

Limiting Political Corruption: Some Effective Remedies?

Political corruption has a long history and deep roots in all levels of our government. States experience such corruption to one degree or another. What does the evidence across states suggest about the factors that can most effectively deter corrupt behavior? And how does Nevada stack up?

A recent study (*The Connecticut Economy*, Summer 2005) finds that increased voter participation, improved campaign finance disclosure, and a lower crime rate associate with less political corruption. Moreover, the effect of campaign finance disclosure exerts a bigger effect in states with higher crime rates. (The editor and author of the study, Steven P. Lanza, of *The Connecticut Economy* kindly provided the data.)

My further analysis of the data shows that Nevada's reported rate of corruption proves an outlier that falls far below the level predicted by the model. So, either Nevada public officials are much more honest than average, or our state's enforcement of political corruption statutes is unusually lax.

I discuss this more below. But, first, let's back up. Providing government services can lead to what economists call a principal-agent problem. Society (the principal) entrusts elected public officials (the agents) with the responsibility of conducting public affairs on their behalf. But public officials' private interests may not align with the interests of society. Corrupt politicians might instead enhance their private interest through payoffs, kickbacks, gifts, and so on as a *quid pro quo* for responding to some private interest.

One economic model argues that public officials engage in corrupt activities when the perceived benefits of such activities exceed the perceived potential costs. I mentioned some benefits above. The costs might include loss of public reputation, fines, and legal penalties, including incarceration. This self-interested view of political corruption is consistent with several different, but related, explanations of corruption.

First, the access to and availability of benefits (i.e., opportunistic behavior) may tip the balance, promoting corrupt behavior. James Q. Wilson argues "... men steal money where there is a lot of money lying around loose and no one is watching." Thus, larger budgets, possibly per public employee, and lax enforcement activities may boost the incidence of corrupt behavior.

Second, political markets may not impose effective discipline on corrupt behavior. The lack of competition in political markets may lead to one-party rule, which can create a monopoly over the potential perks and benefits – legal and illegal – associated with public office. Thus, a more competitive political environment may reduce corruption.

Third, historical and/or cultural factors may promote an environment that limits or encourages corrupt behavior. That is, the strength of social institutions such as the family and the church and/or environmental factors such as the degree of urbanization and/or crime rates may influence corrupt behavior.

Finally, closed-door government may provide the cover for corrupt behavior to flourish. Structural reforms that improve transparency, such as increased audit controls, campaign finance restrictions, and so on may help curb corruption.

The study by *The Connecticut Economy* considers a number of explanatory variables that emerge from these four theories of corrupt behavior. But only voter participation (presidential elections), an index of campaign finance disclosure, and the number of violent and property crimes per 100 residents significantly influence corrupt behavior, as measured by the number of prosecutions per 100 elected public officials between 1986 and 1996.

In sum, limiting political corruption requires an interested, active public (voter participation). Moreover, making public participation effective requires good information (transparency). Finally, the crime rate, an environmental factor, plays a dual role. First, a lower crime rate associates with lower political corruption. Second, a higher crime rate enhances the effectiveness of transparency in campaign contributions.

Where precisely does Nevada stand? Nevada ranked near the middle, 27th out of 49 states, on the incidence of corruption with 1.36 prosecutions per 100 elected public officials. (Hawaii was excluded because of data problems.) Vermont (0.10) and New Hampshire (0.13) achieved the lowest numbers while Virginia (10.38) and Florida (9.78) topped the list. Texas, the median state, came in at 1.32.

Nevada stood near the bottom, 47th out of 49 states, in voter participation with 44.6-percent of adults participating in the 1988, 1992, and 1996 presidential elections. Participation was lowest in South Carolina (42.2) and Georgia (42.6) and highest in Maine (68.7) and Minnesota (67.4). In the median state, Rhode Island, turnout reached 54.4 percent.

Nevada checked in at the median in the index of campaign finance transparency along with 25 other states, including Alaska and California. Campaign financing was least transparent in Alabama and Maryland. The remaining 22 states, excluding Hawaii, exhibited better transparency, including every other state in the West except Alaska and California.

Finally, Nevada's high crime rate left it near the bottom again, 40th out of 49 states, with 6.1 violent and property crimes per 100 residents. Florida (8.8) and Arizona (7.8) suffered the worst crime rates while West Virginia (2.5) and South Dakota (2.9) achieved the lowest rates. Kansas, the median state, came in at 5.2.

Expanding the analysis (ordinary least squares regression), I calculated the expected (forecast) value of prosecutions per 100 elected public officials for each state. Doing so, I discovered that Nevada proves an outlier, as do a number of states. That is, given the values for Nevada's voter participation rate, campaign finance disclosure index, and crime rate, our state should have seen 4.59 prosecutions per 100 elected public officials, 3.23 higher than our actual number of 1.36. Nevada's actual number of prosecutions falls the furthest below the expected number for any state. At the other extreme, Virginia, Louisiana, and Florida all experience more prosecutions than expected by amounts of 7.81, 3.72, and 3.04, respectively.

Ranking states again based on the expected (forecast) value of prosecutions per 100 elected officials rather than the actual value, Nevada (4.59) ranks 6th highest following, in order, Florida (6.74), Maryland (5.75), Georgia (5.44), South Carolina (4.83), and California (4.81). In other words, Nevada's environment proves consistent with three times the reported level of political corruption and worsens our ranking by 21 positions. Maybe the lower number of prosecutions reflects less effort expended on this issue. The original study tried to consider this possibility and included the personnel and budget committed to criminal justice as possible explanatory variables, but did not find significant effects. Nonetheless, Nevada could well prove an outlier on this issue too.

Stephen M. Miller is Professor and Chair of the Department of Economics, College of Business at the University of Nevada, Las Vegas.

Edited version appeared in *Las Vegas Business Press*, October 19, 2007.