the Latinobarometro and Afrobarometer surveys regularly indicate. That is not surprising. Even if citizens benefit in individual circumstances from a clientelistic exchange, this does not imply that they approve of governmental corruption to confer benefits on other groups of citizens, nor does it imply citizen tolerance for rent seeking by politicians. Put differently, for citizens collectively, governmental corruption is an agency problem that arises when politicians deviate from the electorate's interests.

We therefore apply a principal-agent approach and analyze governmental corruption as an adverse policy outcome that can result in the delegation relationship between voters (the principals) and their politicians (their agents). Voters delegate government power to politicians to attain certain goals – such as clean government - but self-interested politicians may abuse their office or tolerate malfeasance by bureaucrats when their interests are not well aligned with their electorate's interests (Adsera, Boix, Payne 2003: 447).

Much of the formal literature in classical democratic theory analyzes precisely the problem that politicians may not act in the interest of citizens. This work gives rise to two central insights. First, elections are a critical tool for voters to control politicians. Second, elections can only serve as

a means to control politicians when they have two properties: First, they must be effective *mechanisms of selection* by which voters can select “good” types of politicians whose aim is to serve the electorate (Fearon 1999), and second, elections must be effective *sanctioning devices*, through which voters can reward or punish incumbents given their record in office (Barro 1973, Ferejohn 1986, Banks and Sundaram 1993). Elections that are ineffective on either dimension give rise to two risks, *adverse selection* and *moral hazard*. Adverse selection is the risk that voters will elect politicians who do not have the motivation or skills to act in the interest of voters. Moral hazard is the risk that politicians will abuse their office by perpetrating or acquiescing in corruption because they cannot be effectively monitored and punished. As in other instances of delegation, these agency problems have their sources in asymmetries of information or limitations on the principal’s ability to translate information into effective choice.

Thus, the magnitude of these agency problems can be expected to vary with the information and effectiveness of the choices available to voters. When *information* is so poor that the electorate has difficulties telling the difference between corrupt and non-corrupt types of politicians, the risks of adverse selection and moral hazard are magnified (Fearon 1999: 79). Indeed, as Ferejohn points out, “the greater the informational advantage that officials hold, the greater their ability to earn rents from office-holding” (Ferejohn 1986: 10). As a result, voters may elect representatives whose preferences diverge from their own or they may fail to punish politicians who allow corruption to flourish because they cannot discern the politicians’ true type.

Equally critical in limiting adverse selection and moral hazard is the availability of *effective alternative electoral choices* and the capacity of voters to co-ordinate on them. When credible challengers are not available or voter capacity to co-ordinate on them is reduced, the electorate may not be able to ensure the selection of good agents or to punish incumbents who have allowed or engaged in corruption (Ferejohn 1986: 18, Myerson 1993: 119, Ferejohn 1999: 133).

Thus, a principal-agent approach identifies information and effective electoral choice as critical variables in enabling voters to control their politicians. Party system competitiveness, of

course, shapes both the information available to voters and the effectiveness of their electoral choices, and can therefore be expected to impact on the scope for corruption. As we shall see, focussing analytically on voter information and choice enables us to detail the effects of party system competitiveness on the control of politicians with precision and to resolve several of the contradictions that have characterized the empirical literature to date within a coherent theoretical framework.

Party Systems Competitiveness and the Scope for Corruption

Duverger's early work defined party systems as the "forms and modes" of competition for votes and governmental office among the constituent parties (Duverger 1954: 203), and since then an extensive literature has noted party system competitiveness as a central dimension of variation among party systems. The competitiveness of party systems is typically analysed along two separate dimensions: variation in the number of parties that compete and the extent to which competition is characterized by patterns of dominance (Duverger 1954, Laakso and Taagepera 1979, Bogaards 2004). Party systems can be characterized as competitive when they a) confront incumbents with well-defined opposition alternatives and when b) these opposition alternatives represent effective choices so that voting for the opposition can be politically consequential and can alter who controls the power to govern. In competitive party systems, opposition politicians make greater efforts to mobilize support, voters pay more attention to politics, and the pressure on incumbents to perform rises (Kitschelt 2007).

Thus competitiveness depends on two conditions. First, in order for party competition to revolve around well-defined alternatives, citizens must have information about the performance of the incumbent and about the choices offered by the opposition. Unless citizens have that information, they will have difficulty distinguishing the options before them including corrupt and non-corrupt offerings. Second, voters "must have a fair opportunity to cast a meaningful vote for or against the policymakers" (Powell 2000: 51). Reduced competitiveness in party systems that limit

the choices on offer, or give rise to co-ordination problems for honest challengers and voters, can powerfully undermine the ability of voters to cast meaningful votes against the incumbent. Thus, the conditions that restrict party system competitiveness also restrict the electoral control of politicians and can, therefore, be expected to broaden the scope for corruption.

This analysis suggests that the relationship between competitiveness, party system fragmentation and dominant party systems may be more complex than previously understood. In particular, increasing the number of parties which compete in a party system cannot unambiguously be expected to raise the information and the political effectiveness of the opposition choices available to voters. The next section develops this argument in more detail.

Party system fragmentation Scholars have long recognized that the number of competitors is an important characteristic of party systems. Consequently, party systems were initially classified as two- or multi-party (Duverger 1954), and then by the use of continuous measures of the level of fragmentation, most notably the effective number of parties (Laakso and Taagepera 1979). The level of fragmentation varies extensively among party systems. At one extreme lie party systems that offer a very restricted range of effective choices to voters. Namibia illustrates this type of party system well. Reflecting the dominance of SWAPO as the party that ushered in independence, Namibia throughout the 2000s had an average of just 1.7 effective electoral parties. At the other extreme lie democracies with highly fragmented party systems that offer voters extremely diverse choices and few clues about who is likely to emerge as the winner (Coppedge 1998). In 2007, that group included Colombia, Albania, Belgium and Brazil (with between 8.6 and 11 effective electoral parties).

Party system fragmentation affects the electoral control of politicians because it shapes the effectiveness of the choices and the quality of information available to voters. At the lower bound, a very restricted number of effective parties signals a degree of electoral hegemony that in itself presents formidable barriers to achieving a politically consequential vote for the opposition. The

level of mobilization, opposition co-ordination and vote switching required to unseat an incumbent in such systems is so extensive that a rejection of the incumbent by voters is often not followed by the actual loss of policy-making power. This can be expected to raise the risks of adverse selection and moral hazard and, from a theoretical perspective, both Myerson (1993: 119) and Ferejohn (1986: 18) anticipate that voter control over politicians is reduced when the number of parties is restricted. However, the increase in fragmentation required to make a party system significantly more competitive at this lower bound is not big. A rise from 1.7 to between 2 and 3 electoral parties (the range of fragmentation that characterized the party systems of the US, Uruguay, Hungary and Spain in 2007) is often sufficient to give rise to genuine electoral competitiveness and meaningful voter choice, which can be expected to improve the electoral control of politicians and thus reduce the scope for corruption.

But as the number of parties continues to rise, both information costs and co-ordination problems can be expected to offset and reverse the beneficial effects of increased competition. Other things equal, highly fragmented party systems make it more costly for voters to gather sufficient information to assess the record of incumbents and the promises of potential challengers, which can compromise their ability to distinguish between honest competitors and those who are corrupt or do not see curbing corruption as a priority. In addition, high levels of party system fragmentation accentuate the co-ordination problems for clean challengers and voters in replacing corrupt or under-performing incumbents. If an electoral challenge is to be successful, voters must converge on the opposition party or coalition most likely to oust the government (Ferejohn 1986: 22). By presenting voters with a broad choice of potential challengers, highly fragmented party systems tend to split the opposition vote, making co-ordination on any one challenger less likely. This in turn reduces the probability that a rejection of the incumbent by voters will result in the loss of policy-making power. Moreover, as Kurer (2001) makes clear, these problems are mutually reinforcing - the greater the information failures, the smaller the probability that voters will be able

to co-ordinate effectively. In sum, we anticipate that high levels of party system fragmentation accentuate adverse selection and moral hazard problems for voters.

By focussing on the implications of fragmentation for voter information and the effectiveness of voter choice – the two critical determinants of the electoral control of politicians - our approach clarifies that fragmentation can be expected to have a non-linear effect. This insight not only departs from earlier work, but also helps to resolve some of the theoretical contradictions that characterized it. Our first hypothesis, then, is that

H1: Corruption initially improves as the effective number of parties rises, but this effect reverses at high levels of fragmentation

The second dimension of variation in party system competitiveness arises from patterns of dominance.

Dominant party systems The concept of dominant party systems captures situations in which multiple parties exist, but the existence of this range of political choices has, for various reasons, little or no political consequence. As a result, the opportunities for political forces to win or lose power through elections are reduced. The “uncommon” democracies of Italy and Japan where one party dominated the country’s politics throughout most of the post-war period by virtue of its majority status or as a plurality party controlling the parliamentary pivot (Mershon 2002, Scheiner 2006), as well as many African democracies, which feature multi-party elections but no changes in government, are cases in point (Bogaards 2004, Bratton and Van de Walle 1997).

Dominant party systems are defined by the protracted and dominant position of a party or coalition in government (Bogaards 2004). Their origins typically lie in a combination of voter cleavages and the competitive strategies adopted by parties (Mershon 2002, Arriola 2011). Thus, the exceptionally high prevalence of such systems in African democracies is often traced to voter

loyalties commanded by parties that led the independence or democratization struggles (such as the ANC in South Africa), but it also appears to reflect the use of patronage by governing parties to undermine the incentives for opposition politicians to coalesce and form an effective electoral opposition (Arriola 2011). In Europe, dominant party systems are similarly based on voter cleavages, as well as parties' competition strategies, and tend to arise when a party successfully positions itself ideologically as the core party, which implies its membership in all possible coalitions. In the Netherlands, Dutch Christian Democracy (the KVP/CDA) occupied such a position, in Italy the Christian Democrats held core party status from 1946 through 1992 (Mershon 2002: 12-3).

Dominant party systems can be expected to accentuate adverse selection and moral hazard problems for two reasons. First, the dominant presence of one party in government creates incentives for other coalitionable parties to collude with it, because entering government requires them to enter into coalition with the dominant party. Thus, in Italy, the long era of dominance by the Christian Democrats was accompanied by "a strong tendency toward inter-party collusion" (della Porta 2004: 51). Collusion was typically reinforced by agreements that gave the other parties a stake in tolerating malfeasance by the dominant party, for instance through the "fixed distribution of public contracts among firms based on the colour of their political protection" (della Porta 2004: 51). Collusion affects the capacity of voters to control their politicians because it compromises the flow of information and, thus, their ability to distinguish between clean and corrupt types of politicians and to punish the corrupt ones. Second, the mechanisms by which dominance emerges – be that the positioning of a party or coalition in the ideological core of the party system, or the use of patronage and clientelism – limit the effectiveness of voter choice. As Arriola notes, in Africa, dominance is often achieved by incumbents who deliberately use patronage to enhance the co-ordination problems for opposition parties in mounting an electoral challenge (Arriola 2011). In Japan, the heavy reliance of the LDP on clientelism in the context of a fiscally centralized governmental structure, equally, had the effect in fostering opposition party failure and reducing the probability that opposition parties would successfully challenge the clientelist regime (Scheiner 2006). Similarly,

core parties are insulated to a large degree from the effects of electoral punishment by their ideological position, which tends to secure their inclusion in government even if they are reduced in size. Thus, the mechanisms that give rise to dominant party systems can be expected to blunt the threat of electoral punishment.

For both of these reasons we anticipate that patterns of dominance correlate with higher levels of corruption. From a theoretical perspective, Ferejohn and Myerson note that mechanisms which limit successful challenges help to “maintain collusive opportunities for officeholders of the established party” (Ferejohn 1986: 23, see also Myerson 1993: 119). Case oriented work on South Africa and Italy supports these theoretical expectations. Thus, Giliomee finds that South Africa’s dominant party system contributed to widespread corruption through the abuse of state patronage (Giliomee 1998: 129). Similarly, Mershon observes that the Christian Democrats’ core party status in Italy enabled “corruption of unprecedented scale and reach” (Mershon 2002: 184). Thus, dominant party systems are likely to reduce the information available to voters and can be expected to undermine the effectiveness of electoral punishment as a means to discipline representatives. We therefore expect that

H2: Corruption is more pronounced in dominant party systems

In sum, our argument is that these systemic features of party systems—fragmentation and dominance – condition competitiveness by shaping the quality of information and the effectiveness of the choices available to voters. To the extent that these party system features reduce the flow of information, or restrict the ability of the electorate to make effective electoral choices and coordinate on opposition alternatives, they broaden the scope for corruption. We test this argument in the section that follows, but before we do so, one further concern must be addressed.

The above discussion raises the question how far fragmentation and dominance constitute distinct aspects of party system competitiveness. Specifically, dominance is often thought to be

highly correlated with very low levels of fragmentation. Yet, from a theoretical perspective, there is no reason to expect a strong correlation between the effective number of parties in a political system and the emergence of a dominant party system. As we have seen, dominance is based on an interaction between voter cleavages and competitive strategies, such as the use of patronage, clientelism or core party positioning, which are not only capable of giving rise to prolonged incumbency in the context of multiparty systems, but often also reinforce opposition fragmentation. Indeed, extant work finds little correlation between dominance and low numbers of effective parties. Both Italy and the Netherlands have party systems with an intermediate number of parties and, as Bogaards notes, in Africa dominant party systems feature anything “from one to more than three effective parliamentary parties” (Bogaards 2004: 188). As is consistent with the theory and findings of previous work, our data suggest that the correlation between dominance and party system fragmentation is weak and not statistically significant ($r = -0.14$, $p\text{-value} = 0.26$).¹ Theoretically and empirically, it is therefore clear that the two dimensions of competitiveness we identify are distinct.

Data and Dependent Variable

Since the question why voters may fail to control their politicians is of interest only in functioning democracies, and not where electoral manipulation and fraud foil the democratic process (Kurer 2001: 65), we test our hypotheses about the effects of party system competitiveness on governmental corruption only in fully democratic polities that rank 6 or higher on the Polity Index of Democracy. Our unit of analysis is the country and our data covers 70 democracies, observed in 2007 (see Appendix 1 for a list of the countries included in the analysis).

One of the most widely used and accepted measures of corruption is Transparency International's *Corruption Perceptions Index*. This index gauges the essentially hidden phenomenon of corruption via surveys of international and domestic business people, risk analysts, and residents of a country, and aims to capture the extent to which public power is exercised for private gain,

including petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. To arrive at robust indicators, Transparency International averages the standardized values from these surveys and provides corruption perception scores only for countries for which a minimum of three surveys are available. The two critical advantages of this index are its breadth of coverage and the variety of sources employed, which reduces its susceptibility to survey-specific or question-specific idiosyncrasies.

Despite these advantages, though, working with these data poses challenges because the data record corruption perceptions, rather than the frequency or seriousness of actual corruption. Unfortunately, no measures of actual corruption exist for a sufficiently large number of cases to enable cross-national analysis. Surveys that gauge corruption experiences come closest to providing such a measure, but their coverage of countries and years is as yet too limited. Corruption perceptions, though, do appear to capture the underlying frequency of corrupt interactions. As Treisman reports, the correlation between the Transparency International measures of corruption perceptions and the main survey measures of corruption experiences are reassuringly high and statistically highly significant, with correlation coefficients that range from .64 to .79 (Treisman 2007: 218). To address any residual concerns, we robustness test our results using a different measure of perceived corruption drawn from the World Bank’s Governance Indicators. To the extent that both measures yield the same result we can have greater confidence in our findings.

Independent Variables: Measures and Measurement Validity

To gauge party system fragmentation, we employ the *effective number of electoral parties (ENEP)*, as measured by the Laakso-Taagepera Index. The majority of these data are drawn from Gallagher and Mitchell (2008) and augmented using Golder (2005), with remaining missing values calculated by the authors. We take the natural logarithm of ENEP because the marginal effect of each additional party can be expected to decrease as the number of parties rises. To capture high levels of party system fragmentation we include the *quadratic term* of the logged variable, the expectation being that the

effective number of parties will initially improve perceived corruption, but the quadratic term should have the opposite effect.

Because *governing party dominance* is a party system feature that is conceptually complex, we describe not only our measure but also the tests we performed to establish its validity. We measure governing party dominance by the number of years a governing party has spent in office consecutively, coded from the International Parliamentary Union Database and the Psephos Election Archive.² Since years-consecutively-spent-in-office is a variable with a distribution that is heavily skewed to the right, we take the natural logarithm. This measure captures the initial effects of ordinary incumbency, say a government's first and second term in office - about which we have no theoretical expectation - as well as party systems in which a governing party has established long-term dominance. To differentiate between these two effects, we include the main and quadratic term of the logged variable. Our expectation is that long term governing party dominance, captured by the quadratic term, accentuates corruption.

The question that arises is how well this measure captures the complex concept of governing party dominance. We therefore examine its construct validity by probing how far it correlates with two other features that often characterize dominant party systems - high levels of opposition fragmentation and high vote shares of the dominant governing party (Bogaards 2004). As anticipated, our data show that long time ruling parties tend to face much more fragmented oppositions than ordinary incumbents. On Beck et al.'s 2001 opposition fragmentation index, which ranges from 0 to a maximum of 1, average opposition fragmentation for countries in which the longest serving governing party spends less than 8 years in power (e.g. less than approximately two terms) is .48, but for countries which feature incumbents who spend 12 years or more in power (e.g. approximately three consecutive terms in office or more), average opposition fragmentation rises to .55. Similarly, long-term incumbents tend to win significantly larger vote shares, as expected. Ordinary incumbency of up to eight years in office (e.g. approximately two terms) is associated with an average vote share of the largest governing party of only 33% (as measured by Beck et al. 2001).

However, where parties serve 12 or more years in power, the largest party wins on average fully 53% of the vote - more than an absolute majority. Thus, our measure appears to capture the concept of dominant party systems well.

Control Variables

We employ two sets of control variables, which have been shown to affect corruption in previous cross-national work. The more parsimonious set of controls includes constitutional, economic, social and regional factors. The *age of democracy* is usually expected to reduce corruption because over time, the re-election imperative can, all else equal, be expected to incentivize politicians to reduce governmental corruption (Montinola and Jackman 2001). We measure the age of democracy by the number of consecutive years that a country has been rated 6 or better on the Polity Index of Democracy (Marshall, Jaggers and Gurr 2010). In addition, different democratic constitutions are thought to vary in the extent to which they limit opportunities for corruption and rent extraction. Thus, constitutions which decentralize power and those that feature executive presidents increase the number of institutional veto players in the policy process, which some scholars argue, reduces transparency, and increases opportunities for rent extraction and governmental corruption (Gerring and Thacker 2004, Kunicova and Rose-Ackerman 2005). We gauge *decentralization* using Beck (2001) et al.'s measure, which records the extent to which a country has autonomous, locally elected governments, and include an indicator for democracies that feature *executive presidents* (all presidential and semi-presidential regimes = 1, otherwise 0) based on Svobik's (2008) coding.

Economic conditions have been shown to have a powerful influence on corruption. Thus economic development can be expected to curb corruption because it "increases the spread of education, literacy, and depersonalized relationships —each of which should raise the odds that an abuse will be noticed and challenged" (Treisman 2000: 404). Additionally, the ability of officials to extract rents in the domestic market should be reduced when that market is open (Treisman 2000, Gerring and Thacker 2005). We measure *economic development* using the natural logarithm of real

GDP per capita (in constant 2000 US\$), reported as part of the World Bank World Development Indicators. *Trade openness*, also drawn from the World Bank's Development Indicators, is measured by the sum of a country's imports and exports as a share of GDP – missing country-years were completed using import and export data as reported in the IMF's International Financial Statistics. In addition, we control for ethnically and linguistically fragmented societies, which are sometimes expected to be associated with greater corruption because it is thought that corrupt rents are more easily extracted in divided societies that provide for internal sanctions against those who betray their co-ethnics. To capture *ethno-linguistic fragmentation*, we draw on Alesina et. al.'s (2003) index.

Finally, we include a series of *regional indicators* for the Former Soviet Union, the Middle East, Central and Latin America, Asia, and Africa in the analysis to account for unobserved regional influences on perceived corruption.

The more extensive set of controls additionally captures electoral system features which - like party system competitiveness - shape electoral information and choice. Thus, plurality electoral systems are often expected to make it easier than PR lists for voters to attribute responsibility (Kunicova and Rose-Ackerman 2005). In addition, PR systems, in particular in combination with open lists, are thought to induce politicians to focus on personal reputations in order to differentiate themselves from their co-partisans and "to use illegal proceeds to fund electoral competition" (Chang and Golden 2006: 119) thus skewing the choices available to voters toward corrupt types. To account for the nature of the electoral rules, a series of indicator variables are used to record whether a country employs *Proportional Representation*, *Plurality*, and *Open Lists*, as well as an interaction to capture Open List PR systems (*Open List*PR*). The electoral systems data are drawn from Beck et al. (2001) and augmented using Regan and Clark (2010) and Golder (2005). Since the electoral system variables can be expected to influence not just voter information and choice, but also the scope for governmental corruption, their inclusion can spuriously obscure the relationship between party system effects and corruption. However, as we shall see, despite these confounding

effects party system competitiveness is associated with governmental corruption in a manner that is consistent with our expectations.

Models and Results

Our model choice and specification is driven by three considerations. First, the dependent variable – the Transparency International Corruption Perception Index - ranges from 2.3 to 9.4 in our data, which makes an OLS regression model the appropriate choice. Second, to correct for unobserved sources of variability between countries, we estimate robust standard errors. Third, in examining the effect of party systems on corruption the possibility of reverse causation is an important concern. Party systems themselves result - at least in part - from the choices of politicians who may wish to protect corrupt practices by limiting the information and choices available to voters to identify and avoid or replace corrupt politicians. To address this concern about the direction of causality, we lag all of our explanatory variables which capture aspects of the party system, as well as all time-varying control variables, by a period of seven years.

Table 1 presents the results of the analysis.³ Model 1 uses the parsimonious set of control variables, while Model 2 employs the more extensive set of controls. Across both specifications, the pattern of party system coefficients reflects the expectations we derive from our analysis of corruption as a principal-agent problem between voters and politicians. Unless otherwise noted, the discussion of the results is based on Model 1 (for all predicted changes in corruption scores described in this section see Table 2).⁴

[Table 1 about here]

Table 2 makes clear that corruption scores respond strongly to changes in the competitiveness of the party system. We anticipated that party system fragmentation initially improves perceived corruption levels because it enhances competition and choice for voters. As expected, an initial increase in the effective number of parties is always associated with a significant reduction in corruption perceptions. This effect appears large in Model 1 - a one-standard deviation

increase from the minimum of 1.7 to 5.3 reduces corruption scores by 43%. As expected, the effect of fragmentation is highly non-linear and reverses at high levels of party system fragmentation. Thus, a one standard-deviation increase in the squared number of effective parties yields a very significant 55% rise in corruption perceptions, which is consistent with our hypothesis that highly fragmented party systems raise the information costs for voters and create co-ordination problems in the effort to punish corrupt incumbents (H1).

Long term governing party dominance, captured by the quadratic term, also has a powerful effect. A one-standard-deviation increase is associated with a 17% deterioration of corruption scores as is consistent with our argument that long term dominant party systems foster collusion and blunt the tool of electoral punishment (H2). Note that the main effect of governing party dominance, which captures ordinary incumbency and about which we had no expectation, is positive and reduces the perceived levels of corruption significantly.

[Table 2 about here]

Turning to the controls, the age of democracy consistently correlates with significantly improved corruption scores, as anticipated. The coefficient for decentralized constitutions always has the negative sign Gerring and Thacker (2004) would expect - indicating that they tend to correlate with worse corruption scores. But as previous research has suggested (Treisman 2007), this effect, as well as the effect of executive presidents, is fragile and neither coefficient is precisely estimated. Wealth is - as previous work overwhelmingly suggests - associated with significantly improved levels of perceived corruption. The coefficients for trade openness and social structure, however, fall short of statistical significance. The region dummies suggest that Middle Eastern and Central and Latin American democracies tend to have worse corruption perception scores, while the indicators for Africa, Asia, and the Former Soviet Union do not reach statistical significance.

In Model 2, which includes the expanded set of controls for electoral system features, the party system variables retain their significance and substantively sizable effects. The additional controls have the expected signs. While plurality electoral systems correlate with significantly

improved perceptions of corruption, corruption appears to be worse in the context of open-list proportional electoral systems (captured by the interaction). However, the effects of the interaction and the indicators for PR and open-list systems are fragile, as previous work suggests, and do not reach conventional levels of statistical significance.

Thus, whether we use the more parsimonious or the fuller set of controls, the variables of theoretical interest always have the expected signs and are statistically significant. The level of explained variance across the two models is high with R-squared statistics of .85 and .86.

Robustness

To test the robustness of these results further, we take two different approaches (models not presented). First, we re-run our models substituting the *control of corruption* dimension of the World Bank Governance Indicators (Kaufmann, Kraay, and Mastruzzi 2004) for Transparency International's *Corruption Perception Index* as the dependent variable. The surveys and method of aggregation used by the World Bank differ from those used by Transparency International, and to the extent that these two different measures of corruption as perceived by a range of different actors yield substantively the same results, we can have greater confidence in the robustness of our findings. This test shows that our findings are robust to the use of the World Bank measure as an alternative dependent variable. Second, because the shared variation between the main and quadratic terms for party system fragmentation and governing party dominance is high, it is difficult to distinguish in these models the separate effects of these terms. For this reason, we residualize the two quadratic terms to render them uncorrelated with the main terms and then replicate the analysis. The results of these analyses confirm that fragmentation has a highly non-linear effect and that there are no numerical problems in estimating the quadratic terms for both fragmentation and governing party dominance, which retain their negative signs, size and significance.

In sum, we find that party system competitiveness has powerful effects on levels of corruption as perceived by citizens, domestic and international business people and risk analysts.

Conclusion

In this paper we have drawn on work in the tradition of positive democratic theory to resolve some of the contradictions in the empirical literature on party system competitiveness and corruption. Applying a principal-agent approach, the paper argues that the scope for corruption is powerfully conditioned by the ability of voters to control their politicians, which in turn is shaped by the competitiveness of the party system. Party system competitiveness – both in terms of fragmentation and governing party dominance – impacts on the control of politicians because it structures the information and choices available to voters in controlling their politicians. Our empirical results suggest that when party system competitiveness enhances the information and effectiveness of the choices available to the electorate, it reduces the scope for corruption. However, the latitude for corruption increases when high levels of party system fragmentation and patterns of governing party dominance reduce the information available to voters and their ability to co-ordinate on credible alternatives to the incumbents.

Our analysis and findings give rise to a more accurate and nuanced understanding of party system competitiveness and its relationship to governmental corruption in two respects: First, while much of the extant literature on corruption and party system features focuses either on the number of parties competing or on patterns of governing party dominance, our work makes clear that competitiveness is a two-dimensional phenomenon that is shaped by the number of parties and the relative dominance of the governing party, both of which impact on the scope for corruption. Second, our work clarifies that the relationship between the number of parties that compete and the competitiveness of the system is non-linear – competitiveness initially increases in the effective number of parties, but that effect reverses at higher levels of fragmentation. In both ways, this paper helps to resolve the theoretical and empirical contradictions that have characterized much of the empirical work on party system competitiveness and corruption to date.

Of course, governmental corruption is only one of a range of public policy outcomes that can reasonably be expected to be influenced by party system competitiveness. Other public policy outcomes that might be affected include the provision of public goods and pro-development public policies (see Keefer 2007 and Keefer 2011 for example). Thus, our work should be of interest not just to scholars working in the field of political corruption, but also to those working in the areas of political economy and public policy more broadly.

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Table 1: Party System Competitiveness and Corruption Perceptions

	(1) Parsimonious Controls	(2) Full Controls
Party System Competitiveness		
H1 Fragmentation (ln ENEP)	2.654** (0.796)	2.306** (0.790)
Fragmentation Sq	-0.763** (0.201)	-0.680** (0.203)
H2 Governing Party Dominance	0.723** (0.258)	0.896** (0.255)
Governing Party Dom Sq	-0.134* (0.065)	-0.176* (0.078)
Controls		
Age of Democracy	0.590** (0.215)	0.543* (0.245)
Decentralization	-0.040 (0.203)	-0.162 (0.214)
Executive President	-0.144 (0.360)	0.021 (0.350)
GDP per capita (ln)	0.929** (0.158)	1.139** (0.214)
Tradeopenness	0.044 (0.267)	0.113 (0.267)
Ethnolinguistic Fragmentation	0.131 (0.763)	0.647 (0.825)
Former Soviet Union	0.614 (0.631)	0.630 (0.624)
Middle East	-1.229** (0.365)	-1.460** (0.385)
Central and Latin America	-1.106* (0.466)	-1.171* (0.477)
Asia	-0.093 (0.530)	-0.168 (0.500)
Africa	0.496 (0.549)	0.308 (0.527)
Proportional Representation		0.036 (0.375)
Plurality (First-Past-the-Post)		1.073* (0.488)
Open Lists		-0.356 (0.401)
Open Lists*Proportional Representation		-0.298 (0.791)
Constant	-7.039** (2.140)	-8.590** (2.283)
Observations	70	70
R-squared	0.847	0.861

Robust standard errors in parentheses + significant at 10%; * significant at 5%; ** significant at 1% (two-sided).

Table 2: Magnitude of Predicted Changes in Corruption Scores

	One std. dev. increase from	Change Corruption Score	Percentage Change	Std. Err.	95% Confidence Interval	
Fragmentation (ENEP)	Min	3.05	43%	.92	1.23	4.81
Fragmentation (ENEPsq)	Min	-3.94	55%	1.04	-5.85	-1.99
Governing Party Dominance sq	Min	-1.20	17%	.55	-2.24	-.15

Note: All predicted changes are based on Model 1. Effects for all logged variables are reported in the original metric. Other variables were kept constant - continuous variables at their mean, dichotomous variables at their mode.

Appendix: Democracies included in Analysis				
Argentina	Cyprus	India	Mexico	Senegal
Australia	Czech Republic	Indonesia	Mongolia	Slovakia
Austria	Denmark	Ireland	Namibia	Slovenia
Belgium	Dominican Rep.	Israel	Nepal	South Africa
Benin	El Salvador	Italy	Netherlands	South Korea
Bolivia	Estonia	Jamaica	New Zealand	Spain
Botswana	Finland	Japan	Nicaragua	Sweden
Brazil	France	Latvia	Norway	Switzerland
Bulgaria	Germany	Lithuania	Panama	Trinidad and Tobago
Canada	Greece	Macedonia	Paraguay	Turkey
Chile	Guatemala	Madagascar	Phillippines	Ukraine
Colombia	Guyana	Malawi	Poland	United Kingdom
Costa Rica	Honduras	Mali	Portugal	United States
Croatia	Hungary	Mauritius	Romania	Uruguay

¹ For details about the data and measures employed please see following sections.

² International Parliamentary Union Database (<http://www.ipu.org/>), Carr (<http://psephos.adam-carr.net/>).

³ All models are estimated using STATA 11.

⁴ All quantities of interest in the interpretation of these models were simulated using Clarify (Tomz, Wittenberg and King 2003).