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Abstract

What keeps corruption in check? Politicians have incentives to both avoid and actively oppose corruption when voters can hold them accountable for it. But to punish malfeasance voters have to know about it, and corrupt actors don't want such information to be easy to find. Moreover, we argue that the very people best positioned to observe and block corruption—legislators with influence in the policy-making process—also are well-positioned to benefit from corruption. We thus focus on political elites and explore the conditions affecting the corrupt exercise of influence in the policy-making process. To that end, we look at the role of institutional checks in the legislative process and conclude, *contra* conventional wisdom, that as the number of checks increase so also should corruption increase, all else equal. This conclusion follows from the argument that checks give the *individuals* who control them influence and, importantly, an incentive to collude with other veto players in order to channel public resources to private ends. As long as the benefits of collusion (e.g., among coalition partners or even copartisans) outweigh the costs, increasing the number and potency of checks only increases opportunities for corruption. We find, testing our claim against data from a sample of 97 countries, strong support for our hypothesized relationship between institutional checks and corruption.

Key words Veto players, checks, corruption, governance, panel data

JEL classification D72, D73

Introduction

Most analyses of the causes of corruption start with the presumption that corruption, or the abuse of public office for private gain, grows from voters' inability to rein in their representatives. In the face of government malfeasance, scholars ask whether and how political institutions can remove or at least ameliorate its causes.[1] Answers in the literature vary in specifics, often in contradictory ways, but generally boil down to a statement that corruption is lowest where political institutions, primarily electoral rules, give voters the wherewithal to punish politicians who fail to perform to expectations.[2]

We take a somewhat different tack. While not denying the importance of the electoral connection between voters and representatives, we focus on the incentives facing legislative actors. The reasons we do so are two. First, in order for voters or anybody else to punish malfeasance, they have to both know that it exists and be able to identify its source. As with any activity that invites punishment if brought to light, however, those involved want to keep it hidden. Consequently, the only people who can be counted on consistently to know about it are those involved in the policy-making processes that make it possible. Even the most hard-working investigative reporter needs leaks and leads, for instance, and if neither is forthcoming the information will remain hidden no matter how free the media are. Second, even legislative elites who know of others' bad behavior might not have any reason to reveal it. Indeed, and this is where we part from the existing literature, elites sometimes not only might be willing to tolerate others' bad behavior, but also to use their legislative influence to behave badly themselves.

We ask three questions. Who is likely to be in a position to observe malfeasance? Who, having observed malfeasance, is in a position to do something about it? And what incentives do those who observe bad behavior have to act? The answer to the first question is straightforward: the people best situated to know that policy makers or their agents are behaving badly are other participants in the policy process. The answer to the second question is those who can influence outcomes—i.e., individuals with the ability to propose, amend, or block legislation. These latter actors both have the most at stake in outcomes (that reflect on them) and possess the resources to block or at least impede corrupt elements in the legislative process.

The answer to the third question is more context-specific. When a legislator observes corruption, what should she do? If it is costly to her or if making it public gives her an advantage, she can reveal it to others (e.g., voters) in a position to impose some kind of punishment or she can use her own authority to nip it in the bud. The presence of actors

[1] Rose-Ackerman (1975) gets the ball rolling from a theoretical perspective while La Porta et al. (1999) do so from an empirical one. For reviews of the literature see Lambsdorff (2007) and Treisman (2007).

[2] For example, Montinola and Jackman (2002), Bäck and Hadenius (2008) and Charron and Lapuente (2010) have looked at how the level of democracy affects this principal-agent problem while Panizza (2001), Persson et al. (2003), Chang (2005), Kunicovà and Rose-Ackerman (2005) and Chang and Golden (2006) examine how electoral rules affect how accountable political candidates are to voters.

positioned to know about malfeasance and with incentives to do something about it (rendering it either pointless or detrimental) should motivate potential malefactors to toe the legal line. A witness to corruption who would gain nothing from opposing it, by contrast, can ignore (i.e., tolerate) it; or she can her own authority, not to block corruption but rather to contribute to it by funneling resources to her own ends. Put simply, elites with opposing policy preferences such that one's policy gain implies the other's policy loss should do all they can to block each other on policy and anything else. The more elites share policy preferences, however, the more they should be willing to tolerate each other's foibles in the interest of achieving common goals.

The key institutional feature of our argument is legislative checks—in a word, the formal authority to delay, block, or amend bills. Vetoes, by providing influence over outcomes, inject those who control them into legislative process (Tsebelis 1995; 2002). We test our argument, which hinges on the assertion that checks not only exist but also function independently from partisan concerns, using a new measure of legislative checks that focuses solely on formal legislative and constitutional rules (*** 2013). This indicator both counts the number of formal checks and provides contextual information on the extent to which these checks can be weakened (as is the case for example, when the legislature can remove the executive from office or when the executive can dissolve the legislature). Our expectation is that, controlling for the effect of partisan preferences, the stronger the formal checks in place, the more corruption since checks empower veto players to use their leverage for private gain. Our empirical results, drawn from a sample of up to 97 countries from 1984 to 2005, provide strong support for this expectation even after accounting for a range of potentially important covariates and applying a host of robustness checks.

We structure the paper as follows. In the following section we develop our argument linking formal checks with corruption and point to gaps in current empirical work relating checks to governance. Next, we describe our key data and the empirical method. We then present and discuss our main empirical results and robustness checks. We conclude with a summary of key findings.

Institutional checks and individual self-interest

Research on corruption typically focuses on voters' ability to control their elected representatives. The ability to keep agents in check, however, is meaningless absent information about whom to check and when. Moreover, because powerful and corrupt agents might be able to keep their perfidy hidden, a more reliable foundation for good government requires that those who would like to see corrupt actors punished—e.g., political rivals—be in a position both to observe and report undesirable behavior and, ideally, to block it (Brown el al. 2011). These two elements—effective monitoring and institutional incentives—are fundamental to well-designed principal-agent relationships (Kiewiet and McCubbins 1991).

Effective monitoring and institutions are vital, but they are difficult to find together. First, in order to be in a position to observe and report wrongdoing, whether willful or a

product of error or incompetence, a person has to be involved in the process where bad behavior can be observed. The best vantage point is within the legislature. The legislative process, from bill proposal to final passage, incorporates checks; the degree to which actors who control those checks, which in most legislatures implies being a member of the governing coalition, share an interest in holding on to power should affect their willingness to reveal whatever malfeasance they see.

Our argument begins with the basic assumption that political actors care about policy, but not to the exclusion of other uses for legislative resources (cf. Müller and Strøm 1999; Strøm 1990), e.g., personal enrichment or funneling public resources to friendly private interests. When the policy preferences of actors who control legislative checks diverge, none has any reason to let others achieve their policy or non-policy goals. When their preferences converge, by contrast, they benefit in policy terms from each other's control over checks. Realizing policy goals is not an issue because it is not problematic, so veto players can leverage their power to delay or amend bills in order to extract resources for non-policy ends. Inasmuch as blocking or revealing malfeasance on the part of policy allies would involve both blocking desired policy and risking the survival of the ruling majority, turning a blind eye to corruption seems a small price to pay for legislative control. The implication is that formal institutional checks in the absence of partisan or programmatic concerns should, all else equal, increase the incidence of malfeasance (see Diermeier and Myerson 1999 with respect to the creation of legislative "hurdles" as a means to extract resources from lobbyists). When there are few formal checks in place, on the other hand, corruption should be lower since there are fewer hands in the till.

Shleifer and Vishny (1993) argue that the level of corruption will be higher the greater the number of veto players (they call them monopolists), assuming that the veto players ignore each other and focus on maximizing their private gains independently (see also Brennan and Hamlin 1994). Their veto players are independent public administrators, however, decidedly different from actors in the legislative process. Andrews and Montinola (2004), by contrast, suggest that increasing the *total* number of veto players (not just in the legislative arena) makes collusion more difficult and reduces actors' capacity to collude to accept bribes, which in turn should reduce corruption. That we arrive at the opposite conclusion is neither surprising nor necessarily inconsistent because, again, we restrict our analysis to legislative checks while they count all checks in a system. Legislating is by nature a collective endeavor, in which independent actors get nowhere; but actors who are willing to abide each other's ethical lapses stand to benefit personally. If anything, collusion helps make the collective activity of legislating possible. Cooperation should indeed be more difficult outside the legislative arena, as Andrews and Montinola show, because extra-legislative veto players (such as courts and subnational governments) are both much more easily characterized as independent from each other and, importantly, better equipped to accept or reject decisions made in the national legislature than to amend their content.

To reiterate: In order to reveal corruption, one has to observe it. The only guaranteed way to observe malfeasance in policy making is to be involved in the policy-making process. But even for individuals whose motives and behavior are beyond reproach, revealing bad behavior by others is not obviously the best course of action. Whether political actors have incentives to reveal any improper use of legislative resources that they might see depends on three factors: Do they benefit from it? Does it hurt them (and if so, is the cost greater than any benefit)? And will revealing it make them better—or at least no worse—off? With respect to the third item, for instance, it is not difficult to find examples of corporate and government whistleblowers who were punished for revealing wrongdoing. If, for anyone in a position to observe and reveal malfeasance, the benefits from it outweigh the costs or actually pulling back the curtain on it would be damaging, it is unlikely that anyone else will ever see the evidence.

We focus on the legislative arena, first because legislators control a state's resources and second because the resources to deal with problems elsewhere are as a rule allocated legislatively. Legislators control the resources either to control corruption or to add to it. Opportunities for realizing rents from the policy process come from influence over the process. Such influence is most obviously rooted in the ability to stop the process—in, in other words, legislative checks. The power to block corruption, in a word, also implies the power *not* to block it.

What about third-party reporting? Members of the political opposition of course would like any evidence of misbehavior in government to come to light. Similarly, evidence of malfeasance is the kind of news a free press thrives on. But willful malfeasance is hard to spot basically by definition: bribes, for example, benefit both those who take them and those who offer them, so each has reason not only not to reveal the bribe but actively to conceal it. This not to say that evidence of misgovernment always remains hidden, but rather that the likelihood that it will surface probably is low. Corruption ought to thrive where it is most likely to remain in the shadows. Where it is likely to be revealed and consequently punished, by contrast, potentially corrupt actors should constrain themselves in order to avoid punishment.[3] Where corruption exists, it is likely to be hidden. Where it is unlikely to remain hidden, it should not exist.

To be clear: The veto-player logic (Tsebelis 1995; 2002) that underpins our argument builds on James Madison's (1787) statement in Federalist 51 that "Ambition must be made to counteract ambition." When actors' ambitions diverge, so that policy that benefits one hurts the other, they would check each other if they could. This is the situation that obtains when partisan checks are enabled by virtue of rival parties' control over separate veto points (see also Persson et al. 1997). When policy is contentious, i.e., one actor getting more of what she wants implies that other actors get less of what they want, intralegislative competition and behavior revolve around policy objectives.

[3] Similarly, the more likely any kind of malfeasance is to be revealed, the more careful elites should be not only to avoid corruption but also to promote competent, careful agents (e.g., bureaucrats).

Legislative actors, whether parties or individuals, focus on the complementary goals of enacting their preferred policies and keeping their rivals from doing the same. They do so by employing checks.

Tsebelis (1995; 2002) distinguishes theoretically between institutional checks and partisan checks. The former derive from formal rules of procedure that allocate authority to specific offices or bodies to block passage of a bill; the latter derive from the preferences of those who control those institutional checks. While partisan and institutional checks are in principal distinct, Tsebelis's formulation in practice combines them. Partisan checks thus function by virtue of procedure—e.g., in cabinet government the ability of any cabinet party to bring the government down by exiting the coalition effectively gives every coalition party a veto—or when different parties control different institutional checks. Institutional checks are a function of formal authority, but only work when operated by actors who *want* to check each other. Thus, in the original formulation, partisan competition activates institutional checks, while partisan checks can operate even absent well-defined institutional ones.

It follows from Tsebelis's (1995) absorption rule that veto gates (i.e., institutional checks) are meaningless when controlled by copartisans or close allies. Multiple institutional checks controlled by a single party are counted as one. For example, a bicameral legislature where the same party holds a majority in both chambers is counted as if it were unicameral. This is problematic because it ignores the preferences and incentives of the individuals who operate them. Indeed, the operating assumption is that members of a single party hold identical preferences (Laver and Schofield 1990, ch. 2; but see cf. Heller 2001; Laver and Shepsle 1990; 1999; VanDusky and Heller 2014). But no one who wields power—and controlling vetoes is power—can credibly commit to do anything but use that power to her own advantage (see, e.g., Laver and Shepsle 1996; Osbourne and Slivinski 1996; Shepsle 1979; 1991). We argue that legislative checks, which imply at least the ability to delay legislation if not block it outright and often include the authority to amend bills, give individuals leverage to make themselves better off in the process of passing legislation (Heller 1997; cf. Osbourne and Rubinstein 1990; see also Tsebelis and Money 1997).

When players compete over policy, following veto-player theory and as argued in most of the literature, we agree that corruption (and agreement more generally) should be rare. Checks give those who control them the ability to protect themselves from proposals they dislike and, in the process, stymie their rivals' ambitions. But we do not agree that shared partisanship should render checks inoperative. Where Tsebelis and others assume that checks are inoperative unless controlled by rival parties, we argue that copartisans or close allies who control checks might use their authority to collude both in policy making and in corruption. Basically, the *individuals* who operate the levers of power—the veto players—cannot and do not set aside their own self-interest for the good of their parties. They thus can undermine the quality of governance not only by blocking good policy (Gerring and Thacker 2004), but also by letting bad policy

pass or using their leverage in the process to direct government resources to their own ends. This observation straightforwardly yields the following hypothesis:

Hypothesis: *The number of legislative checks should be positively correlated with corruption.*

To test our hypothesis we need a measure of institutional or formal checks as distinct from partisan preferences. Ideally, moreover, a measure of checks also should capture the "security" of veto players' authority, as this is likely to affect their capacity to hold out for personal gain. Unfortunately, existing empirical work calibrating the impact of checks on governance has employed measures of checks which effectively conflate formal and partisan checks (for a full discussion see *** 2013). For instance, Panizza (2001) uses Henisz's (2000; 2002) index of legislative checks, POLCON, which measures the number of independent branches of government with veto power over policy change, the extent of party alignment across branches of government (measured as the extent to which the same party or coalition of parties control each branch) and the degree of preference heterogeneity within each legislative branch (measured as legislative fractionalization in the relevant house). This measure collapses to 0 if there are no veto points or if they are controlled by a single party, thus operationalizing the presumption that checks are irrelevant in such contexts. Based on this indicator, Panizza (2001) finds that the presence of veto points controlled by political rivals is associated with better governance. Andrews and Montinola (2004) find that more checks lead to higher levels of rule of law. To measure checks they rely on the CHECKS variable from the Database of Political Institutions or DPI (Beck et al. 2001), an indicator that starts off with a value of one for all political regimes (including those that do not hold competitive legislative elections) and rises with competitiveness of executive elections, the existence of additional legislative chambers, divided government, the number of coalition parties or inter-party ideological distance. By its very construction therefore, this variable combines both institutional and partisan influences. Finally, Brown et al. (2011) account for rival veto points by way of the ideological distance or polarization among the largest parties and the executive and find that the partisan divide seems to keep corruption under control. Thus, in all cases the measure of veto points or checks is defined in terms of partisan competition. This is tantamount to assuming that having some number of institutional checks controlled by a single party is equivalent to having no checks at all.

We thus turn to a new measure of checks which accounts for both formal checks and, significantly, factors such as the ability to call new elections that might make veto players reluctant to use their authority (*** 2013). This measure, which we explain more fully in the next section, is invariant with respect to electoral outcomes or coalitional composition—i.e., it explicitly ignores Tsebelis's (1995) partisan veto players and absorption rule—capturing formal institutional checks not partisan ones. If decisions in a multiparty cabinet required unanimous consent (so that any member of cabinet could veto any decision), then our measure would undercount checks. If our checks matter even when controlled by a single party, by contrast, *other* measures

undercount them. The measure is essentially additive, but weights specific veto (or delay) points by their exposure to "censure" authority, i.e., players formally endowed with the ability to impose costs on veto players who cross them. The ability of the executive to block legislation thus amounts to less when he can be removed from office by the legislature, for example, and the ability of the legislature to act against the executive's desires is weakened when the executive unilaterally can call new elections (cf. Shugart and Carey 1992).

Data and empirical approach

Our measure of formal legislative checks (*legchecks*) comes from *** (2013). They employ the following twelve constitutional-level variables from the Institutions and Elections Project (IAEP; Regan, Frank and Clark 2009):

- the number of legislative chambers (legcham);
- whether an executive (e.g., president or prime minister) has a veto (execveto);
- whether the legislature can block executive action (legveto);
- whether the legislature can remove an executive from office (removeexec);
- whether an executive has the authority to dissolve the legislature (removeleg);
- whether there is an executive who is chosen independently from the legislature (execindep);
- whether an executive has legislative proposal authority (legpres);
- whether the prime minister has the authority to propose legislation (legpm; this variable obviously is 0 if there is no prime minister);
- whether (explicitly or by common practice) an executive holds a legislative seat (exleg);
- whether the prime minister has the authority to call elections (callpm);
- whether the president has the authority to call elections (callpres);
- or whether no one has the authority to call new elections (callnone), as is the case for example in Norway (and presidential countries).

Our approach to aggregating these variables legchecks is as follows (see *** 2013 for details). Legcham and callnone are taken to be the two components which contribute unqualifiedly towards the strength of legislative checks. The number of legislative chambers matters because even weak chambers can affect legislative outcomes. Callnone makes it easier for officeholders to put their checking authority to use. Alternatively, the impact of the other variables listed above depends on context: execveto is weakened in the presence of removeexec; legveto is weakened when either the president or the prime minister can call elections (callpres and callpm) and disappears entirely if both can; it also is weakened when the executive can dissolve the legislature; executive ability to propose legislation (legpres) is weakened when the legislature can remove the executive; removeexec provides a check (via threat of punishment ex post) on executive action that is weakened when the executive can dissolve the legislature or in the face of executive proposal authority; removeleg

weakens the effect of a formal legislative veto and clears potential obstacles to presidential proposals; execindep is weakened where the legislature can remove the executive and reduces total vetoes where the independent executive also can dissolve the legislature; at the same time, by contrast, it strengthens the effect of presidential proposal power; legpres reduces the potential for checks where the president can call new elections, but is an authority that can be checked de facto when the legislature can remove the executive; and legpm is counted as meaningless where the prime minister is a sitting member of the legislature.

Table 1 about here

Table 1 presents the summary statistics of all the variables employed in the analysis (see Table 1 for data definitions and sources). Our legchecks indicator is available over the period 1984-2005. It ranges from 3.3333 to 12.333 with a mean value of 7.8155. Countries with very weak institutional checks in our sample include Finland, Qatar, Hungary and Libya. At the top end Latin American countries, like the Dominican Republic, Colombia, Chile and Brazil have very strong checks. This contrasts with the sample of countries with very weak or strong checks according to the CHECKS AND POLCON measures over the same period. To appreciate this in Table 2 we list countries representing maximum or minimum values according to the three indicators. This table shows that country orderings changes across different measures of checks. The differences between the three indicators become clear when looking at the (statistically significant) simple correlations between each: legchecks-CHECKS, 0.0635; legchecks and POLCON, 0.0963; CHECKS-POLCON, 0.4135 (see Table 2 in the Appendix). Clearly the three indicators are measuring checks in different ways with the largest differences between legchecks and the other two, as expected.

Table 2 about here

To measure corruption we draw from the International Country Risk Guide (ICRG) as published by the Political Risk Services Group and the World Governance Indicators (WGI) from the World Bank (Kaufmann et al. 2006). The ICRG corruption measure captures in-house experts perceptions of actual or potential corruption in the form of excessive patronage, nepotism, job reservations, 'favor-for-favors', secret party funding, and suspiciously close ties between politics and business. The measure ranges from 0 to 6 and higher values reflect a lower perceived risk of corruption or, in other words, perceptions that the government is cleaner. Alternatively, the World Bank's Control of Corruption indicator draws from numerous perception-based sources, including the ICRG, and reflects the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. This measure varies from -2.5 to +2.5 and higher values indicate stronger control of corruption. The ICRG measure is available since 1984 while the World Bank measure was first published for 1996. It is for this reason that we mostly rely on the ICRG measure in our empirical analysis and employ the World Bank measure for robustness purposes. According to the ICRG, the risk of corruption is

lowest in countries like, Germany, Switzerland, Norway, Luxembourg and Canada and highest in Liberia, Bangladesh, Haiti, Paraguay, and the Democratic Republic of Congo.

We estimate the following model,

$$\text{Control of Corruption}_{ti} = \alpha_1 + \alpha_2 \text{legchecks}_{it} + \alpha_3 X_{it} + U_{it}$$

Where legchecks represents our chosen measure of institutional or formal checks, X is a vector of control variables and U is the error term. Given our previous discussion we expect $\alpha_2 < 0$ or, in other words, that the presence of stronger formal checks should worsen corruption. This model is estimated by way of OLS with panel corrected standard errors as recommended by Beck and Katz (1995) in the presence of substantially more cross-section units than time periods (in our sample, N=97 and T=21). We employ a Period SUR (seemingly unrelated regression) which computes standard errors that are robust for between-period correlation (cross-section clustering). We eschew cross-section fixed effects because it relies exclusively on the variation within each cross-section something which is very limited in our legchecks variable.[4] On the other hand, in some of our regressions we do employ period fixed effects to take into account the influence of unknown or unobservable factors evolving over time and affecting all our cross-section units.

We take several precautions in an effort to ensure that the estimated impact of formal checks on corruption is not picking up the influence of rival political parties or partisan preferences in the legislative process. First, we follow Brown et al. (2011) and control for partisan preferences by way of the DPI variable "Polarization" that measures the maximum ideological difference (left-right-center orientation) between the chief executive's party and the four largest parties of the legislature based on seat shares (see also, Keefer and Stasavage 2003).[5] Second, we check the robustness of the estimated impact of legchecks in the presence of two alternative measures of veto points—the previously described POLCON variable from Henisz (2000; 2002) and CHECKS from the DPI—which incorporate information on both the number of checks and the extent of ideological polarization in their construction.

In line with previous work on the determinants of corruption we include as well a number of standard control variables. We control for real GDP per capita and the size of government because wealthier countries tend to have better government quality, and a large public sector implies greater institutional capacity as well as greater scope for

[4] Although not shown in Table 1, the within country variation over time is very limited: the within standard deviation is 1.0192 (compared to a between deviation of 2.3234) which implies a coefficient of variation of 0.1304.

[5] Specifically, polarization is a coded: zero if the executive's party controls an absolute majority in the legislature or if elections are deemed "uncompetitive"; one if elected bodies only feature center–left or center–right representation among the largest parties and; two in states featuring a large left and right wing presence among elected officials.

diverting public funds.[6] We control for ethno-linguistic fractionalization on the strength of the possibility that voters are more likely to support corrupt politicians from their own ethnic group on the expectation that co-ethnic public officials will, in turn, use the state to benefit them (La Porta el al. 1999; Glaeser and Saks 2006; Kimenyi 2006).

We also control for the level of democracy, since democracy is likely to reduce corruption by tightening principal agent relationships. First, it increases the likelihood of alternation in office of political parties or—in polities with dominant political parties—of individual leaders within parties (Montinola and Jackman 2002). Second, it strengthens incentives of political elites to reveal information on malfeasance by opponents (Treisman 2000). Moreover, we consider the possibility of a quadratic relationship between democracy and corruption in line with Bäck and Hadenius (2008), who have suggested that the control of public officials is lowest at intermediate levels of democracies, higher in the context of dictatorships because of top-down hierarchical control and highest in developed democracies because bottom-up control in the guise of press freedoms and higher electoral participation. We follow these authors and account for democracy by way of the Polity IV DEMOC measure (Marshall et al. 2010).

The capacity of voters to discipline malfeasant politicians also might depend on the electoral rules in place (see Persson et al. 2003; Kunicová and Rose-Ackerman 2005; Chang and Golden 2006). With this in mind, we account for the presence of plurality or majoritarian electoral rules because of the expectation that in such systems, under-performing politicians can be more easily and severely punished than under proportional representation (Persson et al. 2003; Kunicová and Rose-Ackerman 2005). Moreover, we control for the size of voting districts since larger districts may either reduce corruption because they reduce barriers to entry faced by aspiring office holders (Persson et al. 2003) or increase it because individual political candidates facing intraparty competition are more tempted to use illegal proceeds to fund their electoral campaigns (Chang and Golden 2006). To account for the impact of electoral rules we draw from the DPI and employ a measure of the mean district magnitude in the house or parliament as well as a dummy variable which chooses for the presence of plurality rules.

Finally, we control for the regime type by way of the SYSTEM variable from the DPI. This variable takes a value of 0 if the system can be characterized as presidential, 1 for

[6] For Islam and Montenegro (2002), economic development makes better-quality institutions more affordable, while La Porta et al. (1999) see it as creating a demand for better government. Treisman (2000) suggests that this may be a consequence of income's positive effect on education, literacy, and depersonalized relationships. The importance of controlling for the size of public sector can be argued from both sides: Tanzi (1998) argues that a bigger public sector implies greater corruption due to the greater possibility for rents, but a larger public sector also could mean that governments are better endowed with resources, thereby potentially improving their performance. In relation to this, higher civil service pay has been found to reduce bureaucratic corruption (Van Rijckeghem and Weder 2001).

systems with an assembly-elected president and 2 for parliamentary systems. Some scholars have argued that presidentialism works against corruption because a president's accountability to a national constituency strengthens principal-agent relations (Moe and Caldwell 1994; Persson et al. 1997; Shugart 1999). Alternatively, Kuniková and Rose-Ackerman (2005) have suggested that corruption should be more prevalent in presidential than in parliamentary systems. First, they endow the president with relatively undivided power over sources of rents, thus clearing a path for the appropriation of public resources for personal gain. Second, and more importantly for our purposes here, strong presidential systems are characterized by fixed terms and restrictions in replacing a president mid-term (impeachment versus a no confidence vote in parliamentary systems), which, other things equal, should worsen the risk of malfeasance. This argument is very much in line with our take on the adverse impact of formal checks on the control of corruption. Indeed, because our measure comprises checks not only in the legislature proper but in the legislative process more generally, presidential systems like those in the Latin American cases listed above, with their additional institutional actor (the president) and constitutionally fixed terms of office where, for example, the legislature cannot be dissolved for disagreeing with the executive, score high. Thus, controlling for regime types allows us to control for the impact of presidential system on corruption by way of other channels distinct from those captured by our measure of formal checks.

Empirical findings

Table 3 represents our main findings based on the ICRG risk of corruption indicator (recall that higher values of this indicator reflect a lower perceived risk of corruption). Regressions 1 and 2 represent our base model and differ only insofar as regression 2 also includes period fixed effects. The results are revealing. Our legchecks indicator is both negative, as predicted, and strongly statistically significant; its coefficient is substantively important as well. In sum, increasing the number and strength (in terms of veto players' security) of formal legislative checks leads to higher levels of corruption, just as we hypothesize. This result is robust to controlling for the degree of political polarization which is associated with less corruption as expected (Brown et al. 2011). Focusing on regression 1, a one standard deviation increase in the strength of formal checks, increases corruption by 0.3429 points or 24.26 per cent of a standard deviation in the corruption indicator. Contrast this with the economic impact of polarization: based on the same regression, a one standard deviation increase in polarization reduces corruption by 0.1676 or 11.85 per cent of a standard deviation in this indicator.

The estimated impact of institutional checks is moreover robust to controlling for the host of previously described control variables among which only GDP per capita and the level of democracy have a (positive) statistically significant impact. Neither the size of the public sector, nor the degree of ethnic heterogeneity nor the variable distinguishing between presidential and parliamentary systems, are statistically significant. Moreover, our estimates do not support the expectation that electoral rules may affect corruption (plurality rule and mean district magnitude). In relation to this,

previous authors have indicated the desirability of accounting as well for whether open or closed lists are employed. Thus, Kunicová and Rose-Ackerman (2005) have argued that close list proportional representation (PR) diminishes the individual accountability of politicians and thus should be associated with more corruption. Alternatively, Chang and Golden (2006) have suggested that close list PR systems reduce corruption because they push politicians to worry about the reputation of their party as a whole. When we do control for the presence of closed list PR systems (again by way of a measure from the DPI) we do not find it to have any effect in our sample and, more importantly, the estimated impact and statistical significance of legchecks does not change (results available upon request).

Regressions 3 to 6 of Table 3 pursue the robustness of our base regression to different ways of controlling for the potentially confounding effect of democracy. In particular, in regression 3 and 4 we include a quadratic term for democracy and, consistent with Bäck and Hadenius (2008), find the existence of a J-shaped relationship between democracy and corruption: corruption is highest in the presence of intermediate levels of democracy, lower in countries with low levels of democracy and lowest in strong democracies. To further test if our results are being driven by the inclusion of non-democratic countries in our sample, in regressions 5 and 6 we focus on a reduced sample of sixty-five democratic countries. We chose democracies by way of a dummy variable proposed by Cheibub et al. (2010) which classifies a country as a democracy if and only if the chief executive is chosen by popular election or by a body that was itself popularly elected, the legislature is popularly elected, there is more than one party competing in the elections, and an alternation in power under electoral rules identical to the ones that brought the incumbent to office has taken place. Despite the fact that our sample size is substantially reduced, our results our maintained and confirm the positive relationship between formal checks and corruption.

Table 3 about here

Table 4 pursues the robustness of these findings still further. Regressions 1 to 4 dwell on the need to control for the existence of partisan preferences across checks in an effort to isolate the impact of formal checks. In regressions 1 and 3 we substitute our indicators of formal checks and political polarization with the two indicators of checks which conflate the two. Whether we account for checks through the CHECKS variable from the DPI or the POLCON measure from Henisz (2000, 2002) we don't find these to have a statistically significant impact on corruption. One reason why this may be the so is that, insofar as formal checks may increase corruption while checks relating partisan preferences reduce it, then indicators combining the two will not tend to have a clear effect. Perhaps more importantly, in regressions 2 and 4 we consider the robustness of our chosen indicator of formal checks in the presence of CHECKS and POLCON respectively. The fact that the estimated impact of legchecks remains negative and statistically significant at the highest level reinforces the finding that formal checks may be inimical to clean government.

Table 4 about here

The better is the information available to voters, the tighter should be the principle-agent relationship between voters and politicians. Thus, while we argue that those most likely to observe malfeasance are other politicians or public officials, we also acknowledge the possibility that the freedom of the press can determine the extent to which any information on corruption can reach voters. Consequently, in the last two regressions of Table 4 we consider the impact of formal checks on corruption after accounting for both press freedom and newspaper circulation. Our press freedom indicator is provided by Reporters Sans Frontières and ranges from 0 to 100 with lower values indicating greater freedom for journalists and the media and stronger efforts made by governments to see that press freedom is respected (for a similar approach, see Brunetti and Weder 2003). In regression 5 we report that this indicator is negatively associated with control of corruption meaning that more press freedom will tend to lead to cleaner government as expected. The importance of the media is reinforced when, instead, we measure the strength of the press by way of daily newspaper circulation (per 1000 people) in regression 6 (see also, Adserà et al. 2003). Formal checks continue to undermine good government even after controlling for press freedom.

Table 5 about here

In the first 4 regressions of Table 5 we employ our alternative measure of corruption from the World Governance Indicators. Recall that higher values of this measure imply greater perceived control of corruption and thus, it lends itself to an interpretation similar to that provided by the ICRG measure. Our results again support the expectation that the presence of formal checks is inimical to clean government. This result is maintained if we restrict our sample to democracies (regression 3) or, alternatively, control for the impact of alternative measures of checks (regressions 4 and 5). In the last two columns of Table 5 we re-estimate our base model but now based on a cross-section sample taking mean values of each variable over the 1984-2005 period. Because our formal checks indicator is quite stable over time, adopting this approach allows us to account for the possibility that our panel results are being driven by repeated entries (see also Brown et al. 2011). As can be appreciated in regressions 5 and 6, our substantive results are robust to this approach.

Conclusion

The principal-agent perspective highlights corruption as a component of agency loss. Where the principal is the voting public, corrupt agents use public resources for their own ends. The less accountable agents are, whether because it is difficult to specify clearly what they are expected to achieve in office, because the link between agent actions and outcomes is tenuous, or because effective monitoring of agents is prohibitively costly, the more corrupt they can be. Most scholarship on corruption builds on this observation to focus on, on one hand, voters' ability to hold officials accountable and, on the other hand, the role of political competition as measured

through the existence of partisan checks in limiting agents' discretion to act on their own behalf.

We build on this characterization of corruption as a principal-agent problem and hone in on the role of elites. Elites are *sine qua non* both for corruption and for control thereof. The key observation is that it is elites who are in a position to be corrupt, by virtue of their influence over the disposition of state resources, it is elites who are in a position to observe corruption, and it is elites who are in a position to report or block bad behavior if they so desire. But, and here is where we part from the literature, we take exception to the often-implicit assumption that the offices that define agenda influence matter only insofar as they are controlled by agents of rival parties—or, in the terminology of the literature, that institutional checks are inconsequential in the absence of partisan checks.

Instead, we argue that checks always matter. How they matter, however, depends on whether they are controlled by allies or rivals. Outcomes (i.e., corruption) are a function of both institutions and preferences (Plott 1991, 904-905; and see Hinich and Munger 1997, 17): when institutions are controlled by rivals, i.e., when they effectively comprise partisan checks, veto players check each other; when institutions are controlled by allies, by contrast, veto players collude. All else equal, agenda power provides those who wield it with the wherewithal to direct public resources to private ends. Whether they do so depends in no small measure on whether agenda power shared and, if it is, how misdirecting public resources affects those who share it. In short, the multiplication of institutional checks increases opportunities for corruption, but populating those checks with political rivals mitigates their effect.

We test our claimed link between checks and corruption using a measure of checks that explicitly counts formal, *institutional* checks independent from partisan considerations. The measure accounts for both the number of formal checks and the extent to which these can be weakened by the legislative and constitutional provisions in place. Our results, using a sample 97 countries over the period from 1984 to 2005, strongly support our claimed link between checks and corruption. Formal checks are associated to increased corruption even after controlling for the independent effect of partisan checks as well as a host of additional explanatory variables that can impinge on the principal-agent relationship and, as a result, might potentially confound our estimates.

Acknowledgements

Appendix

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Tables to be embedded in the text

Table 1. Summary statistics

	Mean	**Maximum**	**Minimum**	**Std, Dev,**	**No. Obs.**
Control of Corruption- ICRG	3.4304	6.0000	0.0000	1.4139	1252
Control of Corruption - WBGI	0.1790	2.5856	-1.7297	1.0871	521
Institutional Checks	7.8155	12.333	3.3333	2.5786	1252
Polarization	0.6765	2.0000	0.0000	0.9012	1252
GDP per capita	12408	47626	249.48	11139	1252
Government Size	17.27	62.06	2.01	6.82	1252
Ethnic Fractionalization	0.3997	0.9302	0.0020	0.2638	1252
Democracy	6.7636	10.00	0.00	3.5861	1252
Plurality	0.6605	1.0000	0.0000	0.4737	1252
District magnitude	10.5858	150.00	0.72	21.1452	1252
Regime Type	0.8802	2.0000	0.0000	0.9605	1252
Checks	3.3643	18.000	1.000	1.803	1249
Political constraints	0.3402	0.7200	0.0000	0.1839	1252
Press Freedom Index	20.127	89.330	0.500	17.726	288
Newspaper circulation	154.26	590.77	0.59	150.87	307

Notes: WGI refers to the World Governance Indicators and ICRG to the International Country Risk Guide.

Table 2. Measuring checks over 1984-2005

Indicator (Source)	**Instchecks (Branduse and Heller 2013)**	**CHECKS (DPI)**	**POLCON (Henisz 2000; 2002)**
Maximum values (from highest to lowest)	Brazil	India	Belgium
	Chile	Papua New Guinea	Netherlands
	Colombia	France	Papua New Guinea
	Dominican Republic	Denmark	Switzerland
	Bolivia	Ireland	Japan
	Indonesia	Czech Republic	Israel
	USA	Netherlands	Finland
Minimum values (from lowest to highest)	Libya	Bahrain	Azerbaijan
	Hungary	Brunei	Bahrain
	Qatar	Myanmar	Brunei
	Finland	China	Myanmar
	Kuwait	Cuba	Cameroon
	Malawi	Equatorial Guinea	China
	Saudi Arabia	Ethiopia	Cuba

Table 3. Panel Estimates *(1984-2005)*: Dependent variable is Corruption (ICRG)

	Full Sample				***Democracies***	
	(1)	***(2)***	***(3)***	***(4)***	***(5)***	***(6)***
Institutional Checks	-0.133	-0.154	-0.125	-0.146	-0.131	-0.164
	(0.032)***	(0.030)***	(0.032)***	(0.030)***	(0.043)***	(0.038)***
Polarization	0.186	0.204	0.160	0.177	0.154	0.175
	(0.084)**	(0.077)***	(0.084)*	(0.076)**	(0.086)*	(0.074)**
GDP per capita	0.437	0.459	0.365	0.388	0.499	0.542
	(0.086)***	(0.081)***	(0.092)***	(0.087)***	(0.130)***	(0.118)***
Government Size	0.344	-0.437	0.310	-0.464	-0.156	-0.686
	(0.955)	(0.884)	(0.943)	(0.870)	(1.219)	(1.077)
Ethnic Fractionalization	0.027	0.221	0.012	0.205	-0.182	0.200
	(0.351)	(0.333)	(0.346)	(0.329)	(0.423)	(0.391)
Democracy	0.096	0.101	-0.075	-0.068	0.222	0.229
	(0.026)***	(0.024)***	(0.084)	(0.078)	(0.064)***	(0.057)***
Democracy^2			0.018	0.018		
			(0.009)**	(0.008)**		
Plurality	0.018	0.025	0.036	0.042	0.085	0.098
	(0.174)	(0.163)	(0.172)	(0.161)	(0.197)	(0.177)
District magnitude	0.003	0.002	0.003	0.003	0.005	0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.003)
Regime Type	0.069	-0.021	0.044	-0.045	-0.061	-0.183
	(0.111)	(0.104)	(0.110)	(0.104)	(0.141)	(0.127)
Constant	-0.353	-0.284	0.340	0.398	-1.811	-1.916
	(0.835)	(0.786)	(0.891)	(0.840)	(1.050)	(0.945)**
Adjusted R^2	*0.49*	*0.60*	*0.50*	*0.61*	*0.53*	*0.66*
Period Effects	*N*	*Y*	*N*	*Y*	*N*	*Y*
Number of Observations	1252	1252	1252	1252	877	877
Number of Countries	97	97	97	97	65	65

Notes: All estimations are OLS with (Period SUR) panel corrected standard errors in parentheses. *, **, *** denote statistical significance at the 10, 5, and 1% levels respectively.

Table 4. Panel Estimates *(1984-2005)*: Dependent variable is Corruption (ICRG)

	(1)	***(2)***	***(3)***	***(4)***	***(5)***	***(6)***
Institutional Checks		-0.152		-0.151	-0.110	-0.157
		(0.030)***		(0.030)***	(0.041)***	(0.044)***
Polarization		0.223		0.209	0.391	0.373
		(0.082)***		(0.077)***	(0.113)***	(0.108)***
Checks	-0.026	-0.025				
	(0.040)	(0.038)				
Political constraints			-0.641	-0.375		
			(0.447)	(0.408)		
GDP per capita	0.437	0.454	0.432	0.453	0.404	0.406
	(0.088)***	(0.081)***	(0.087)***	(0.081)***	(0.096)***	(0.123)***
Government Size	-0.150	-0.465	-0.337	-0.556	-0.696	-0.307
	(0.984)	(0.883)	(0.980)	(0.884)	(1.146)	(1.059)
Ethnic Fractionalization	0.232	0.233	0.210	0.214	0.287	0.700
	(0.373)	(0.334)	(0.369)	(0.332)	(0.406)	(0.464)
Democracy	0.101	0.105	0.117	0.113	-0.004	0.071
	(0.028)***	(0.025)***	(0.029)***	(0.027)***	(0.035)	(0.034)**
Plurality	-0.057	0.036	-0.057	0.028	0.240	0.196
	(0.177)	(0.164)	(0.176)	(0.163)	(0.206)	(0.200)
District magnitude	0.003	0.002	0.003	0.002	0.002	-0.001
	(0.003)	(0.003)	(0.003)	(0.003)	(0.006)	(0.005)
Regime Type	0.255	-0.008	0.246	-0.015	0.061	0.231
	(0.104)**	(0.107)	(0.101)**	(0.104)	(0.136)	(0.146)
Press Freedom Index					-0.015	
					(0.006)**	
Newspaper circulation						0.003
						(0.001)***
Constant	-1.318	-0.233	-1.215	-0.209	-0.226	-0.439
	(0.859)	(0.787)	(0.851)	(0.785)	(0.997)	(1.042)
Adjusted R^2	*0.55*	*0.60*	*0.55*	*0.60*	*0.50*	*0.57*
Period Effects	*Y*	*Y*	*Y*	*Y*	*Y*	*Y*
Number of Observations	1249	1249	1252	1252	288	307
Number of Countries	97	97	97	97	84	67

Notes: All estimations are OLS with (Period SUR) panel corrected standard errors in parentheses. *, **, *** denote statistical significance at the 10, 5, and 1% levels respectively.

Table 5. Panel and Cross Section Estimates

	(1) WBGI	*(2) WBGI*	*(3) WBGI*	*(4) WBGI*	*(5) WBGI*	*CS (6) ICRG*	*CS (7) WBGI*
Institutional Checks	-0.086	-0.080	-0.113	-0.082	-0.085	-0.151	-0.088
	(0.030)***	(0.029)***	(0.035)***	(0.030)***	(0.030)***	(0.032)***	(0.024)***
Polarization	0.188	0.149	0.214	0.209	0.191	0.721	0.437
	(0.071)***	(0.070)**	(0.067)***	(0.074)***	(0.071)***	(0.151)***	(0.124)***
Checks				-0.030			
				(0.034)			
Political constraints					-0.264		
					(0.346)		
GDP per capita	0.551	0.476	0.579	0.541	0.548	0.327	0.400
	(0.072)***	(0.076)***	(0.097)***	(0.072)***	(0.071)***	(0.093)***	(0.066)***
Government Size	-1.685	-1.724	-1.431	-1.733	-1.753	-1.269	-1.932
	(0.722)**	(0.705)**	(0.786)*	(0.720)**	(0.720)**	(1.017)	(0.730)***
Ethnic Fractionalization	0.220	0.207	0.113	0.240	0.227	0.461	0.078
	(0.298)	(0.291)	(0.327)	(0.299)	(0.297)	(0.426)	(0.300)
Democracy	0.037	-0.132	0.194	0.042	0.045	0.054	0.041
	(0.021)***	(0.071)*	(0.055)***	(0.022)*	(0.024)*	(0.035)	(0.026)
Democracy^2		0.018					
		(0.007)**					
Plurality	0.016	-0.025	0.190	0.028	0.011	0.119	0.046
	(0.147)	(0.144)	(0.151)	(0.147)	(0.146)	(0.171)	(0.149)
District magnitude	0.001	0.002	0.005	0.001	0.001	0.003	-0.003
	(0.003)	(0.003)	(0.004)	(0.003)	(0.003)	(0.002)*	(0.001)**
Regime Type	0.102	0.084	-0.098	0.122	0.107	0.082	0.149
	(0.097)	(0.095)	(0.108)	(0.100)	(0.097)	(0.116)	(0.086)*
Constant	-4.251	-3.488	-5.675	-4.172	-4.199	0.622	-2.966
	(0.682)***	(0.736)***	(0.781)***	(0.683)***	(0.680)***	(1.050)	(0.718)***
Adjusted R^2	*0.69*	*0.70*	*0.75*	*0.69*	*0.69*	*0.60*	*0.70*
Period Effects	*Y*	*Y*	*Y*	*Y*	*Y*		
Number of Observations	521	521	350	520	521	101	101
Number of Countries	90	90	60	90	90	101	101

Notes: Regressions 1 to 5 are OLS with (Period SUR) panel corrected standard errors in parentheses. Regressions 6 and 7 are OLS with White heteroscedasticity robust standard errors in parentheses *, **, *** denote statistical significance at the 10, 5, and 1% levels respectively.

Appendix A. Data definitions and sources

Control of Corruption- ICRG	Assessment of corruption within the political system. Lower values imply a higher level of corruption (International Country Risk Guide, Political Risk Services Group).
Control of Corruption - WBGI	Assessment of corruption within the political system. Lower values imply a higher level of corruption (World Governance Indicators, World Bank).
Institutional Checks	Formal institutional checks in the political system. Higher values imply more formal checks (Branduse and Heller 2013).
Polarization	The maximum ideological difference (left-right-center orientation) between the chief executive's party and the four largest parties of the legislature based on seat shares (Beck et al. 2011).
GDP per capita	GDP per capita in PPP and constant $ (World Development Indicators, World Bank).
Government Size	Government consumption as a percentage of GDP at current PPPs (Penn World Tables, Version 8.0).
Ethnic Fractionalization	The probability that two randomly selected individuals from a population, belong to different ethnic groups (Alesina et al. 2003).
Democracy	Institutionalized democracy from the Polity IV data set (Marhall et al. 2010).
Plurality	Dummy variable. 1 if plurality is used as electoral rule to select any candidate in any house (Beck et al. 2011).
District magnitude	Mean district magnitude in the House (Beck et al. 2011).
Regime Type	Takes a value of 0 if a regime can be characterized as presidential, 1 for systems with an assembly-elected president and 2 for parliamentary systems (Beck et al. 2011).
Checks	Starts off with a value of one and rises with competitiveness of executive elections, the existence of additional legislative chambers, divided government, the number of coalition parties or inter-party ideological distance (Beck et al. 2011).
Political constraints	The number of independent branches of government with veto power over policy change, the extent of party alignment across branches of government and the degree of preference heterogeneity within each legislative branch (Henisz (2000; 2002).
Press Freedom Index	Ranges from 0 to 100 with lower values indicating greater freedom for journalists and the media and stronger efforts made by governments to see that press freedom is respected (Reporters Sans Frontières).
Newspaper circulation	Daily newspaper circulation per 1000 people (World Development Indicators, World Bank).

Appendix B. Correlation matrix

	Control Corruption ICRG	Control Corruption WBGI	Institutional Checks	Polarization	GDP per capita	Government Size	Ethnic Fractional.	Democracy	Plurality	District magnitude	Regime Type	Checks	Political constraints
Control of Corruption- ICRG	1.0000												
Control of Corruption- WBGI	0.8056	1.0000											
Institutional Checks	-0.2776	-0.1670	1.0000										
Polarization	0.3800	0.4556	0.1692	1.0000									
GDP per capita	0.6445	0.8618	-0.1882	0.4246	1.0000								
Government Size	0.0732	-0.0455	-0.0645	0.1274	-0.0798	1.0000							
Ethnic Fractionalization	-0.4104	-0.4963	0.0444	-0.3747	-0.5155	-0.0443	1.0000						
Democracy	0.5400	0.5532	-0.0096	0.5090	0.5315	0.0590	-0.4916	1.0000					
Plurality	-0.1948	-0.1726	-0.0665	-0.4394	-0.1669	-0.0497	0.1893	-0.3131	1.0000				
District magnitude	0.0702	-0.0461	-0.0581	0.0961	-0.0188	0.1350	0.0358	0.0106	-0.3127	1.0000			
Regime Type	0.5255	0.6089	-0.4701	0.2365	0.6285	0.1317	-0.4447	0.4942	-0.0947	0.0516	1.0000		
Checks	0.3100	0.2975	0.0635	0.5443	0.3501	0.0267	-0.2829	0.5539	-0.1444	-0.0301	0.3930	1.0000	
Political constraints	0.3104	0.3295	0.0963	0.3979	0.3119	-0.0603	-0.3229	0.6618	-0.2405	0.0983	0.2971	0.4135	1.0000