Anti-Corruption Campaigns and Political Selection: Evidence from Russia

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Catching Tigers and Flies

Sleepless in Saudi Arabia

The Rise of Anti-Corruption Campaigns

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But lots of reasons to be skeptical about effectiveness:

- Ripe for political manipulation
- Shallow PR exercises ('Drain the swamp!')
- Can upset fragile governing arrangements (*kompromat*)
- Inform public about real corruption (Wang and Dickson 2017)

Research Question

Do anti-corruption campaigns change officials' behavior?

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Economic consequences

- Alcohol consumption (Shu and Cai 2017)
- Firm fraud (Zhang 2016)
- Corruption (Avis et al. 2017, Bobonis et al. 2015)

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- Alcohol consumption (Shu and Cai 2017)
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Electoral fallout

- Municipal audits induce accountability (Ferraz and Finan 2008)

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- Treatment : DiD around passage of disclosure law

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- Disclosure laws generate turnover among government officials.

- Disclosure laws discourage candidates that evade taxes.

- Enforcement capacity matters.

Rethinking Anti-Corruption Campaigns

Policy experimentation mitigates risks

- Piloting reforms helps illuminate pitfalls (Heilman 2008, Schmitz et al. 2015)

- Provides flexibility to ensure regime is not shaken

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Incredible unmet citizen and business demand for reforms

- Corruption regularly cited as most important problem worldwide

- Most citizens rate their governments' performance as subpar

- Combatting corruption can help attract investment and improve business environment

The Power of Transparency

Disclosure: 'sunlight as the best disinfectant'

- Create a public record of wealth accumulated prior to and then during office
  - Vast majority of countries require annual disclosures

- Introduce new information with which to evaluate politicians and facilitate prosecution
  - Powerful weapon for interested actors to combat corruption

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Does requiring financial disclosures change the type of politicians that run for office?

Effects on Political Selection: Current Politicians

Changing the incentives for run for re-election

- Current politicians originally entered office under different ethics regime
- Disclosure laws increase the risk of past bad behavior coming to light, and close the door to future self-enrichment

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H1: Incumbents will be less likely to seek re-election when financial disclosures become mandatory.

Effects on Political Selection: New Politicians

Disclosure laws function like a 'tax audit'

- Expose all financial activity to date, legal or otherwise
    - Estimates of tax evasion are massive: $500 billion in U.S., 2.5% of GDP in Russia
- Increase risk of criminal prosecution by revealing new information about politicians

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H2: Introducing disclosure laws will reduce number of candidates connected to tax evasion.

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H2: Introducing disclosure laws will reduce number of candidates connected to tax evasion.

H3: Where enforcement capacity is greater, disclosure laws will further reduce the number of candidates connected to tax evasion.

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4. **Mandatory asset and income disclosures**

Example Disclosure

What's covered:

- Income, expenditures, bank accounts, stocks, real estate, transportation
- Submitted annually by April 1 for previous year

Last Name, First Name, Patronymic	Position	Total Declared Annual Income for 2015 (ths. Rubles)	List of Real Estate Properties			List of Transportation Assets	Information on the sources of assets on which a transaction was made
			Type of Property	Sq. Meters	Country		
Kondrat'eva Irina Vyacheslavovna	Member of the Council of People's Deputies of the Municipal Organization City Gus'-Krustalnyi	629 577,08	Apartment (total share - 1/2)	77,90	Russia		
Spouse		383 996,26	Apartment (free use)	77,90	Russia	Light automobile VOLKSWAGEN POLO (individual asset)	
Son		17 382,50	Apartment (total share - 1/2)	77,90	Russia		
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Disclosure Law Rollout

- 2008-2009: President, Prime Minister, federal officials, Duma members, SOE Directors, members of regional legislatures, full-time municipal deputies

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- 2015: Stricter sanctions (and enforced!); **part-time** municipal deputies now covered

Analysis: Municipal Level in Russia

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Unit of Analysis: 25,286 municipal council elections (aggregating data on 898,406 candidates)

- Provide for range of public services
- Range from 7-40 members, full-time (2-3) and part-time (remainder)

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Outcomes:

- Incumbents: Share of part-time incumbents that ran for re-election
  - Full-time incumbents as placebo check

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  - Full-time incumbents as placebo check
- Tax Evaders: Share of entrepreneurs running for office
  - Big businesspeople as placebo check

Entrepreneurs as Tax Evaders

Candidates to office have different propensities to evade taxes

- State officials get paid directly from budget

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Small businesses in Russia most likely to hide income

- Most transactions done in cash ('black cash evasion')

- Tactics: underreporting income, falsifying expenditure accounting, or creating fictitious transactions

- Considerable evidence noting evasion among small firms: Yakovlev 2001, Gehlbach 2006, Braguinsky et al. 2014

Difference-in-Differences: Figure

Figure: Treatment versus Control Elections Over Time
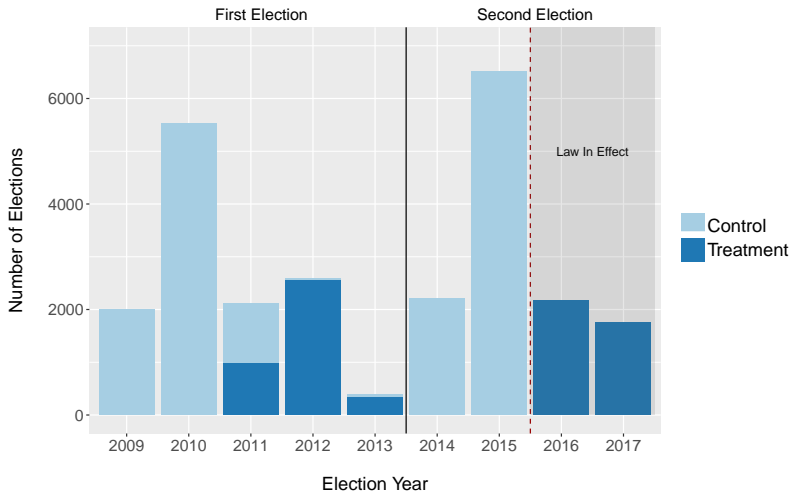
Difference-in-Differences: Models

Comparing trends in types of candidates in elections before and after the 2015 amendment on part-time deputies is passed:

- Controlling for pre-treatment characteristics (number of seats contested, population, territory size, and revenue, with region fixed effects)

    - Also specification with municipality fixed effects

- Balance in pre-reform residuals between treatment and control

$$Y_{mrt} = \alpha + \beta * T_m + \gamma * Election2_t + \eta * T_m * Election2_t + \zeta_{mt} * X + \lambda_r + \mu_m + \epsilon_{mrt} \quad (1)$$

Part-time Incumbents Leave at Much Higher Rates

	Part-Time Incumbents (%)			Full-Time Incumbents (%)		
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment Group * Second Election	−0.063***	−0.071***	−0.063**	−0.032*	−0.016	−0.032
	(0.020)	(0.021)	(0.028)	(0.018)	(0.018)	(0.026)
Treatment Group	0.069***	0.070***		0.013	0.007	
	(0.017)	(0.016)		(0.014)	(0.015)	
Second Election	0.097***	0.101***	0.097***	0.101***	0.086***	0.101***
	(0.011)	(0.011)	(0.015)	(0.015)	(0.010)	(0.021)
No. Seats (log)	−0.009	0.020		−0.003	−0.004	
	(0.012)	(0.019)		(0.007)	(0.011)	
Population (log)		−0.018**			−0.001	
		(0.008)			(0.003)	
Territory (log)		0.035			0.013	
		(0.029)			(0.015)	
Revenue (log)		0.010*			0.001	
		(0.005)			(0.002)	
Unit Type Fixed Effects	Yes	Yes	No	Yes	Yes	No
Region Fixed Effects	Yes	Yes	No	Yes	Yes	No
Municipality Fixed Effects	No	No	Yes	No	No	Yes
Observations	25,286	21,796	25,286	25,286	21,796	25,286
R^2	0.218	0.188	0.742	0.191	0.166	0.610

Robustness Checks

- Individual-level analysis: fewer incumbents run for re-election

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- ** Effect is identical for United Russia (UR) members versus deputies from the opposition
  - UR controls 70% of seats on municipal councils
  - Regime is not specifically targeting its rivals
  - Law is being applied evenly to all politicians

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- Incumbents that choose to run win at similar rates post-amendment
- Fewer candidates from a demographic group means fewer winners from that group

Individual Entrepreneurs Run For Office Less Often

	Firm Directors (%)			Entrepreneurs (%)		
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment Group * Second Election	−0.004	−0.004	−0.004	−0.008***	−0.006***	−0.008***
	(0.002)	(0.003)	(0.003)	(0.002)	(0.002)	(0.003)
Treatment Group	0.006**	0.006**		0.008***	0.005*	
	(0.003)	(0.003)		(0.002)	(0.003)	
Second Election	0.003**	0.004***	0.003*	0.006***	0.006***	0.006***
	(0.001)	(0.002)	(0.002)	(0.001)	(0.001)	(0.002)
No. Seats (log)	0.042***	−0.031***		0.030***	−0.007*	
	(0.005)	(0.004)		(0.003)	(0.004)	
Population (log)		0.022***			0.015***	
		(0.002)			(0.001)	
Territory (log)		−0.031***			−0.005	
		(0.008)			(0.005)	
Revenue (log)		0.007***			−0.001	
		(0.001)			(0.001)	
Unit Type Fixed Effects	Yes	Yes	No	Yes	Yes	No
Region Fixed Effects	Yes	Yes	No	Yes	Yes	No
Municipality Fixed Effects	No	No	Yes	No	No	Yes
Observations	25,286	21,796	25,286	25,286	21,796	25,286
R^2	0.331	0.355	0.810	0.068	0.073	0.677

Measuring Enforcement

Disclosure laws work best when anchored in wider criminal code

- Different law enforcement agencies can share and verify data
- Prosecutions can be initiated for disobeying disclosure requirements

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Tax authorities as the grim reaper for entrepreneurs

- Over 100,000 businesspeople currently in jail and anecdotal evidence of prosecutions of sitting politicians
- 40 million desk audits carried out annually
    - Rank regions as having a 'high', 'medium', or 'low' risk of audits per capita

Higher Audit Risk = Fewer Entrepreneurs Running

	Audit Risk			Audit Risk		
	Low	Medium	High	Low	Medium	High
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment Group * Second Election	−0.001	−0.0003	−0.017***	−0.002	−0.001	−0.017***
	(0.004)	(0.004)	(0.002)	(0.004)	(0.004)	(0.002)
Treatment Group	−0.007	0.010***	0.013***	0.010***	0.012**	0.014***
	(0.004)	(0.003)	(0.003)	(0.003)	(0.006)	(0.003)
Second Election	0.003*	0.004	0.012***	0.003*	0.004	0.012***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
No. Seats (log)	−0.016***	−0.011	0.003	−0.016**	−0.011	−0.001
	(0.006)	(0.008)	(0.005)	(0.008)	(0.008)	(0.005)
Population (log)	0.014***	0.018***	0.011***	0.012***	0.018***	0.015***
	(0.002)	(0.003)	(0.002)	(0.002)	(0.003)	(0.002)
Territory (log)	−0.001	−0.022**	0.008	−0.005	−0.012	−0.002
	(0.012)	(0.010)	(0.007)	(0.012)	(0.009)	(0.008)
Revenue (log)	−0.002	−0.001	0.001	0.0002	−0.0002	−0.002
	(0.001)	(0.001)	(0.002)	(0.002)	(0.001)	(0.002)
Region Fixed Effects	Yes	Yes	Yes	No	No	No
Unit Type Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,673	7,292	7,831	6,672	7,292	7,804
R^2	0.062	0.079	0.078	0.039	0.062	0.065

Concluding Remarks

Anti-corruption campaigns affect political selection

- Less like a political 'purge' than a blanket dictate that cleaned house internally

- Disclosure laws increase the costs of engaging in corruption

- Potentially better quality individuals entering government and improved welfare outcomes

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When do anti-corruption campaigns work as intended?

- Expose new information about politicians' behavior

- Ready audiences to use information for own ends
  - Political opponents employing ethics rules as "weapons of institutional combat"

- Focus on low-level officialdom?

Balance Table

	Treated Elections	Control Elections	Difference
(1) Population (log)	7.089	7.055	0.034
(2) Territory (log)	2.353	2.349	0.004
(3) Revenue (log)	8.881	8.788	0.093***
(4) City Settlement	0.064	0.051	0.013***
(5) Rural Settlement	0.876	0.917	-0.041***
(6) City District	0.012	0.006	0.006***
(7) Municipal Rayon	0.048	0.026	0.022***
(8) Number Seats	9.939	9.631	0.307***
(9) Number Candidates per Seat	1.674	1.656	0.019*
(10) Part-time Deputy Candidates (%)	0.283	0.267	0.016***
(11) Full-time Deputy Candidates (%)	0.048	0.017	0.031***
(12) Businessperson Candidates (%)	0.088	0.081	0.007***
(13) Candidate Age	45.000	45.152	-0.152**
(14) Female Candidates (%)	0.539	0.505	0.034***
(15) Candidate Education	4.162	4.146	0.016**
(16) Number of Elections	3,919	8,724	

Assessing Pre-Treatment Covariates

Figure: Residuals Density Plots