

Party Instability, Institutional Incentive and Corruption in Emerging Democracies

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UDK 329.05:321.7
343.359:323.2

Original scientific paper / izvorni znanstveni rad

Received / primljeno: 18. 12. 2013.

Accepted / prihvaćeno: 10. 3. 2014.

Corruption and good governance have been a widely debated topic in the study of emerging democracies worldwide. The importance of considering corruption in new democracies is highlighted by studies showing that corruption is associated with, among others, low trust in political institutions, economic costs and inefficiencies, and low interpersonal trust. This is particularly important for new democracies because corruption stifles their ability to overcome transitional challenges as well as ensuring successful democratic consolidation. In this study, we assess the relationship between democratic uncertainty, party instability and corruption and hypothesize that democratic uncertainty, coupled with highly fractionalized party sys-

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tems cause political actors to have high discount rates of the future thus incentivizing them to continue engaging in corrupt behavior. We analyze these relationships in a multiple regression analysis of seventy-three new democracies, as well as in the Croatian case study, and find that political party fractionalization increases corruption, delayed by one election cycle. Being a new democracy also increases corruption.

Keywords: corruption, party systems, institutions, new democracies

1. Introduction

Corruption is broadly felt to lie at the heart of many dilemmas of contemporary governance. In particular, the persistence of corruption is characterized as an important contributor to economic underdevelopment, ethnic animosity in plural societies, and the ephemerality of democracy in many post-colonial states. Not surprisingly then, the inculcation of 'good governance' with the intention of eliminating corruption is a prominent theme in many development and state-building enterprises, particularly those sponsored by the international community. Nevertheless, the problem of corruption continues unabated in many societies such that some exasperated observers suggest that some societies are simply culturally suited to nepotism and malfeasance (Smith, 2007). We reject this latter claim and indeed suggest that cursory evidence linking cultural norms and corruption are masking far more universally observed explanations.

Specifically, we suggest that many of the dynamics linked to corruption in new democracies are a result of how fragile party systems compel politicians and their agents to acquire as much over the short-term as possible. Building on logics advanced by Olson (1994) and Bates (2000), we suggest that uncertainty and high discount rates, combined with a universally felt need to improve one's overall welfare, conspire to make new democracies particularly prone to corrupt behavior. Put simply, the frail nature of party systems in new democracies provides politicians and their constituents with incentives to engage in corruption because there are few reasons to believe that future political coalitions can ensure long-term

access to state protection and opportunity.¹ Consistent with prominent treatments in the democratization (Rose-Ackerman, 1999) and political economy literature (Treisman, 2000), we define corruption as the opportunistic use of publicly held office for personal gain. Opportunistic behavior characterizes many transactions in a large number of societies (DeSoto, 1989), and indeed the level of opportunism is often highly correlated with the misuse of official offices. In this study, we focus on the ways that formal political office, bureaucratic positions, and offices dependent upon state funds engage in malfeasance. In this regard, we do not look at the presence of informal economies or at the persistence of tax avoidance. Rather, we are largely concerned with formulating a theory that explains why elected officials and their bureaucratic agents engage in nepotistic behavior, take bribes, or otherwise selectively allocate services to constituents in ways that lie outside formally accepted norms of the rule of law.

Why does corruption emerge? The simple answer is because it pays to be corrupt. It also pays more, over the long term, to accept smaller, yet persistent, payments that can be guaranteed through credible assurances that exchange partners will honor their commitments. We seek to explain why politicians and their bureaucratic agents will pursue the former strategy instead of pursuing the latter approach. Our argument is that the inability to overcome key collective action problems in new democracies forces up the discount rates of political actors. Discount rates are defined as an individual's willingness to wait for a reward. High rates imply that a person discounts the probability of future payoffs and thus prefers their payoff sooner rather than later, and as a consequence might be willing to accept less over the short term. Our argument is that successful democracies that rein in corruption are those whose constituent members are disinclined to discount future benefits of democratic political action relative to the smaller, yet guaranteed, rents available from nepotism or malfeasance. In these democracies, political actors and their constituents possess small discount rates because they can credibly accept that the political system in which they operate can guarantee a persistent stream of benefits and opportunities over time, and not simply in the immediate term. In such

¹ The authors are currently preparing grant proposals to conduct survey research in three new democracies in order to gather micro level data on corruption perception among party members along with data on party volatility. As a consequence, we will use several admittedly limited measures in this paper although our results are consistent with our basic theoretical premises.

a scenario, politicians and their bureaucratic agents face fewer incentives to acquire what rents they can over the short term through malfeasance and can commit to a routine set of democratic procedures based on transparency. Unfortunately, developing institutions that can provide such credible commitments is difficult. Credible commitments are those institutionalized patterns of interaction that compel cooperation by making renegeing so costly that the prospect of engaging in nefarious behavior is unlikely. The cultivation of credible commitment is difficult even in the most established and homogenous of societies. The ability to convince a sufficient number of political actors in a new society where the potential pitfalls of making a strategic error are not only high but also potentially unknown is exceptionally difficult.

Even more onerous is the task of compelling every relevant actor to adhere to new rules as the pay-offs from defecting when other actors cooperate can be high. We argue that a high discount rate is the result of two countervailing tendencies: high degrees of party fractionalization, because competing politicians will only form parties such that they can win office in the immediate term; and collective fears about the robustness of the democratic system convince politicians that they must make hay while the sun is still out. Hence, there are short-term incentives to gather as much revenue as possible from corruption. On the face, this proposition is distinct from accounts of corruption that stress its use in coalition-building (Tangri, Mwenda, 2008). Indeed, we argue that, based on the evidence of government febricity in most new democracies at least, there is little evidence that corruption is particularly effective at retaining stable political coalitions.

The rest of the paper is as follows: the next section narrates the literature concerning corruption, its effects and causes, followed by the outline of competing explanations of corruption and our theoretical framework. The following section presents a multiple regression analysis to test our hypotheses followed by the presentation of the case study of Croatia.

2. Corruption in Comparative Perspective

Over the past decade, the study of corruption has exploded across multiple disciplines, focusing principally on the social and economic consequences of corruption, and slightly less so on the causes of corruption. The importance of the study of corruption lays in its presence across a

broad array of countries and sectors. In the wake of democratic reform in the post-Soviet world, the World Bank was particularly keen on advancing the transparency gains felt to accompany political liberalization. Over the course of the past decade however, and in light of the general failure of many new democracies to rein in malfeasance, international actors have increasingly shifted their attention to questions of good governance without critically focusing on the dynamics that may make electoral democracy particularly prone to corrupt practices. For example, just in the health care sector alone, the extent and form of corruption vary where approximately between 5-10 percent of the US Medicaid and Medicare budgets are »lost« due to overpayment, while in the Russian Federation, 56 percent of the total health expenditure comes through informal payments (WHO Bulletin). The increased recognition of the problem of corruption by international agencies such as the World Bank and International Monetary Fund through the creation of governance indices, research, and agency commitments to fight corruption also attests to the realization of the negative effects of corruption on economic and political development (Tanzi, 1998).

The debate on the effects of corruption has been largely settled through the numerous findings of its distortionary economic effects (Murphy et al., 1993), and disincentives for investment, productivity, and wage growth (Mauro, 1995). Corruption also has a negative effect on the funding or public programs such as healthcare and education, thereby lowering overall economic well-being (Tanzi, Davoodi, 1997). Beyond its purely pecuniary impacts, corruption affects political development of new democracies because it erodes the legitimacy of new governments (Moran, 2001; Dominguez, 1997; Tavits, 2008).

While there are predominant and converging views concerning the negative effects of corruption, the understanding of the causes of corruption is somewhat less clear. The literature on the causes of corruption is divided between micro and macro level explanations. At the micro level, the causes of corruption are explained through the organizational structures of bureaucracies which create incentives for individuals to behave corruptly (Rose-Ackerman, 1999), such that fighting corruption involves changing the structure of the institutions that will deter misbehavior. Other scholars looking from a micro level perspective have focused on the impact of bureaucratic centralization which creates incentives to divert resources to the politically empowered (Wunsch, Olowu, 1995). Research in this vein suggests that fiscal decentralization is associated with lower corruption levels owing to the monitoring capacity of locally empowered citizen-con-

sumers (Ostrom et al., 1993; Fisman, Gatti, 1999). Another institutional approach posits that monitoring costs increase when discretionary powers, lack of accountability and substantial monopoly power induce the agent to extort bribes and engage in other forms of corruption (Klitgaard, 1988). The implication is that fighting corruption has to involve the limitation of the agent's discretionary powers, and increasing controls over them.

Some authors have attempted to analyze macro level variables such as culture of corruption in a country to see if it has a meaningful impact on the level of corruption and found out that the cultural determinism explanation to be weak (Paldaam, 2002). Looking at other macro variables, Treisman, through an analysis of indices of perceived corruption covering a period of more than 80 years, finds that Protestant tradition, greater economic development, and the history of British rule are associated with lower corruption (2000). Another comprehensive study looking at macro variables found that higher poverty, a higher culture of corruption (i.e. lack of trust in government), weak state strength and ethnic diversity also have a significant impact on the extent of corruption (Xin, Rudel, 2004). They further find a regional effect, where Latin American and East European countries exhibit more corruption than expected given moderate levels of per capital income. They explain this through the economic shocks of the two regions combined by weak democratic structure that allowed subcultures of corruption to persist.

While studies looked at both micro and macro variables to explain corruption, none of them have tackled the reasons that lead some countries to challenge corruption head on, while others continue to linger in it. In approaching this question, we are interested in analyzing the impact of party systems on corruption and whether there are some characteristics of the party system where some induce political actors to fight corruption while encouraging others to continue engaging in it. Some studies have already looked into this topic and found that elite competition is important to explain the formation of autonomous institutions in less consolidated democracies (Chavez, 2004; Helmke, 2005). Higher levels of political uncertainty generated by electoral competition will increase the activism of audit agencies that are designed to fight corruption (Melo et al., 2009). They claim that when elites face a greater risk of being replaced in office by other rivals, they have more incentives to tie their hands and delegate more power to the autonomous audit institutions. Other studies attempt to link the persistence of corruption to political institutions such as electoral laws (Persson et al., 2000), and weak governments (Schleifer,

Vishny, 1993). Moreno et al. (2003) argue that electoral rules that encourage intraparty competition among candidates (ex. open list PR), tend to weaken vertical accountability of the candidates to their electorates which leads to weak parties and less accountable governments. In such clientelistic systems and where elites may fear the consequences of alternation of power, they have the incentive to grant autonomy to accountability institutions.

In this study, we argue quite the opposite: that the unstable party systems in new democracies and their lack of programmatic clarity, which leads to the candidates' electoral uncertainty, create relatively high discount rates of the future opportunities for political actors. High discount rates in turn induce a candidate to shirk, that is, to reap the benefits of corrupt practices while in office, rather than fighting corruption, given that there may not be a long run.

3. Competing Explanations: Towards a Discount Theory

Cultural Explanations. Cultural approaches suggest that what we term »corruption« is in fact comprised of commonly accepted social norms based on reciprocity. Side payments, gifts, and other expressions of respect and gratitude represent an important element of exchange in a number of cultures, including those typically characterized as »non-corrupt«. Still, there exists considerable contention of precisely where expressions of gratitude end and acts of malfeasance and corruption begin (Maier, 2003). According to this perspective, corruption serves a valuable purpose by forging persistent linkages between patrons and clients. In the absence of effective ideologically-based party systems, patron-client ties allow political elites to foster durable constituent bases.

Cultural frames of corruption typically attach themselves to claims of ethnic nepotism. Indeed, the most prominent primordialist theory of ethnic group genesis and behavior (Van De Berghe, 1981) suggests that group members are likely to favor members of their own community owing to a felt need to advance the interests of in-group participants. Similarly, Social Identity Theories (SITs), most commonly associated with the work of Henri Tajfel and John Turner (1978), suggest that common identities linking people together need not be particularly 'thick' before nepotistic behavior consistently emerges in experimental settings. Given these

observations, scholars examining the nexus of ethnic politics and public policy making have routinely noted that social-psychological motivations underlie the persistent dilemmas of nepotism in multi-ethnic states (Esman, 1972; Horowitz, 1985; Milne, 1983). A key dilemma with cultural explanations of corruption based on ethnic identifications is that the overwhelming majority of states in the modern world are multiethnic. Indeed, when controlling for newness of democracy (for our purposes, any state whose democracy emerged and persisted following 1990) we observe that any perceived impact of ethnic diversity drops out while measures of democratic newness and party fractionalization tend to explain variance in corruption levels far better.

Principal/Agent Explanations. There is little doubt that corruption occurs as a consequence of institutional incentives to engage in opportunistic behavior. Building on seminal work by Alchian and Demsetz (1977) and Williamson (1985), corruption can be perceived as either a type of shirking on the part of agents charged with enforcing law or as »self-interest seeking with guile« (Williamson, 1985: 72). In either case, it is a consequence of the high costs of monitoring the actions of agents who possess incentives to acquire rents at the expense of the collective good. Indeed, this is the perspective taken by the most thorough treatments of corruption (Rose-Ackerman, 1999).

A key advantage of principal-agent approaches pertains to the mechanisms that compel change from corrupt practices that are widely tolerated to broader adherence to the rule of law. Specifically, they demonstrate how institutional incentives can generate opportunities for corrupt behavior, and more importantly, develop equilibrium practices that are inconsistent with the broader expectations of democratizers who seek to inculcate the rule of law over time (Przeworski, 1992). Advances in the political economy literature have attempted to illuminate the precise mechanisms of changing norms.

Political Economy Explanations. Olson (1993) and Bates (2000) present compelling models of politician behavior that assume the centrality of both leaders' time horizons and their felt need to maximize their welfare. At the root, political leaders serve as »specialists in violence« who can deploy their skills to take wealth or to cultivate the institutions that can guarantee stable long-term pay-offs. Olson (1993) presents an analysis of political leadership that, like Myerson (2009), focuses on how autocrats can derive a stream of benefits from a population of otherwise uncoordinated producers. Olson characterizes the state of nature as beset by

'roaming bandits' who forcibly take the resources of citizens who are incapable of defending themselves. This Hobbesian world quite clearly will be unable to generate the incentives necessary to yield economic growth and individual security. A sufficiently strong specialist in violence can establish him/herself as a 'stationary bandit' who, in exchange for the right to tax individuals, provides protection from other bandits. Citizens should accept this scenario since it means they have a degree of safety and, by extension, incentives for productive economic engagement.

Problematically, despots and stationary bandits have limited life spans, a dilemma that means they have relatively few incentives to develop good incentives for maximizing economic production since they may perceive their tenure to be of limited duration. This implies that if the benefits of taxing an asset over time are exceeded by the value of simply confiscating the asset, an autocrat has no real ability to commit to protecting the rights of citizens. Significantly, this is precisely the problem observed in many new democracies. Uncertainty about future opportunities for access to political office can compel elected officials to engage in corrupt practices in the short-term. Moreover, as we will argue, it disincentivizes the development of stable ideologically-based political parties.

A Discount Rate Alternative. A potential explanation for corruption should not merely explain why some countries are corrupt; it should also be able to explain why some countries seem to remain corrupt for extended periods of time while a few others demonstrate the ability to rein in the misuse of public offices.² Building on the political economy explanations advanced by Olson and Bates, we advance a theory based on the assumption that new democracies face a foundational dilemma pertaining to politicians' time horizons.

Electoral democracy represents an interesting test of this approach. From one perspective, electoral democracy represents a system of »institutionalized uncertainty« (Przeworski, 1992) that should allow today's electoral losers to become tomorrow's electoral winners. By extension, a routinized democratic system can ideally limit corrupt practices by providing incentives for well-organized political parties to pursue the electoral interests of its members without having to reinvent the wheel following every unsuc-

² Analysis of Transparency International annual corruption perception indices suggest that, for the most part, the best predictor of a country's TI score is the previous year's score. The small number of outliers that demonstrate substantial improvements (e.g. Slovenia, Poland, Hungary, Ghana) are all states that have implemented a broad array of Audit Institutions.

cessful electoral cycle. Put another way, it may be the case that new democracies simply have not yet had an opportunity to overcome the myriad collective action problems that allow them to persist over time.

New democracies face a number of collective action dilemmas that can imperil their effectiveness and fairness. These dilemmas include, but are not limited to, information asymmetries on the part of parties and politicians about voter preferences, information asymmetries on the part of voters about party platforms and politician credibility, uncertainty about the robustness of democratic institutions, and uncertainty about the extent to which competing parties are committed to sustaining the democratic project.

1. Information asymmetries on the part of parties. Democracy is inconceivable without political parties. Building on the work of Aldrich (1995), we see political parties as mechanisms that ideally overcome a key collective action problem by making the office-seeking aspirations of politicians more consistent with the broader preferences of voting publics. At the same time, acquiring information about voter preference in an uncertain political world is hard. Indeed, the fall of communism yielded a broad array of new polities in which political parties emerged, coalesced, rose, fell, and disintegrated at a harrowing pace. Hence, parties were wholly underprepared to know precisely what sorts of things voters wanted. In lieu of this general dissymmetry, parties did not (as predicted by Aldrich) advance policies to win elections. Rather, they simply attempted to divide whatever temporally relevant cleavages could most likely yield short-term victories.
2. Information asymmetries on the part of voters. Downs (1957) argued that parties form policies to win elections instead of winning elections to form policies. This finding has undergirded a considerable amount of literature in the field of formal democratic theory. In terms of emergent democracies, voters must navigate a complex new institutional environment to determine precisely which parties' platforms are consistent with their preferences. Given that new parties have no track record upon which to justify themselves, voters are compelled to take a 'leap of faith' and choose parties solely on potentially underspecified platforms.
3. Uncertainty about the robustness of democratic institutions. New democracies emerge with considerable fanfare and collective aspirations for effective governance. Unfortunately, many new

democracies quickly 'backslide' into more authoritarian forms of government (Levitsky, Way, 2002). Since a politician is unable to know whether s/he will be part of a future semi-authoritarian regime, s/he has few incentives to commit to democratic norms of transparency over the long-term.

4. Uncertainty about others' commitment to democratic norms. Related to the previous point is the idea that other politicians are simply bluffing when they speak of their commitment to democracy. Stable democracies are predicated on the idea that participants will abide the outcome of elections such that the process is free and fair and there exists a virtue in being the 'loyal opposition.' Moreover, since politics is unpredictable, it is highly likely that even though your party may lose the election at time T_1 you will be able to regroup and win an election at time T_2 . This is only possible, however, to the extent that competing politicians' promises to respect the opposition are credible. Put simply, one's adherence to democracy is only as strong as one's willingness to tolerate losing.
5. To complicate matters further, there is not a simple linear transfer from a polity characterized by short time horizons (and hence more likely to be corrupt) to one characterized by a more stable long-term view of the benefits of transparency. In other words, once a country is locked into persistent patterns of corruption, it is very difficult to change micro-incentives for individual behavior since such a strategy requires a sufficiently large number of actors to credibly accept assurances that violations will be punished rather than rewarded.

We argue that, taken together, these dilemmas increase incentives to engage in corruption because the guaranteed, but small, rents to be gleaned through malfeasance are better than taking one's chances by adhering to formal rules that can only ensure persistent payoffs if all other actors can similarly commit to playing by the rules. Thus, *ex-ante* opportunism occurs because it is the only guaranteed payoff in an uncertain democratic system. Of critical importance, however, is the distinction between two specific types of reactions to uncertainty: contingent uncertainty and systemic uncertainty.³ All human interactions are characterized by some

³ These distinctions are in part derived from rhetorical theoretic treatments of political action. Specifically, contingency is associated with satisfying immediate, and temporary,

degree of specification that falls outside our individual faculties. Indeed, principal-agency theories of corruption rest entirely upon this assumption and its attendant expectations of opportunism. 'Good' institutions exist precisely for the purpose of making uncertainty less onerous an obstacle when trying to achieve collective welfare gains (Crawford, Ostrom, 1995). A core dilemma with institutional responses to uncertainty mitigation is to compel critical numbers of participants to adhere to norms and rules that punish malfeasance, and just as importantly, for principals to credibly punish such actions.

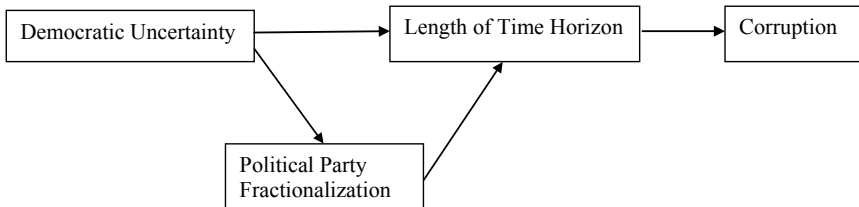
Unfortunately, overcoming the contingency dilemma faced by political actors is rarely accomplished through the creation of formal political rules. Indeed, this is precisely the dilemma outlined by both Olsen and Bates. Most members of a polity desire collectively beneficial outcomes but it is simply not possible to accept, *ex-ante*, that today's political winners will not take advantage of immediate victory to acquire wealth and, in the worst case, attempt to freeze out competing parties.

Our framework suggests that corruption will be high in those new democracies where there exist few mechanisms, both formal and informal, to overcome the contingent uncertainty dilemma. Moreover, we suggest that such uncertainty does little to foster parties based on ideological or interest-based premises. Instead, parties are more likely to become little more than vehicles for wealth accumulation. Stable democracies require stable party systems that can, over time, present a coherent package of policy issues such that voters can predict with some accuracy what relevant issues lie within the domain of public discourse, which parties will likely advance particular sides of that discourse, and how parties will adjust (within reason) their platforms in order to retain core supporters. This requires, at the least, party cadres and members who are willing to advance temporally unpopular positions in the hopes that policy discourses will prove them right over time. To the extent that political parties consist of members whose interests are highly contingent upon expectations of other members' commitments to professed adherence to norms and rules, this expectation is deeply problematic. Not surprisingly, compara-

moments of opportunity while systemic uncertainty defines individual expectations about how and whether public discourses will be advanced in a democratic political system in which it is not possible to know which party will win in a free and fair election. For our purposes, contingent uncertainty is the key issue to be 'controlled' while systemic uncertainty is a virtue to be fostered by adherence to constitutional norms and rules. Weingast (1997) and Myerson (2009) present two powerful illustrations of how systemic uncertainty can potentially yield broader social welfare gains.

tively few modern democracies exhibit remarkable shifts from corruption to transparency.⁴

Figure 1. Model – the link between political parties and corruption



4. Methods and Analysis

We present a cursory analysis of how fractionalized party systems in new democracies affect perceived corruption levels in Table 1. Our sample consists of all 73 democracies⁵ for which we have both party fractionalization data and current Transparency International indices. We use the 2009 TI Corruption Perception Index to gauge overall amounts of corruption in a given society.

Table 1. Multiple regression analysis, 2009

Variable		P values
Ethnic Fractionalization	-1.208 (0.694)	0.086

⁴ We took the difference between the 2009 and 2005 TI Corruption Perception index for all ‘new’ democracies for which we had available survey data, in practice 38 countries. The difference of the mean scores (4.02 in 2009 and 3.78 in 2005) was not significant.

⁵ The countries included are: Albania, Angola, Argentina, Australia, Austria, Barbados, Belgium, Bolivia, Botswana, Brazil, Bulgaria, Canada, Cape Verde, Chile, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, El Salvador, Estonia, Finland, France, Germany, Greece, Guyana, Honduras, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, South Korea, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Mexico, Moldova, Montenegro, Namibia, Netherlands, New Zealand, Norway, Paraguay, Peru, Poland, Portugal, Romania, Russia, Senegal, Serbia, Slovakia, Slovenia, South Africa, Spain, Suriname, Sweden, Switzerland, Trinidad And Tobago, Turkey, Ukraine, United Kingdom, United States, Uruguay, and Zambia.

Effective number seats 2009	0.510 (0.226)	0.027
New Democracy	-0.919 (0.381)	0.019
GDP/capita 2008	0.0005 (0.0000)	0.000
Effective number seats _{t-1}	-0.489 (0.222)	0.043
Constant	4.908 (0.225)	0.034
N	71	
R	0.733	

Values in bold are significant at $p > 0.001$

Party fractionalization is measured as the number of effective political parties and the data is from Gallagher and Mitchell's (2008) PF index. Democratic 'newness' is measured by as a dummy variable controlling for those states that achieved, and sustained, electoral democracy since 1990. Ethnic fractionalization is measured using Alesina and La Ferrara's (2005) scores. Descriptive statistics are presented in Table 1 of the Appendix.

We find that all but one independent variable have a significant effect on the perception of corruption. A one point increase in the effective number of seats increases the corruption score (indicating a decrease in corruption) by 0.510 points. While this is initially counterintuitive to what we anticipated, we also find that the increase in the effective number of seats in the previous election has a negative effect on the corruption score, thereby adjusting corruption by -0.489 points. This indicates that the political party fractionalization has negative effect on corruption that is delayed by one election cycle. Being a new democracy decreases the corruption score by 0.919 points, thereby increasing the perception of corruption. This supports our hypothesis that governments in new democracies face a number of collective action dilemmas that can imperil their effectiveness and fairness and render them more susceptible to corrupt governments.

The effect of the level of economic development is significant, albeit very small, where a \$1 increase in GDP/capita increases the corruption score, hence lowers corruption, by 0.0005 points. This finding supports the hy-

pothesis that countries with a higher level of economic development also experience less corruption. The only variable that has not yielded significant results is the degree of ethnic fractionalization, even though its effect is in the hypothesized direction. The next section details the evolution of corruption and political parties in Croatia.

5. Croatia: A Case Study

The parliamentary elections in 2000 were the first time since Croatia's formal independence, that Croatian voters saw the opportunity to vote in an election not dominated by elements of nationalism and war, which had permeated a decade of Croatian political life. Five years had passed since the Dayton Peace Accord, and the Croatian voters were eager to see a move forward and away from the bloody decade that had set its political and economic development aback by more than a decade. The right wing nationalist party, the Croatian Democratic Union, that had claimed its rise to power by leading Croatia into the Yugoslav war, had exhausted its rhetoric and offered little else to the electorate, beside a trail of quick rich privatization schemes and a Croatia that was further away from European Union access than ever before.

Then, the 2000 election saw a victory for the opposition, made up of a coalition of center-left parties led by the Social Democratic Party. It became apparent soon that the coalition was unable to work together effectively, thus falling apart, and by 2003 new elections were called. The perception of corruption was widespread not only among Croatian citizens, but also in the international community. In fact, in 2003, the first year included in the study, Croatia had the unenviable TI Corruption Perception index of 3.7. However, political corruption in Croatia was not a new phenomenon.

5.1. Corruption

Corruption in Croatia shares common traits with the same phenomenon as it appears in other transitional countries. However, it is unique in characteristics that derived from a privatization model implemented during an unsettled time in Croatia, the war of the 1990s and the presence of new political elite validated by the war and struggle for independ-

ence (Grubiša, 2005). The decade of the 1990s was permeated with a privatization process lacking transparency and resulting in 60 percent of all companies under the privatization process ending in state ownership. These state companies would further undergo privatization schemes with preferential treatment of politically connected individuals (tycoons) who would eventually become their owners (Hellman et al., 2000). Because of such irregularities in the process, 908 legal proceedings were filed against the Croatian Privatization Fund, out of which nine company ownerships transformations were completely and 94 were partially annulled (Bejako-*vić*, 2002). The situation has inevitably resulted in a situation where Croats begun calling their own state a »banana republic«, alluding to the situation where a country is operated as a commercial enterprise for private profit, effected by the collusion between the State and favored monopolies. This state capture by the tycoons has resulted in the shaping of policy making, and regulatory and legal environments to their own advantage, generating rents at the expense of the rest of the economy (Hellman et al., 2000). The slowing privatization process favoring insiders, lack of transparency surrounding some privatization transactions, and increasing reports of corruption also raised concerns for potential investors, further diminishing FDI into Croatia (Helmann et al., 2000). An example of many such practices has been the promotion of imported agricultural and processed goods that benefitted large retail corporations at the expense of Croatian farmers whose produce is wasted and who are being pushed into bankruptcy. Other, most recent corruption scandals involve the Fimi Media political party financing schemes and money laundering involving the former PM Ivo Sanader (currently under trial), and the bribing of medical doctors by foreign pharmaceutical companies, such as Pfizer, and Farmal. Out of all of the sectors in society, the judiciary and the police have been consistently perceived to be the most corrupt. Until recently, there was no regulation of the political parties financing. The law regulating the disclosure of funding of political parties existed in books, but was never firmly implemented.

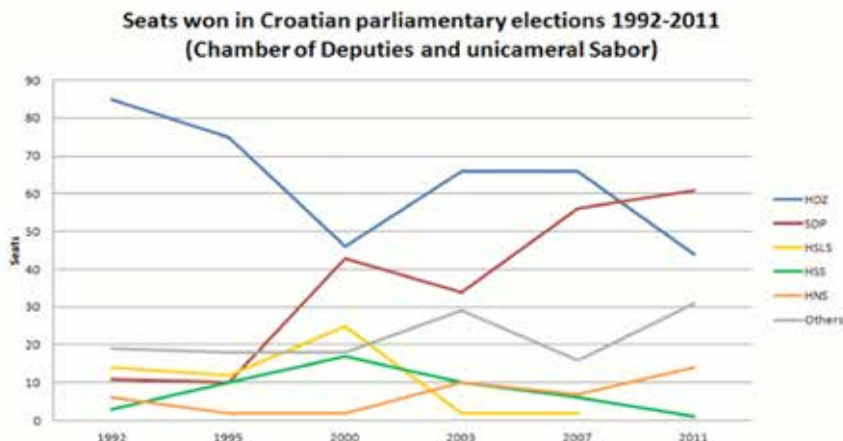
In 2001, with the election of the coalition government of the center-left, the first National Program for Combating Corruption was developed and the Office for the Suppression of Corruption and Organized Crime (USKOK) was formed. However, its presence in combating corruption had been virtually non-existent until 2008. As the negotiations for accession to the EU drew closer, there has been some movement in the direction of implementation of anti-corruption practices at the national level. However, even with the recent increase in the implementation

of existing anti-corruption laws, and the strengthening of the legislation, there are problems of monitoring, insufficient transparency, oversight and accountability of the state, and lack of training of civil servants and financial investigators among others. An example of the lack of penetration of laws and their effective implementation is the fact that nine years after the Law on the Right to Information Access, one of the key parts in the anti-corruption process, only 47.5 percent of Croatian citizens know about the existence of this law, and only 23.7 percent have a clear understanding about the rights guaranteed under that law (Transparency International Croatia, 2012).

5.2. Political Parties and Elections

Currently, there are ten political parties in the Croatian legislatures: the right wing Croatian Democratic Union (HDZ), which has dominated Croatian politics for over a decade by appealing to nationalist tendencies, is the leader of the center-right block of parties comprised of other smaller parties such as HDSSB, Croatia Law Party (HSP), Croatian Peasant Party (HSS), and the Independent List of don Ivan Grubisic. The center-left block is lead by the Social Democratic Party (SDP) and includes the coalition of the Croatian People's Party (HNS), Croatian Party of Retirees (HSU), Croatian Labor Party (Laburisti), and the Istrian Democratic Party (IDS). There are other parties, such as the Croatian Social Liberal Party (HSLs), which cannot be placed in either of these blocks and whose presence on the political scene was more important in the 1990s. The two blocks have been alternating power since 1990, with the center-right holding power for fourteen of the twenty years. It is important to note, however, that the CDU has been the single most dominant political party in Croatia as compared to the SDP led center-left where the SDP never enjoyed the kind of success at the polling place as the CDU, and has always had to form heterogeneous coalition governments. Figure 2 presents the seats won in Croatian parliamentary elections from 1992 to 2011. Since 2008, two new parties entered and one has exited the parliament.

Figure 2. Seats in Croatian parliamentary elections 1992–2001



Source: Croatian Election Commission, 2012

While there are some indicators of the political party system consolidation in Croatia as evidenced from the figure above where two main party blocks are consistently present in the political arena, there is still a great deal of uncertainty in the political party system. First, from an ideological standpoint, there is consistency in how parties view one another on the left-right ideological spectrum. However, as is the case with most developing democracies, the programmatic/ideological linkages between voters and parties are key in defining the weaker party roots in Croatia. In an interview the authors conducted in 2010 with the party leaders of the major parties in Croatia, when asked who their voter base was, their answers covered all the major socio-demographic groups; in short, everyone. Thus, from a party standpoint, there is not an ideological connection to the voters founded on solid mandates. Rather, this rather weakly institutionalized party system relies more on personalism than programmatic party platforms. Furthermore, the appeal of parties is more founded on ideological stances (nationalism vs. liberalism) rather than issues. A clear example of this is during parliamentary election campaigns: rather than discussing actual issues and proposed solutions, candidates tend to engage in debates that largely engage in historical recounts and blame. This is also reflected in their party platforms that lack the presentation of solutions and proposals to issues, and in the fact that the relationship between

the public and parties is a top down one, where parties initiate and drive the political conversation.

5.3. From 2010 to the Present

The fight against corruption also seems to have taken a new course, and new transparency measures are being implemented. Since 2010, corruption cases involving politicians and well known members of the Croatian society (e.g. physicians) have been exposed to the public and are either awaiting or undergoing trial. The most notorious example is the former PM Ivo Sanader's involvement in multiple scandals including the INA-MOL, and the Hypo Alpe Adria Bank case, for which he was recently sentenced to ten years in prison. In the first one he was convicted of accepting a bribe of \$6.4 million, from the Hungarian energy group MOL in return for making sure that it secured controlling rights in Croatia's state oil company INA. In the Hypo Alpe Adria Bank of Austria case, he has been accused of war profiteering for receiving €545,000 in kickbacks in 1995 when he was deputy foreign minister and Croatia was under an international trade embargo. Finally, he is currently under trial for creating slush funds for his political party, the CDU, by siphoning profits from state companies and influencing public tenders. Other cases involve bribes to university faculty, and an investigation of seventy-six pharmaceutical representatives working for Pfizer and Farnal suspected of being involved in bribery schemes of 350 doctors.

While USKOK has taken a proactive role in the past two years, a new body that was formed in 2011, the Commission for the Prevention of Conflict of Interest remains largely advisory with no real influence on policy making. One of the significant factors that have influenced the expediency of the judicial process in these cases was Croatia's accession to the European Union in July 2013. Thus, it appears that this process in Croatia is not a genuine move towards transparency that would result from a more institutionalized party system and certainty of the democratic process, but rather a temporary result of the accession process.

6. Conclusion

While this characterization of contemporary Croatian politics may be perceived as less-than-sanguine, it is important to realize that the linkages be-

tween democracy, corruption, and good governance are immensely complex. While democratic institutions can yield improvements in the quality of governance, the forces that compel this change are multifaceted. The framework we advance suggests quite strongly that measures of effective numbers of political parties are, of themselves, a poor indicator of perceptions of corruption. In new democracies, however, such measures become significantly and negatively correlated with individual perceptions of malfeasance. Our core argument is that there is a critical relationship between party volatility and the incentives politicians and citizens face when deciding whether to incorporate good governance practices.

While for the purpose of this study we admittedly present a rudimentary regression analysis of our hypotheses, these initial findings support the relationship between party fractionalization and corruption, and warrant a more extensive analysis at the next stage. Taken together, we suggest that this theoretical approach makes two key contributions. First, it provides a meaningful way to think about incentives for corruption that move beyond both the structural characteristics of a democracy and the presumed cultural incentives to participate in behavior that lies outside the rule of law. Indeed, our core contention is that there is something particular about new nation-states that makes the development of norms of trust and reciprocity difficult to inculcate. We have suggested that a potential mechanism is uncertainty about the future credibility of institutions. Where such credibility is absent or febrile, political agents are likely to discount future benefits of adhering to the rule of law. They do not engage in corruption because of a lack of character or owing to rapaciousness (although it is certainly true that this is a risk), but rather because the uncertainty about the future status of institutions generates incentives to cultivate political opportunities in the immediate term. This has powerful implications for democratic aid and the ways that international organizations work to develop democratic institutions in newly free states.

Second, we suggest that while party fractionalization is an important element of understanding the incentives for corruption in new democracies, it is an imperfect measure. Specifically, while the *number* of parties in a system may remain somewhat consistent, our measure tells us little about the specific *composition* and *durability* of parties, which is something to be undertaken at the next stage of this research topic. What is needed is not merely a party *fractionalization* index, but rather a party system *durability* index. Such a measure would go far to account for the ways that high levels of entropy in the number of relevant parties and their ability to consistently field competitive candidates operating under

clear and enforceable platforms is correlated with the discount rates of politicians.

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Appendix

Table 1. Descriptive Statistics

Variable	Observations	Average	Std. Dev.	Min	Max
Corruption Perception	71	5.3436	2.2079	1.9	9.4
Ethnic Fractionalization	71	0.3498	0.2304	0.002	0.7867
Effective Number of Party Seats	71	3.4674	1.5919	1.31	9.32
New Democracy	71	0.4789	0.5031	0	1
GDP/capita	71	23128.13	23246.22	1355.77	58137.84
Effective Number of Party Seats _{t-1}	71	3.6083	1.5843	1.56	8.47

PARTY INSTABILITY, INSTITUTIONAL INCENTIVE AND CORRUPTION IN EMERGING DEMOCRACIES

Summary

Corruption is widely viewed as a detriment to consolidation in new democracies. In this paper we argue that new democracies face a particular dilemma that makes corruption more likely. Specifically, we suggest that information asymmetries exist between political elites and voters that make it difficult for new political parties to forge the long time horizons necessary for democratic institutions to mature. Political elites, whether they be cadres of the former authoritarian regime who recast themselves as committed to the new democratic project or formerly excluded opposition figures intent on establishing themselves in the new participatory order, lack information about the preferences of broad scale publics. These newly empowered voters, while possessing interests of their own, often lack the ability to determine the precise platform positions of new political parties as well as the likelihood that candidates are committed to the long-term strengthening of democratic values. As a consequence, new political parties may have a disincentive to establish clear and ideologically precise platform positions that they can commit to over time. Instead, they have incentives to try and cultivate bases of voter support through the use of bribes, political favors, and other nepotistic practices that, while useful in the short-term, undermine long-term democratic legitimacy. We suggest that, to the extent that political elites value political office more than the development of a clear and consistent space in the political spectrum, parties in new democracies are unlikely to eschew corrupt practices. We examine party fractionalization indices as a way to capture this uncertainty and use a case study of Croatia to develop our core arguments.

Key words: corruption, party systems, institutions, new democracies

NESTABILNOST STRANAKA, INSTITUCIONALNI POTICAJI I KORUPCIJA U NOVIM DEMOKRACIJAMA

Sažetak

Korupciju se općenito smatra štetnom za konsolidaciju novih demokracija. U radu se provjerava teza da su nove demokracije suočene s dilemom koja korupciju u njima čini vjerojatnijom pojavom. Smatra se da postoji asimetričnost u dostupnosti informacija političkim elitama i građanima koja otežava novim političkim strankama stvaranje dugoročnih planova koji bi omogućili dozrijevanje demokratskih institucija. Političkim elitama, tvorili ih kadrovi iz bivših autoritarnih režima koji su se reorijentirali prema tom novom demokratskom projektu, ili pak u prošlosti marginalizirani opozicionari kojima je cilj etablirati se u novom višestranačkom poretku, nedostaju informacije o očekivanjima i prioritetima šire javnosti. Ti novoosnaženi glasači, premda imaju vlastite interese, često nisu sposobni odrediti točna programska stajališta novih političkih stranaka kao ni vjerojatnost da su njihovi kandidati posvećeni dugoročnom jačanju demokratskih vrijednosti. Zato nove političke stranke nemaju interesa uspostaviti jasna i ideološki precizna programska stajališta koja bi mogle učvršćivati tijekom vremena. Umjesto toga, okolnosti ih potiču da pokušaju uspostaviti temelje podrške glasača upotrebom mita, činjenjem političkih usluga te drugim nepotističkim praksama koje, iako kratkoročno korisne, dugoročno potkopavaju demokratski legitimitet. Autori smatraju da će se, tako dugo dok političke elite više drže do političkog položaja nego do razvoja jasno definiranog i dosljednog vlastitog prostora u političkom spektru, političke stranke u novim demokracijama teško odreći koruptivnih praksi. Autori analiziraju indekse frakcionalizacije stranaka kao jedan od načina da ovladavanja spomenutom nesigurnšću, te koriste studiju slučaja Hrvatske kako bi dodatno razvili svoje temeljne argumente.

Ključne riječi: korupcija, stranački sustavi, institucije, nove demokracije