

1

INTRODUCTION

In June 2004, the legislature in Taiwan passed a landmark labor pension reform bill, which changed the level of pension contributions employers had to make and how these funds would be managed. Interest groups from the financial markets industry, the insurance sector, and labor unions lobbied the legislature intensively to influence various details of the bill. Despite a long, hard-fought, high-stakes campaign, no significant allegations of corruption regarding this lobbying process emerged from any source. A stark contrast to the Taiwan example can be observed in events surrounding passage of a controversial labor reform bill by the Argentinean parliament in 2001. Lobbying to influence this bill was marked by allegations of corruption and prosecution of many legislative policymakers on corruption charges. These charges related directly to the legislators' interactions with business lobbies regarding the bill. The resulting scandal almost brought down President Fernando de la Rúa's government. In both countries, the business sector had high stakes in the issue under legislative consideration and lobbying was intense. So why did business lobbying result in highly corrupt transactions in Argentina but not in Taiwan? This particular outcome reflects prevalent trends in each country. Business firms consistently rate the political establishment and public sector in Argentina as more corrupt, and more unduly influenced in its policymaking, than firms do in Taiwan.¹

These contrasting examples reflect a global puzzle. Even though business interests seems inextricably linked with politics and policy everywhere, their political engagement is associated with much higher corruption in some countries than others.² This puzzle leads us to ask the following three questions: Why do some developing democracies experience much higher levels of corruption than others? How does the behavior of business interest groups relate to political corruption? How do legislative institutions governing the policy process promote or restrain corruption through the rules of engagement they provide to political and business actors? This book tries to answer these questions by identifying how legislative institutions establish strategic

links among the behavioral incentives of political parties, individual politicians, and business interest groups. The analysis provided in this volume will show how and when these incentives lead to more corrupt behavior.

I argue that legislative institutions, which shape the policy process, play a crucial and neglected role in the corruption drama by shaping the lobbying strategies employed by money-rich business interests. When legislative rules on agenda-setting, amendments, and voting defection costs in a country give control over the substance, timing, and success of policy to political parties, they strengthen parties both in policymaking and politics. In these countries where parties are the influential legislative policymakers, parties rather than individual legislators become the focus of business lobbying. As I discuss later in Chapter 2, such party-focused lobbying leads to higher corruption levels because of the dynamics of both supply and demand factors driving party and politician financing. Therefore, by influencing the political target (or venue) of lobbying strategies, legislative institutions exert significant influence on the corruption profile of a country.

I use two original datasets to test the hypotheses yielded by this theoretical framework. My analysis uses new data on rules of legislative control over agenda-setting, amendments, and voting defection for sixty-four developing democracies from 1984 to 2004, to provide robust support for the hypotheses that party-focused legislative institutions increase corruption levels. Analysis of data obtained from surveys of business groups in two theoretically critical cases, Brazil and India, also provides strong support for the hypotheses that the higher levels of corruption in India compared to Brazil are explained by the differences in the party-focused and individual focused lobbying strategies adopted by business groups in these countries respectively. In contrast to a significant body of existing work, which largely explains corruption as a consequence of *weak* parties, the evidence in this book strongly suggests that *strong* parties can be directly responsible for higher corruption in developing countries.

In this study, I systematically present an alternative theory of corruption for developing country democracies; test the validity of this theory against the full range of existing theories using a time series cross-section dataset; and then provide direct evidence on the posited causal mechanism from detailed studies of two theoretically representative and empirically interesting cases. For reasons discussed later in this chapter, I confine my analysis in this book to developing country democracies, even though political corruption is clearly not exclusive to them. The concluding chapter of this volume, however, reflects on some insights these findings may provide towards an analysis of political corruption in authoritarian regimes as well as developed country democracies.

This chapter introduces the concepts and the structure employed by this book to address the three questions on corruption posed at the beginning of this chapter. I first define what I mean by the terms “political corruption,” “corruption,” and “lobbying” since these terms have been used to describe a wide range of behaviors in the literature. I then discuss the problem scholars face in measuring corruption and discuss its ramifications for any research on the topic. The second section presents the puzzle motivating this book: the wide variation in the levels of corruption experienced by countries. I then analyze the most prominent theories that have been used to explain

corruption and business lobbying, and I follow with a discussion of some of the limitations faced by current theoretical and empirical approaches in understanding these phenomena. I then preview my argument that legislative institutions drive variation in corruption levels by motivating specific patterns of behavior among special interest groups. In the next section, I present a summary of my research design; I also discuss how the theoretical framework and research design used in this project address some of the limitations of other recent approaches to these problems. Finally, I discuss how the remainder of the book is organized to develop these arguments and present the evidence.

DEFINITIONS

In this book, lobbying refers to all *actions*, legal and illegal, taken by groups in their efforts to persuade any political and policy actors of their goals. The corruption level in a country is one of the *outcomes* that can result from such lobbying actions. While corruption is always an illegal phenomenon, lobbying includes actions that do not necessarily have to result in corruption. Importantly, corruption is a multi-causal phenomenon, and legislative lobbying is one of the many behaviors that can contribute to it.

The mostly widely used definition of corruption defines corruption as an “abuse of public office for unauthorized private gain” (World Bank 2000). I expand the scope of this definition in three ways to include situations not covered by this definition in politics. First, political entities need not actually be in office in order to exploit that office. Political agents promising to misuse political office in the future are also engaging in corruption since their transaction is based on the intention to exploit future political office. Second, when funding is directed at parties and used for party purposes, the private gain can be indirect since the investment is in a club good, party reputation, rather than a private good, such as personal reputation. The definition of political corruption articulated by Transparency International Annual Report (2004a, 10) points to an additional aspect of political corruption: “Political corruption is the abuse of entrusted power by political leaders for private gain, with the objective of increasing power or wealth. Political corruption need not involve money changing hands; it may take the form of ‘trading in influence’ or granting favors that poison politics and threaten democracy.”³

This definition captures the third aspect of political corruption, the use of *legal* means to deliver favors, for example, by rewriting bills to include or exclude certain sectors from the scope of a bill. Rewriting legislation would qualify as a corrupt practice if money or illegal favors were exchanged between business and political players explicitly in order to facilitate the revisions. The exploitation of future political power and the use of bribes to finance club goods rather than private goods as corruption are exemplified by the actions of both President Jacques Chirac in France and President Roh Tae-woo in South Korea. These leaders claimed that the illegal funds they had raised were for the benefit of their respective parties (Ferdinand 2003, 66). Their actions involved raising money through illegally promising political favors that would be delivered using legal means in the future. Both politicians stood to gain personally from the rise of their parties and thus were willing to invest this money in their