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# Curse or Cure? Remittances and Corruption in the Developing World

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CURSE OR CURE? REMITTANCES AND CORRUPTION IN THE DEVELOPING  
WORLD

by

Michael D. Tyburski

A Dissertation Submitted in  
Partial Fulfillment of the  
Requirements for the Degree of

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in Political Science

at

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May 2014

ABSTRACT  
CURSE OR CURE? REMITTANCES AND CORRUPTION IN THE DEVELOPING  
WORLD

by

Michael D. Tyburski

The University of Wisconsin-Milwaukee, 2014  
Under the Supervision of Professor Shale Horowitz

This dissertation examines the relationship between migrant remittances, money earned by migrant workers and sent back home, and corruption. Remittances total more \$400 billion US a year, making them an important capital flow with understudied political consequences. Some scholarship argues that remittances increase corruption by allowing governments to reduce their provision of public goods and redistribute wealth to political supporters as private goods. In contrast, I argue that the relationship between remittances and corruption varies by regime type. Remittances will likely aggravate corruption in authoritarian regimes where governments require smaller supporting coalitions and may be more likely to view remittances as an opportunity to increase political patronage. Moreover, the costs of political activity are higher for remittance recipients in authoritarian regimes, and their probability of influencing corruption is lower. Remittances may help mitigate corruption, especially in democratic regimes. Democratic institutions require larger coalitions while lowering the costs of participation. I test the plausibility of my theory using cross-province level studies of Mexico and India-- two of the largest remittance-receiving states. Results from these cases do suggest that remittances associate with reductions in corruption while controlling for other socioeconomic and political causes. A third, cross-national study tests the theory's

generality. Empirical analyses of panel data from 127 developing states between 2000 and 2010 generally support my expectations. This research advances social science by refining theoretical implications of migrant remittances while providing an empirical account of their political importance. Moreover, it guides future projects to focus on the factors that make remittances a curse in some states and a cure in others.

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Dedicated to family, Ray, Kim, and Alexa Tyburski

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“The more corrupt the state, the more numerous the laws.”

~Tacitus, *The Annals of Imperial Rome*

“To me, if life boils down to one thing, it's movement. To live is to keep moving.”

~Jerry Seinfeld

## **Chapter 1**

### **Migrant Remittances and Domestic Corruption**

In 1789 Benjamin Franklin wrote to a friend, “Our new constitution is established and has an appearance that promises permanency; but in this world nothing can be said to be certain except death and taxes.” Franklin was justifiably optimistic about the signing of the new United States constitution, but he may have revised his statement had he not died the next year. Corruption has plagued humanity and its political institutions since antiquity, and so it seems to be as certain as taxes. States struggle, and like bodies that die as their organs cease to function, sometimes fail when their institutions do not serve their intended purposes.

Not everyone views corruption as a problem, but most scholarship finds that it remains a substantial barrier to economic growth in many states. Some argue that corruption can “grease the wheels” in developing economies and promote growth by cutting red tape (e.g., Neff 1964; Huntington 1968). New governments in new states might benefit from allowing their public officials to use discretionary powers for personal benefit in exchange for compliance (Darden 2008). Most studies, however, demonstrate that corruption hampers growth and increases income inequality (see Mauro 1995; Meon and Weil 2010). In Africa, for example, corruption reduces per capita income growth by about 1% each year (Gyimah-Brempong 2002), disproportionately hurting the poor who either spend more on bribes as a share of their income or simply go without access to public goods (Lambsdorff 2002a, 2002b).

Perhaps more importantly, corruption is a political problem. Corruption can foster government instability and erode the trust between citizens and their government in

democracies (e.g. Seligson 2002; Morris and Klesner 2010). Likewise, corruption can promote stability in authoritarian regimes by helping to prop up unpopular leaders (Ahmed 2012). The intentional misuse of public power limits equality of opportunity and deprives some citizens of their equality under the law. This is deplorable anywhere, but it can be especially harmful in emerging democracies. When citizens do engage in corruption, they become subject to the whims of bureaucrats who may not honor their commitments. These abuses cannot be redressed by legal means since whistleblowers may face retribution for their own involvement. In sum, corrupt governments become like “roving bandits,” harassing their citizens, stifling their economic growth, and limiting their freedom (Olson 1993).

The prospects for macroeconomic development and the rule of law may appear hopeless in this light, but people faced with corrupt governments are not helpless. Advancements in global transportation, communication, and financial technologies have brought new life to an old strategy for improving lives: migrating. Migrant remittances are defined as the money earned by international workers and sent back home to their families, friends, and communities (Kapur 2004).<sup>1</sup> People in the United States are often familiar with migration because of their own family histories and the country’s large migrant communities. For example, more than 11.6 million Mexican citizens resided in the United States during 2010, establishing the largest migration corridor in the world.<sup>2</sup> That year Mexico received the third largest remittance total (\$22.6 billion US) behind

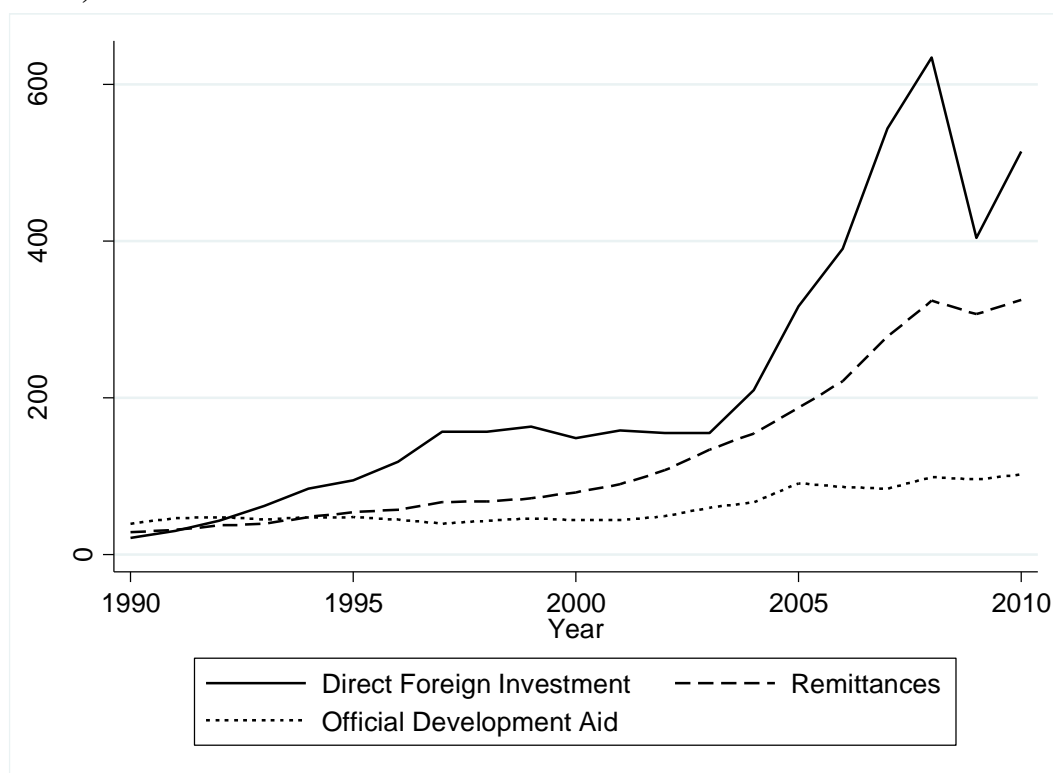
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<sup>1</sup> Throughout the dissertation, I will refer to the migrant-sending state as the home state and the state migrants remit from as the host state.

<sup>2</sup> This means that more Mexican laborers resided in the United States than any other migrant group in any other country.

India (\$55 billion US) and China (\$51 billion US).<sup>3</sup> Remittances account for a sizable 2.5% of Mexico's gross domestic product (GDP), but migrant money can total more than 25% of GDP in states with smaller economies like Tajikistan, Tonga, Moldova, and Lebanon.

**Figure 1.1: DFI, ODA, and Remittance Totals to Low and Middle Income States, 1990-2010**



The recent increase in volume has made the rise of migrant remittances one of the most interesting phenomena of the post-Cold War era. Between 1970 and 1990, all three capital flows remained approximately equal, but DFI and remittances eclipsed aid beginning in the early 1990s. Figure 1.1 plots the growth of direct foreign investment (DFI), official development aid (ODA), and remittances between 1990 and 2010. The

<sup>3</sup> Data retrieved online from the World Bank Development Prospects Group "Migration and Remittances Factbook, 2011" at <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/Top10.pdf>.

World Bank estimates that 171.6 million migrants from the developing world sent home nearly \$372 billion in 2010.<sup>4</sup> Restated, nearly one out of every thirty people in the developing world is a migrant worker, and this population generated a capital flow equal to 3% of the total wealth created that year. DFI totals have grown faster than remittances, but migrant money appears more resistant to economic recession.

### **The Puzzle: Remittances and Corruption**

The economics of migrant remittances present an interesting political puzzle. Some development scholars have declared remittances the “new development mantra” (e.g., Ratha 2005). This literature finds that migrant transfers improve individual living standards at home in both the short and the long term (Conway and Cohen 1998; Fajnzylber and Lopez 2007). Recipients consume most remitted income to address basic needs shortages in housing, healthcare, and other goods. The accompanying increase in demand helps local economies grow faster than they would otherwise, with each dollar of remittance consumption generating up to four more in demand for goods and services (Stark, Taylor, and Yitzhaki, 1986; Durand, Parrado, and Massey 1996). Remittances also increase investment in small businesses by acting as a substitute for scarce credit and improving the availability and quality of public goods (Taylor 1995, Giuliano and Ruiz-Arranz 2009; Adida and Girod 2011). More importantly for long-term development, remittances can help families keep their children in school when they could not afford to otherwise (see e.g., Edwards and Ureta 2003). In sum, experts expected remittances to

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<sup>4</sup> Author's calculations based on data from the World Bank's *World Development Indicator*. Retrieved online from <http://databank.worldbank.org/ddp/home.do> on August 9, 2012.

fuel a virtuous cycle of consumption, investment, and education that would pull millions of the world's poor out of poverty.

Unfortunately, subsequent research did not establish a link between remittances and macro-economic growth, suggesting that the promise of remittance-fueled economic development will remain unfulfilled (Chami *et al.* 2008; Barajas *et al.* 2009). The unexpected findings led scholars to search for a “dark side of remittances.”<sup>5</sup> Some argued that remittances hindered economic growth by simultaneously increasing the price of domestic goods and reducing the competitiveness of exports—a phenomenon known as the Dutch disease (Bourdet and Falck 2006; Acosta, Larrey, and Mandelman 2009). However, Frankel (2009) seemingly refuted the Dutch disease claim, finding that remittances help governments keep prices stable because migrants tend to remit more money as the domestic economy falters.

Remittances' countercyclical nature, however, might cause a moral hazard for governments, allowing them to increase political corruption in a manner similar to the natural resource curse (Abdih *et al.* 2008).<sup>6</sup> The resource curse refers to the paradox of slow or negative economic growth in states with abundant natural resource endowments (see Ross 2001). Economic theory expects states with larger natural resource endowments to grow faster than those without, all else equal, but government income from resource wealth correlates with increased levels of corruption. The revenue itself is value-neutral, meaning that leaders could use it to fund initiatives that diversify their economies. However, governments seem reluctant to create new sources of economic

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<sup>5</sup> The July/August 2008 issue of *Foreign Policy* developed the dark side of remittance tag in response to the IMF findings.

<sup>6</sup> In the context of foreign aid, natural resource revenue, and other purportedly “unearned” revenue governments receive, “moral hazard” refers to situations when government may make an economically risky, or even harmful, policy decision because they are shielded from the political costs.



power that might threaten their long-term political rule (Dunning 2005). Instead, leaders often opt to reduce tax levies, increase in patronage politics, and shift the costs to others through corruption. This analogy compares migrants to an abundant source of labor that can be exported to create revenue for governments.

### **Curse or Cure?**

How might remittances be expected to influence corruption? Do migrants' efforts to improve economic conditions back home inadvertently make them worse? The prevailing wisdom in political science research mimics the resource curse argument. It argues that remittances allow governments to reduce their spending on public goods that all citizens can access and provide more private goods to political supporters (Ahmed 2012). Governments may react by substituting remittance wealth for their own spending on social programs. This expenditure switching effect increases corruption by creating incentives for bribery and government rent-seeking as people compete for access to increasingly scarce public goods.

Like the Dutch disease argument before it, the resource curse analogy is flawed. Most egregiously, migrants are *not* a resource like oil or gas that governments can export. Migrants, their friends, and families are people and potential political actors with a unique resource at their disposal: remittances. Migrants may be attuned especially to corruption because they remit purposively to improve living standards back home (Conway and Cohen 1998). Corruption thwarts their remittance-supported economic pursuits by creating economic uncertainty while increasing transaction and opportunity costs. In addition, the analogy ignores remittances' ex-official nature (see Singer 2010). Remittances typically flow to individuals through private channels, and governments

cannot benefit directly. The substitution argument acknowledges this difference by arguing that governments benefit indirectly by encouraging or allowing corruption, but it ignores the potential political costs that may accompany such a decision.

We should not expect all governments that observe significant remittance inflows to engage in substituting behavior because remittances might also help *mitigate* corruption in some political contexts. For example, remittances can increase migrants' and remittance-recipients' political importance, helping them hold governments accountable for corruption. Along with the monetary resources, migrants transmit their experiences living abroad along with their financial resources. Immigrants abroad often originate from the same communities back home and form civil society groups in their host states (see Levitt 1998). These communities keep migrants connected and provide opportunities to become socially active back home. Together, financial and social remittances can encourage political participation and support for reducing corruption (Adida and Girod 2010).

But to be clear, I do not expect that remittances *always* mitigate corruption. I argue that the relationship between remittances and corruption is conditional, not unidirectional. The substitution hypothesis only considers how remittances might affect a government's incentive to engage in corruption from a top-down perspective. This project compliments that approach by considering how remittances might influence corruption from the bottom-up. Considering both sets of incentives together creates a theoretical framework that is common in the political economy literature: a political "tug of war" over the distribution of economic benefits.

Power-seeking leaders may want to gain politically through expenditure substitution and corruption, but migrants and their beneficiaries may use remittances as leverage to resist.

I also expect that a state's political institutions will help explain whether government successfully redistributes remittances' economic benefits, and thus, whether remittances appear like a curse or a cure. Institutions shape political activity in different ways, but I focus on how they influence government's survival calculus and migrant's ability to use remittances as political leverage using Selectorate Theory (Bueno de Mesquita *et al.* 2004). Governments operating in authoritarian regimes require smaller supporting coalitions to remain in power and may be more likely to view remittances as an opportunity to increase political patronage as a result. The tendency for authoritarian governments to provide private goods is reinforced by migrants' weak incentive to try and influence corruption using their remittances. The potential gains from achieving reform may be larger, but the probability of successfully influencing corruption is lower, which can make the expected benefit of additional political activity lower than that of some other use for remittances. However, democratic institutions require that governments attract relatively more political support, making them more likely to respond to political pressure. Democracy also offers more and lower-cost opportunities for political participation and increases the probability of influencing corruption.

In addition to the systematic influence of political institutions, remittances' effect on corruption may be shaped by other, less obvious factors. Measures of regime type often group together states with different cultural and historical legacies, governments with ideological goals, and other idiosyncratic factors that shape political behavior. This does not mean that the measures are not useful, but that research must try to control, or

account, for these differences to ensure the validity of its findings. This tension between deciding whether to compare countries that are not identical, but not entirely unique is the source of the now well-known tradeoffs between internal and external validity. I account for this tension in two ways. First, I test the plausibility of my theory using two within-country case studies. I then use hierarchical linear modeling on panel data to test the relationship cross-nationally in a manner that accounts for between-unit heterogeneity. I will discuss these methodological decisions in more detail in the empirical chapters.

### **Plan of the Project**

Chapter II defines the problem of corruption and reviews previous literature. The classical take on corruption understood it as a process of moral decay in society. Unfortunately, some scholars used that understanding to blame the developing world's misfortunes on the corrupt nature of its people. Structural and public choice theories recast corruption as a rational response to political and economic change, but did not provide a clear standard to distinguish corrupt from non-corrupt behavior. Three competing standards for evaluating corruption sought to satisfy the demand for a general definition, but none succeeded. Based on my review, I propose a definition that combines the classical idea of corruption as a macro-social process with a focus on political institutions.

Chapter III develops a political economy model to explain corruption and the role of migrant remittances. Again, I argue that the conventional view of remittances as a resource curse omits important theoretical considerations. Remittances are an ex-officio resource in the developing world, meaning that they do not benefit government directly.

Without prior knowledge of political institutions, remittances are as likely to mitigate corruption as they are to aggravate it.

Chapters IV, V and VI empirically test the argument. Chapter IV applies the analytical framework to the case of Mexico. Mexico stands out as one-half of the world's largest remittance corridor, but also for its recent transition from single-party rule to multi-party democracy. Using sub-national data from Mexico's 32 states between 2001 and 2007, this chapter finds that corruption trended downward in states receiving larger remittance sums, after controlling for political competition, divided government, and market openness.

Chapter V utilizes a similar research design to investigate the role of remittances in India. As will be stressed, measuring corruption often limits quantitative analyses. This chapter uses qualitative studies to identify a novel and valid measure of corruption: power theft. Corruption, measured as power theft, between 2002 and 2008 fell in Indian states with larger remittance sums, again, while controlling for other political and socioeconomic variables.

Chapter VI tests the generalizability of the Mexico and India studies using a cross-national design. I collected data from 127 developing states with observations from 1996 to 2010 and tested the main hypothesis using hierarchical linear modeling techniques. The results demonstrate both relationships--corruption increasing or decreasing--are possible. Remittances are associated with inferior corruption control on average. However, the statistically significant relationship between states is dwarfed by the differences within states. It is not uncommon for remittances to associate with considerably better corruption control.

Chapter VII reviews the findings as a whole and develops ideas for future research. In general, remittances are an increasingly important influence on corruption and have been understudied. The Mexico and India studies give evidence that remittances can mitigate corruption, though Chapter VI shows that the true relationship is much more complicated. The dissertation also demonstrates the complementary nature of different research designs. The single-case studies develop an analytical framework and test the plausibility of the hypothesis. The cross-national provides a more general test and also shows the relationship in its complexity. The findings reveal opportunities for further research, but the most pressing question is clear. Future projects must recognize that remittances can both help or hinder corruption and then search for the factors that make them a curse in some states but a cure in others.

## **Chapter II**

### **Understanding Corruption: A Half-century of Struggle**

Corruption remains a difficult concept to define despite its universality. When undergraduate students give examples of corruption, they tend to depict fictitious instances of public officials demanding money for a service that should be provided anyway. But does this include government policies like tariffs? Tariffs are often designed to protect failing industries that employ hundreds of thousands of people, but they also raise the price of goods for a much larger number of people. Part of the challenge of defining corruption is that its meaning can differ between places, over time, and even between different people living in the same place and time. Moreover, the term itself carries normative connotations that can influence perceptions. The challenge of defining corruption creates frustration and sometimes resignation, leaving some scholars to argue that efforts to create a general definition are misplaced (e.g. Philip 1997). Research could focus on specific behaviors like extortion, vote buying, or bribery, but the corruption literature thus far has only generated categories with imprecise adjectives (e.g., Atalas 1990; see Harris 200).

This chapter serves three purposes. First, it reviews influential definitions of corruption. Early political philosophers viewed corruption as a historical process of social decay in which citizens and governments stopped serving the common good and began acting selfishly. Contemporary scholars tend not to view corruption as a process and define it instead as an individual behavior that violates public morals, duties, or interests. Some try to craft typologies that recognize perceived differences in the severity, and possibly causes, of corrupt behaviors.

The chapter then proposes a novel definition. I define corruption as the process by which public institutions stop extracting and allocating wealth impartially and begin redistributing wealth as private benefits for political gain. This definition fuses the traditional view of corruption as a process with a focus on how political institutions operate, as suggested by Theobald (1990) and Kurer (2005).

The chapter concludes by reviewing influential analytical frameworks developed to explain variation in corruption. Ironically, there has been considerable success developing a framework for understanding corruption despite lacking a consensus definition. The first understandings of corruption focused on historical traditions that prevented states from forming political institutions based on an impartial rule of law. This approach has waned overtime, but it remains an influential starting point for understanding present-day institutional quality. Structural theories argued that economic change creates conservative interest groups that use corruption to maintain their wealth and power. Public choice theory complimented the structural approach by identifying ways in which governments, interest groups, and individuals might use corruption for their own benefit.

### **Public Interest, Public Opinion, Public Office**

Early political philosophers viewed corruption as the decay of a society's morals and character. Shumer (1979) sees this clearly in Plato's *Republic*, but especially Aristotle's *Politics* and Machiavelli's *Discourses on Livy*. Aristotle saw self-interest and the profit motive as perversions of good government. Monarchs, aristocracies, and polities literally corrupted into tyranny, oligarchy, and democracy when the rulers no longer served the ruled. Many, including Ibn Khladun, thought the corruption process



occurred inevitably in all political units. He argued that every successful society begins with a strong sense of *asabiyya*, or roughly a sense of solidarity (Payne 1975). Like an aggressive pre-modern nationalism, *asabiyya* fostered the energy to expand and conquer, but success bred complacency, excess, and alienation amongst members. Similarly, Machiavelli saw corruption as the decay of virtue (Shumer 1979). Corrupt republics stop selecting leaders based on merit and chose those that could provide the individual with the most favor or best connections. Machiavelli thought that the shift from meritocracy to patriarchy ruined a government's ability to rule in the long-term interests of the public, centralized all power with the rulers, and ultimately caused a society's demise.

This classic idea of corruption as moral decay influenced later definitions in an unexpected fashion. After World War II and decolonization, proponents of the Modernization theory of development expected newly independent states to follow the Western economic and political model. Specifically, scholars expected new states would create centralized governments, adopt modern bureaucracies, and quickly undergo industrialization and urbanization (Lipset 1959). Many did adopt strong government institutions; however, they used public power for personal enrichment and political gain. The classic view of corruption provided a potential explanation. Banfield (1958) argued that newly independent states could easily adopt Western *institutions*, but that it would take time for the people functioning within them to adopt the *norms* associated with the impartial rule of law. Societies with relatively strong traditional values of gift-giving, patrimonial authority, and other forms of favoritism would be slower to develop respect for the principle of impartiality and more likely to experience high levels of corruption. A related vein of scholarship preferred to recast corruption as an individual,

rational behavior rather than a characteristic of whole societies (e.g., Rogow and Lasswell 1963; Friedrich 1966), but both the macro-social and individual approaches struggled to distinguish corruption from other similar, but not corrupt, behavior.

Three still influential standards evolved in response to that challenge. The public interest approach argued that notions of public trust and shared norms about government's proper role should be used to identify corruption (Rogow and Lasswell 1963; Friedrich 1966). According to this definition, a tension between the impartial rule of law and market mechanisms often led individuals to the use of political power for private gain. Impartiality requires that all people deemed citizens be treated similarly by public institutions regardless of other factors. Markets, on the other hand, reward people for successfully competing against others. Corruption occurred when people in positions of public power violated the public trust by using power for their personal benefit.

The public interest approach produced a useful conceptualization, but not one that could be quantified easily and compared cross-nationally. Scott (1972) proposed using public opinion to determine what does or does not constitute a corrupt act for a particular jurisdiction (see also Gibbons 1989). Trying to identify societal norms through surveys provided a better basis for comparison, but the survey approach risked stretching the definition to include anything the public disliked.<sup>7</sup> Public opinion also varies between social groups. As Scott (1972) noted, the political elite in a state may define corruption differently than civically engaged citizens or the politically inactive public.

The public office approach is the narrowest and strives for objectivity. It defines corruption as the misuse of public office for private gain (Nye 1967), using the law and

---

<sup>7</sup> See Sartori (1970) on conceptual stretching.

formal rules as the metric for distinguishing corrupt political behavior (Williams 1987). Proponents of the public office definition argue that differences in values across countries will be represented by differences in legal codes. It provides a clear standard that can be compared cross-nationally, but opponents argue that the law-making process can be corrupt itself. For example, the Nazi government in Germany used the law to facilitate genocide, so public officials who allowed Jews to escape would be considered corrupt (Rose-Ackerman 1978).

The pattern of conceptual development makes methodological sense, but the process ultimately failed to produce consensus. The public interest approach sought to maximize internal validity at the expense of generalization. Public opinion surveys sought to generalize by using surveys, but risked conceptual stretching. The public office approach favored operationalization, but risked both underreporting and omitting reprehensible acts that did not violate laws.

Scholars in the 1970s began creating typologies focusing on differences in severity. Heidenheimer (1970) built on the public interest approach by proposing three categories. Gray corruption consists of actions that violate the political elite's understanding of the public interest. White corruption identified behaviors the mass public viewed as inappropriate. Black corruption included violations that both the political elite and mass public view as reprehensible. Later, Heidenheimer and Johnston (2001) used a similar logic to generate a typology based on the level of government in which the infraction occurred. Petty corruption refers to the bending of legal rules for the favor of friends and other individuals. This type has the smallest scope and least detrimental impact on society. Routine corruption includes favoritism and/or unequal

access to public services granted in exchange for money or other valuable compensation. This degree of corruption occurs at the bureaucratic level of government. Grand corruption captures instances where favor and money move between the public and private sphere at the elected and senior levels of government. Such transfers require greater sums and can result in policy outcomes that are unfavorable for the majority of the population.<sup>8</sup>

Clarke (1983) argued for a simplified typology based on what he viewed as the origin of a particular behavior. Consider a bribe. He identified the bribe as “grass-feeding” corruption if private individuals initiated the bribe to get overly bureaucratic governments to function more quickly. If government starts extracting bribes for performing a function it is supposed to do anyway, the bribe is characterized as “meat-eating.” Obviously, Clarke felt that the latter presented the greater threat, but it is easy to argue that supposedly grass-feeding corruption at high levels of government in exchange for government contracts or policy considerations might be more egregious than police officers asking for bribes. However, his humorous perspective was the first to propose a difference between corruption originating with government and that originating with citizens.

Other scholars have developed more complex frameworks. Peters and Welch (1978) argued that five characteristics should be used to distinguish between corrupt behaviors: the public office abused, the favor provided, the size of the payoff gained, the donor, and the recipient. Atalas (1990) took the field an extreme by proposing seven distinct types of corruption. The issue thus far with these typological efforts is that they

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<sup>8</sup> It is interesting that neither Heidenheimer nor Johnston tried to unify two typologies. It would seem to make sense that white, gray, and black corruption could each occur at the petty, routine, and grand levels.

assume that their distinguishing characteristics are readily observable, which is not often true.

### **The Search for Synergy**

Social science still lacks a unified definition of corruption, but a number of generally accepted “signposts” suggest that the public office definition remains the gold standard (Harris 2003). First, corruption violates public norms of behavior and government. Second, it erodes the distinction between the public and private spheres. Lastly, corruption involves an exchange of resources for personal or political gain (see also Sandholtz and Koetzle 2000). Public officials not only break the law, but also the general public interest when they decide to provide a good or service according to personal interest or group pressure (Brailbanti 1962; Della Porta and Vannucci 1997). The public office approach also recognizes that the exchange of resources between parties for personal advantage breeches the public-private divide.

Adopting Nye's (1967) straightforward definition is not a bad strategy, but it is limiting because it omits three important characteristics of corruption found elsewhere in the literature. The public interest and public opinion definitions sought a broader concept that included violations of codified laws, but also other norms. Kurer (2005) persuasively argues that all three definitions refer to the norm of impartiality under the law. Anytime public officials exercise power, they do so for their private gain because they at least earn some salary. This perception of abuse comes from using power based on a criterion other than citizenship.

The public office approach also ignores the importance of institutions. Institutions are the procedures, routines, and conventions that organize political behavior (see Hall

and Taylor 1995). Public institutions are often the result of voluntary cooperation to solve collective actions problems, but whether they are formed as a part of a constitutional process or imposed by other means, they grant a monopoly on coercion (Moe 1984; 2005). Implicitly, research takes a classical view of corruption as a process in which the monopoly of power erodes formal and informal institutions, such as the impartiality norm and the separation of public and private roles. Corruption is more than the sum of individual violations of the law. It creates political instability, erodes public trust in government, and centralizes power.

I propose an alternative definition of corruption that addresses these omissions and recognizes the phenomenon's macro-social nature. I define corruption as a process in which public institutions stop extracting and allocating resources impartially and begin providing private benefits for political gain. When Weber theorized modern bureaucratic states, he compared them to patrimonial governments where no distinction between public and private existed. Patrimonial governments could extract and redistribute resources on a case-by-case basis using whatever criterion they desired (Theobald 1990). In contrast, states with modern bureaucracies would operate in strictly defined jurisdictions and coerce only within that jurisdiction according to a fixed, impartial rule of law. Of course, no such state exists. I use Weber's ideal type to accentuate the importance of impartiality and limits on the use discretionary power to corruption research. And though ideal types are fictions, there are approximations of some degree in nearly all states that can be compared. Both democracies and autocracies utilize bureaucracies and legal codes, and only truly personalist dictatorships lack any degree of

impartial rule of law. Even then there are differences between Georgia under Saakashvili, Peru under Fujimori, and Zaire under Mobutu (see Harris 2003).

### **Some Sources of Corruption**

Corruption manifests as the misuse of institutionalized power for private political gain. Control of corruption can be thought of as the most basic public good government provides--the preservation of impartial institutions and the rule of law. What explains why some governments are more willing and able to control corruption than others? The first generation of corruption research consisted of three theories: the cultural, structural, and public choice frameworks. These theories no longer stand on their own, but each merits discussion because they highlight important variables that inform contemporary research.

Like the definition of corruption as macro-social decay, historical and cultural theories of corruption pointed to social norms and colonial experiences as the primary explanatory variables. As mentioned previously, early research hypothesized that societies with strong traditions of gift-giving and patrimonial rule would have higher levels of corruption and develop strong respect for the impartial rule of law more slowly (Banfield 1958). Religion may also play a role. Individualistic religions, such as Protestantism, may encourage challenges to abusive authority more so than hierarchical faiths like Catholicism. The “Protestant work ethic” that promotes growth may also prevent corruption (Weber 1946; see also You and Khagram 2005).

The cultural and historical variables have not been reliable predictors of corruption, but remain influential because of the recent surge of interest in the historical development of institutions. East Asian states with cultures rooted in strong familial

bonds and social hierarchy clearly falsified cultural expectations (Montinola and Jackman 2002). However, history and culture may indirectly influence corruption through their effect on present-day political institutions. Weaker institutions provide more opportunities to engage in corruption while also decreasing the probability of detection and punishment. In the East Asian context, traditional values may have helped foster stronger institutions. Colonial experience may have similar influences. Former settler colonies may have stronger norms of impartiality and respect for private property compared to those that only served as a source of resource wealth (Acemoglu, Robinson and Johnson 2001). In addition, former British colonies may benefit from the common law legal tradition though to encourage procedural fairness and decrease corruption (LaPorta *et al.* 1999; Treisman 2000).

The structural theory of corruption argued that characteristics of the political system and socioeconomic change explain patterns of political corruption. Wraith and Simpkins (1963) empathized with public officials in developing states, portraying them as trapped in a moral prisoner's dilemma. They argued that tensions between traditional loyalties and state-building efforts created conflicts of interest. An impartial rule of law views all members of the polity as equally deserving, but traditional communities expected their members to share personal success with the group and to exclude outsiders. People in power had to choose between self-enrichment and social favor or the sucker's payoff--the ire of their kin, forgone personal enrichment, and living in an inefficient, suboptimal society. Socioeconomic change also bonded together the winners from previous colonial policies into a conservative interest group that used corruption to maintain power and wealth (Scott 1972). Conservatives created shadow institutions that



provided access to public goods outside of the government channels (Rogow and Lasswell 1963). As a result, reform could not come from the state in the form of legislation. Instead, a coalition of the middle and commercial classes would have to provide the political will to form a disinterested civil service.

Three features of structuralism remain visible. For example, some argue that wealthy countries tend to be less corrupt because economic growth creates an educated middle class to hold government accountable for corrupt acts (Treisman 2000). Openness to the international market associates negatively with corruption as well. Pervasive corruption weakens a state's investment climate by fostering uncertainty, which drives potential investors away (Sandholtz and Gray 2003). Open markets foster competition and create interest groups that can pressure government to keep corruption low (Ades and DiTella 1999; Gerring and Thacker 2005). Finally, states with well-compensated civil servants tend have less corruption because these wages increase the costs associated with detection and punishment (Evans and Rauch 1999; Rijkceghem and Weder 2001).

Public choice explains corruption using a market centered approach. This framework assumes that both government and interest groups use corruption to maximize their income through rent-seeking. Rent seeking is defined as obtaining higher prices for goods and services by manipulating the political environment that structures market competition (Tullock 1967). Like the structuralists, public choice scholars demonstrated that corruption made sense when individuals could exchange wealth for influence over government decisions, as long as the benefit exceeded the bribe (Neff 1964). Public officials want to win office and would willingly trade the use of their discretionary power

for votes, allowing them to benefit from rent seeking in the future, as long as the expected value of detection remained low enough (Brennan and Buchanan 1980).

Public choice also emphasized the role of institutions and political competition in limiting corruption. Political competition allows citizens to replace their representatives and bureaucrats, decreasing incentives to engage in corrupt behavior. Of course, political institutions significantly determine the degree of competition within the state.

Democracies allow more groups to influence political outcomes and ensure that political oppositions have an institutionalized process to supplant corrupt officials. Elections limit corruption by providing regular opportunities for society to choose alternative governments and replace corrupt rulers (Rose-Ackerman 1978). Competition between political factions within the state may also dampen incentives to engage in corruption. Political parties, for example, can be effective at identifying and publicizing corrupt behavior by their competitors in order to take or maintain power (Weitz-Shapiro 2008). Governments in states that lack these sources of competition can engage in corruption with less fear of detection and punishment.

### **The Political Economy of Corruption**

Contemporary corruption research builds on the cultural, structural, and public choice traditions by combining the logic of political survival with the modern political economy approach (Bueno de Mesquita *et al.* 2004; Frieden 1991; Gourevitch 1986; Rogowski 1989). The logic of political survival focuses on how political leaders maintain power when constrained by institutions and challenges from alternative governments (Bueno de Mesquita *et al.* 2004). The political economy framework highlights the role of interest groups, their preferences, and their relatively abilities to influence government

decisions. Together, these models help explain government's incentives to control corruption.

The logic of political survival assumes that governments primarily seek to remain in power, but may seek to maximize revenue once it has established a sufficient base of political support (Bueno de Mesquita *et al.* 2004; see also Tullock 1967; Brennan and Buchanan 1980). Governments earn political support in a number of ways, but the model makes the simplifying assumption that they offer policy baskets of public and private goods paid for from the revenue they extract from all citizens. The dilemma for governments is that providing public goods, like corruption control and secure property rights, limits both the total revenue that can be extracted and the revenue available for private goods while also creating future challenges from rivals (North 1980).

Individuals decide whether to support the government or an alternative based on how much revenue will be extracted from them and the expected benefits from the proposed policy basket. All citizens benefit from public goods, but only those that support the ruler receive private goods. When public goods are under-provided, the level of access falls for everyone and everyone is worse off. However, the value of private goods compensates members of the winning coalition and makes support for the regime the best choice.

The amount of support required to stay in power, known as the size of the winning coalition, is determined by political institutions. Democracy and autocracy are the most consistently considered set of institutions. Democratic elections with roughly universal suffrage require governments to earn support from about half of the population, and provide citizens with regular opportunities to select new leaders (Rose-Ackerman

1978). This encourages executives to control corruption in order to provide the most benefit to the most people (see Rasmussen and Ramseyer 1994). The size of winning coalitions in autocracies varies, but generally is smaller than those found in democracies.<sup>9</sup> As a result, governments may opt to provide more private goods to their supporters and keep the excess wealth to enrich themselves.

Competition from other political factions also constrains governments. Political parties, for example, are concentrated interest groups that consist of citizens seeking to control the governing apparatus, usually by organizing under a label (Downs 1957). Political parties can be effective at identifying and publicizing corrupt behavior by their competitors in order to take or maintain power (Weitz-Shapiro 2008). However, highly competitive environments may also foster corruption as parties vie for political support. Governments in states that lack this competition can engage in corruption with less fear of detection and punishment.

The survival logic alone leaves a number of unanswered questions. Why wouldn't all governments ensure their rule by always providing everyone equal access to public goods? Institutions and competition only describe government's preferences and constraints, but political economy describes how other actors change the government's political calculus. The modern political economy model explains policy outcomes by focusing on interest groups, their ability to organize for political action, and their policy preferences (e.g., Frieden 1991, Gourevitch 1986, Rogowski 1989). Interest groups are distinguished as either concentrated or dispersed based on the barriers to collective action they face (Olson 1965). Concentrated interest groups are small groups with proximate

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<sup>9</sup>While it is important to note that democracy keeps government more accountable for corruption control on average, autocracies often outperform weak and transitioning democracies (Montinola and Jackman 2002).

locations, including businesses with large scales of production and high product homogeneity (Rogowski 1989, Gourevitch 1986). Governments covet support from these actors because of their ability to mobilize.

Concentrated interest groups have different levels of tolerance for corruption. The linkages between trade protectionism, integration into international markets and corruption make the relative strength of export-oriented and important-competing interest groups an important determinant of corruption. Export-oriented industries benefit more from open markets and low levels of corruption. Closed markets hurt exporters in at least two ways. First, protectionism often causes retaliatory policies from potential trading partners. This raises prices in foreign markets and dampens demand. Closed market policies also increase the demand for bribes (Ades and DiTella 1999). Higher costs of business reduce international competitiveness and reduce revenues. Corruption also makes returns on domestic investments less predictable. Export-oriented goods can benefit from corruption if government provides private goods using targeted expenditures or offers monopoly power over a large domestic market; however, the utility of private goods decreases more rapidly for internationally oriented groups. International trade also depresses corruption because membership in international organizations can socialize leaders to anti-corruption governance norms (Sandholtz and Gray 2003).

Import-competing interest groups require private goods from government in order to remain viable. Governments seeking support from import-competing groups can offer to raise prices by adopting tariffs and providing subsidies. Government protection does not necessarily cause corruption, but it reallocates revenue from public to private goods. Under-providing public goods decreases supply and increases the price citizens must pay

for access. This creates an incentive for corruption at the bureaucratic level. Import-competing groups can be more tolerant of corruption as long as the value of the private goods they receive compensates for the increased cost of accessing public goods. Once the costs of poor governance exceed these benefits, we can expect import groups to support a rival government (Alvarez, Garret, Lange 1991).

Dispersed interest groups are larger in absolute numbers, but lack the organizational benefits of geographic concentration and interest homogeneity (Horowitz and Marsh 2002). Groups like the service sector and unorganized labor have an organizational disadvantage, but may still influence the policy outcomes. Wealthier, more educated, and larger middle classes also dampen incentives to engage in corruption (Treisman 2000). This is especially true when import-competing and export-oriented groups are relatively equal.

## **Conclusion**

This chapter reviewed the development of corruption as a concept and the theoretical frameworks used to explain its prevalence in a state. The classic political philosophers viewed corruption as an inevitable process of moral decay. Their ideas endured remarkably well until structural and public choice theorists recast corruption as a rational response to political and economic incentives. Efforts to categorize corruption resulted in a variety of different typologies, but none that earned a consensus among researchers. I argued that current research can still benefit from the classic approach by incorporating it into an institutional understanding of corruption. Government institutions organize political behavior and solve collective action problems by granting a monopoly on coercion. However, the use of power is limited by other institutions, like the

impartiality norm (Kurer 2005) and the separation of public and private life. Corruption is the process in which government institutions stop providing public benefits impartially and begin supplying private benefits in exchange for political support. Control of corruption can be thought of as a public good all citizens enjoy.

The historical, structural, and public choice theories all contributed important insights into corruption. Research now recognizes that governments must maintain office before using power for rent-seeking. Governments can still allow or encourage corruption to reward their supporters, but they are constrained by political institutions and interest groups. The next chapter explores how migrants and their remittances play a role in the political economy of corruption.

### Chapter III

#### Remittances and the Political Economy of Corruption

How might we expect remittances to influence corruption? Previous research shows that governments do consider remittances when making important policy choices, and that remittances require their own theoretical framework because they differ from other capital flows (see e.g., Singer 2010; Leblang 2011). However, research has not considered how remittances alter government incentives to control corruption. Some argue that remittances encourage government corruption in a manner similar to the natural resource curse (Chami *et al.* 2008; Barajas *et al.* 2009). Governments may substitute remittances for their own expenditures on public goods, which can be diverted to political patronage (Ahmed 2012). This substitution effect increases corruption by creating incentives for bribery and government rent-seeking as the gains from supplying public goods dwindle.

While the substitution argument may hold in some cases, I argue that remittances may also mitigate corruption and political institutions help explain which relationship we observe. My argument begins by challenging the remittances-as-resource curse comparison. Unlike unearned government revenue, remittances are both diffuse and ex-official (Singer 2010). They flow from migrants to individuals and communities and cannot be captured easily by the state. Migrants remit purposefully to improve conditions back home and are often especially aware of corruption. They often remain connected to their homes by family ties and their remittances can create a unique opportunity to influence government behavior through increased political investments. Political investments include direct behaviors, such as giving to political candidates, flying home



to participate in politics, and indirect forms like supporting public works projects that are independent of government. Remittances can also provide an opportunity for recipients to act politically when they otherwise could not.

### **Remittances: The Resource Curse, Reversed?**

The debate concerning remittances focuses on how they influence a government's incentive to control corruption. Unfortunately, research has adopted a narrow view of remittances' political effects. One perspective, known as the substitution hypothesis, argues that remittances encourage patronage, bribery, and government rent-seeking (Chami *et al.* 2008; Barajas *et al.* 2009; Ahmed 2012). Governments may view migrant money as an opportunity to divert revenue away from public goods since remittances serve as a form of social insurance for their recipients. In essence, governments react to remitted wealth by passing the responsibility of maintaining public welfare to migrants. Governments can use revenue to provide private goods and patronage instead (Ahmed 2012).

Proponents of this approach used it to explain the uneven macroeconomic outcomes associated with remittances. For example, some research suggests that remittances contribute to growth, but that the effect is modest (Solimano 2003). Others argue that they increase growth in the short term, but that the relationship becomes negative over time (Giuliano and Ruiz-Arranz 2005). Remittances decrease economic inequality overall, but the change may be small especially in rural areas (Binford 2003; Fajnzylber and Lopez 2006).

These findings drive the resource curse analogy (Abdih *et al.* 2008). Natural resources may entice governments to stifle economic competition and misallocate public

funds (Montinola and Jackman 2002). When the sector is privately owned, rents from resource extraction strengthen concentrated interest groups that tend to prefer policies that increase corruption (Sachs and Warner 2001; Sandholtz and Gray 2003). However, natural resource enterprises tend to be state-owned industries due the large capital investments required to enter the sector. In these cases, the revenue accrues directly to government, increasing its ability to intervene in the market and provide patronage in exchange for political support (Ross 2001). Leaders could use resource revenue to diversify the economy; however, doing so could create additional sources of political power (Dunning 2005). Leaders often opt to reduce tax levies, provide private goods, and shift the costs to others through corruption. This releases government from the accountability that comes with the need to tax and makes it easier for governments to govern poorly. If remittances provide similar incentives, migrants may be inadvertently cursing their efforts to improve life back home. This expectation can be restated as a testable hypothesis.

*H<sub>1</sub> Substitution Hypothesis: States receiving larger remittance inflows will have worse control of corruption.*

The substitution argument may hold in some cases, but it relies on a false analogy. Natural resource revenue supposedly encourages corruption because it is an official revenue stream. Remittances are not a government revenue stream at all. They are “ex-official,” meaning that migrants send money directly to their families, friends, and communities (Singer 2010). It is more appropriate theoretically to think about remittances as a unique trade flow. Migrants “trade” their labor in exchange for money they can send home. Most international trade flows benefit concentrated interest groups and can be controlled easily by government policy. Remittances, however, benefit a dispersed

interest group and generally do not pass through customs or other official points of entry into a state. These differences suggest that remittances are the resource curse, reversed.

Remittances would not mitigate corruption simply because they are ex-official. They may help reduce corruption because they bypass state institutions and increase the political relevance of migrants as a dispersed interest group. Remittances' profound importance to people in the developing world may not be apparent at first, but the micro-economic research shows that migrant money transforms lives around the world. In general, recipients consume about 90% of remittances and use the remaining 10% to invest in education or productive enterprises (Lipton 1980). The increases in consumption alone transform communities by gradually creating wealth and reducing socio-economic inequality. One of the earliest household surveys conducted to study remittances in rural Mexico estimated large multiplier effects fueled by remittance consumption and subsequent increases in demand (Taylor 1995). Similar research finds that recipients purchase more durable goods and healthcare while spending a lower share of their household budgets on food (Airola 2007). Parents receiving remittances invest more in their children's education which improves retention (Edwards and Ureta 2003). Remittances also encourage entrepreneurship and drive small business growth by substituting for access to credit and insurance (Buch and Kuckulenz 2004). This allows recipients to grow small businesses faster than they could otherwise (Giuliano and Ruiz-Arranz 2009). Lopez-Cordova and Olmedo's (2006) survey of Mexican self-employed, small business owners found that remittances significantly increase both physical and human capital investment. These socio-economic changes can empower migrants and their communities to hold government accountable for corruption.

Migrants also have stronger preferences against corruption. Like all citizens outside of a government's coalition of support, migrants and their beneficiaries pay the costs of corruption, but migrants are especially attuned to corruption. The classic “push-pull” model of corruption emphasized differences in wages to explain why people choose to migrate. This led to a conventional wisdom that factors in the destination country pulled individuals from their homes in search of better lives somewhere else. However, a number of studies now find that migrants act purposively to improve living standards “back home” for themselves and their kin (Conway and Cohen 1998; Fajnzylber and Lopez 2007). According to this approach, migration serves a dual-purpose: to protect family income from risks in the home country and to overcome capital constraints on productive endeavors (Stark and Bloom 1985). Corruption frustrates remittance-fueled economic pursuits by reducing the availability and quality of public goods. This creates larger transaction and opportunity costs for remittance recipients, leaving less money for them to invest or use otherwise. Corruption increases the real costs associated with private economic activity, but unlike formal policy, it does not provide public, group, or social benefits in return. High levels of corruption create larger informal sectors, smaller private sectors, and incentives for people to avoid the unpredictability of unofficial taxes and bribes. As a result, corruption limits the success of small-to-medium businesses--an important consequence for remittance recipients (Abed and Gupta 2002).

These anticorruption preferences often are reinforced by experiences abroad. Along with the monetary resources, migrants transmit their experiences living abroad along with their financial resources. Both can encourage political participation and support for liberal norms of government (Adida and Girod 2010). Patterns of migration

may reinforce this tendency. Immigrants abroad often originate from the same communities back home and form civil society groups in their host states (see Levitt 1998). These communities keep migrants connected and provide opportunities to become socially active back home.

How can migrants leverage remittances for better control of corruption?

Hirschmann's (1970) theory of firm loyalty provides a useful heuristic. He argued that members of any group can signal displeasure with a decline in goods or services through exit, withdrawing their support for the relationship, or voicing their displeasure openly. Governments that allow corruption reduce the quality of their goods and services, which may cause citizens to stop supporting it or begin demanding reform.

Migration itself is a form of political exit that can constrain government corruption indirectly (Tiebout 1956; Warren 2011). When citizens withdraw their political support and migrate abroad, the state loses legitimacy as well as a source of revenue. Governments may continue to allow corruption at the same level or even increase corruption as a result, but doing so will increase the costs for those that remain behind. This process can create political pressure that changes how governments view their diaspora. Remittances allow recipients to privately provide their own public goods, which can create problems for sitting politicians as their challengers offer reform to get elected, especially if the opposition seeks to co-opt the support of migrants abroad. Foreseeing this, governments may strategically curb corruption on their own, sacrificing the increase in surplus rent for political benefit. All of these effects may be stronger if states nearby offer more opportunities and better control of corruption.

Voice refers to making political demands for change. Remittances encourage this strategy by alleviating the resource barriers to political participation. Because remittances reduce socioeconomic stratification, all things equal, it follows that they also increase the ability to influence policy through participation (Brady, Verba, and Schlozman 1995). In this way, remittances might be thought of as a weapon of the weak against concentrated groups with different policies preferences. The relationship between remittances and individual political behavior is less clear and merits further research.

*H<sub>1a</sub> (Accountability Hypothesis): States receiving larger remittance inflows will have better control of corruption.*

Rather than viewing these expectations as incongruent, they can be combined into a more general framework that highlights how incentives interact in the domestic political environment. Remittances are a potential resource for both governments and recipients. Governments primarily seek political survival, but may try to maximize their revenue once power is secure. This suggests that governments will try to engage in substituting behavior unless doing so threatens their ability to maintain power. On the other hand, migrants seek to improve their standards of living, and can do so by using remittances either to make political investments in corruption control or for other purposes. According to this logic, migrants will allocate remittances to political activities when the expected benefit exceeds the opportunity cost of other uses. This is most likely when the size of the required investment is low and returns are both likely and significant.

Political institutions clearly influence both government and migrant incentives. Governments of authoritarian regimes have much smaller winning coalitions and are generally more resistant to bottom-up political pressure. In contrast, democratic systems require larger supporting coalitions and can make government more responsive to

political pressure (see Rasmusen and Ramseyer 1994). For migrants and remittance recipients, closed, uncompetitive institutions increase the cost of political influence and lower the probability that their actions will produce benefits. This reduces the likelihood that migrants will allocate remittances for political purposes, even if the potential benefits are large. Open systems provide more and lower-cost opportunities for migrants to influence government while also increasing the likelihood of returns on political investments.

*H<sub>2</sub> (Institutional hypothesis): Authoritarian (Democratic) regimes will have worse (better) control of corruption as remittance inflows increase.*

In addition to the systematic variation explained by institutions, remittances' effect may differ between states for less obvious reasons. Regime type should explain systematic differences between states by providing information about a government's survival calculus. However, other, less observable, characteristics of the different polities may alter how remittances influence incentives to curb corruption. For example, institutional heterogeneity and regime goals among authoritarian regimes cannot be measured easily, but may influence how remittances affect corruption control. Democracies tend to have similar goals, but remittances may encourage better corruption control in some cases, but not others, due to less observable dynamics. I test this possibility by including an additional random term that allows the coefficient for remittances to vary by group:

*H<sub>3</sub>: The effect of remittances on government control of corruption varies significantly between states of the same regime type.*

## **Conclusion**

This chapter argued that previous studies comparing remittances to the natural resource revenue ignored important and theoretically meaningful differences between the two. Remittances are a largely ex-official capital flow that governments can only benefit from indirectly through expenditure switching or increased tax revenue created by economic growth. Both are potentially destabilizing for government. Substitution can provide increased revenue for private goods provision, but governments may face increased political costs from migrants and recipients. Promoting growth through public goods provision can increase the resources available to political competitors and create new challenges for the sitting government. Political institutions help explain which strategy governments pursue by determining the amount of support required to stay in office.

It might be argued that migrants benefit from corruption, and that remittances will also increase corruption from the “bottom up.” Remittances could make recipients more willing to accept the costs of corruption as long as they receive benefits from private goods like expedited administrative processes for opening small business (Hirschman 1986). This is certainly a possibility, but again, corruption may “grease the wheels” in terms of ease and speed, but it does not do so with any regularity. If bureaucrats successfully extract bribes to cut red tape, they have an incentive to slow down again to attract more (Myrdal 1968; Kauffman and Wei 1998). Alternatively, increases in self-sufficiency due to remittances might also allow citizens to rely less on formal institutions and make fewer demands of government (Meltzer and Richard 1981). In this case, government might lack incentives to improve corruption control. These arguments appear



unlikely, but can be addressed through empirical testing. Chapter IV begins the testing process using a within-case study of remittances and corruption in Mexico.

## Chapter IV

### Remitting for Reform in Mexico?

Mexico represents a substantively interesting and important case of whether remittances can help mitigate corruption. Mexico is a high-emigration state and consistently ranks in the top four of the World Bank's list of top remittance-recipient states. According to the country's *Instituto Nacional de Estadística y Geografía* (INEGI), migrants added \$25 billion to the Mexican economy in 2010 from overseas despite the global recession triggered by the US housing market bubble. The economic downturn caused a significant reduction in remittances, but migrants still sent nearly \$22 billion.

Mexico also stands out for its still relatively recent political reforms. After an economic crisis in 1988, Mexico began a transition from single-party authoritarian rule to a decentralized federal democracy with three major political parties. The crisis created broad change in which the hegemonic Institutional Revolutionary Party (PRI) instituted a number of neoliberal economic policies and gradually opened the political system (see Magaloni 2006). The dual liberalizations generated a period of extraordinary politics in which the PRI became increasingly subject to competition from the rival National Action Party (PAN) and Party of the Democratic Revolution (PRD).

Mexico in general suffers from particularly rampant irregularities in local administration, but there is significant variation between its federal districts. Police, administrative, and even judicial officials may require bribes, termed the *mordida*, for their services or to prevent abuse of power (Transparency International 2007). For example, police may require a bribe not to tow a car, whether it is illegally parked or not. Similarly, an administrator may require a bribe to rush paperwork for business licenses.

For this investigation, I conduct a within-case study of Mexico's 32 *entidades federativas*. Mexico's sub-national entities are institutionally similar, but both remittances and corruption vary considerably between jurisdictions. Given the institutional similarity at the sub-state level, this variation presents an interesting and important puzzle that remittances may help explain. This research design sacrifices external validity for the opportunity of an internally valid test of my argument's plausibility in a most-likely setting (see Odell 2001). Developing and testing hypotheses by disaggregating states into sub-national parts also helps control for idiosyncratic features of state politics that may confound cross-national research (e.g., Bennett and Elman 2007; Gerring 2005). This is especially true of the international corruption literature, where studies utilize single cases to ensure methodological rigor and conceptual validity (e.g., Morris 1991). Mexico's transition to democracy and a federal political system maximize the likelihood that competition within states can influence political outcomes. Moreover, economic competition between the Mexican states adds another dynamic that may enhance the ability of remittances to support positive change in corruption control. Lastly, Mexico and the United States form the largest remittance corridor in the world. Most of Mexico's remitted wealth originates in the United States. This helps control for the possibility that features of the remittance-sending states influence how remittances influence corruption in the receiving state.<sup>10</sup>

The chapter begins by applying the political economy approach developed in Chapter II to the Mexican case. Next, I discuss the importance of migrants and their

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<sup>10</sup> For example, remittances from states with significantly better corruption control records are more likely to be accompanied by information from migrants about the superior conditions. "The corruption gap" may provide psychological motivation to help overcome barriers to individual and collective political action that encourages reform.

beneficiaries as a dispersed interest group using remittances to increase their political leverage. A methodological section describes the data and models used to test the main hypothesis. After conducting OLS regressions, I present the substantive findings and suggest how they might generalize to the population of remittance-receiving states.

### **The Political Economy of Corruption in Mexico**

Recall that the political economy of corruption focuses on political leaders seeking to maintain power by providing public and private goods in a political environment shaped by institutions and interest group competition. The previous section introduced migrants and remittance recipients as an increasingly important dispersed interest group. However, concentrated interest groups possess greater incentives to act politically because the benefits of collective action are larger and divided among fewer participants (Olson 1965). Where concentrated groups oppose changes in corruption the positive effect of remittances can be overshadowed. When the opposite holds true, corruption levels might decrease even without significant remittance inflows.

Mexico's Import Substitution Industrialization (ISI) regime pursued by the PRI regime after World War II created the main policy cleavage. The highly centralized PRI state mandated that all economic sectors form peak organizations with the 1941 Chambers Law (Shadlen 2000). The PRI provided high protective tariffs and subsidies. Because corporatist labor unions represented industries as a whole, a number of inter-sector factions formed as the country's production profile changed. When Mexico's development regime became internationalized in the late 1980s, the small businesses and particular agricultural sectors adversely affected by GATT and NAFTA became the most ardent supporters of protectionism (Shadlen 2000).

Of course, the characteristics of parties and the level of competitive democracy color interactions with disaffected interest groups (Sandholtz and Koetzle 2000). In response, parties can either change their behavior to win back loyalty, or adjust to the loss by other means, including political patronage. Limiting the discussion to democratic regimes, significant loss of support can be doubly dangerous for parties because their oppositions can mobilize former supporters that withdrew their loyalty. The relationship between competitive democracy and corruption is well-developed at the international level; however, the relationship in Mexico is unclear. Because the transition to democracy in Mexico has been “uneven,” political competition may not affect government at all, or may do so in divergent ways across units of analysis (Hiskey and Bowler 2005; Grindle 2008).

Party competition may also affect the level of corruption. Parties experiencing significant political exit from supporters may maintain their current policies in the absence of a viable opposition (Weitz-Shapiro 2008). When there are more effective parties in the legislature, the opposition will be more able to monitor government, disseminate information about the governing party and corruption, and increase electoral pressure.

Party competition in Mexico centers on the PRI, PAN, PRD and their various coalitions with smaller local parties. The PRI maintains local bases of power using its ties to peak labor and *caciquismo* (Roniger 1987)--a system of local political bosses delivering votes in exchange for government resources--to dominate rural provinces. Mexican politics have become more liberal since the 1990s reforms, but, as Greene (2007) notes, the *caciquismo* system represents one of the PRI's enduring features. Mexico's two

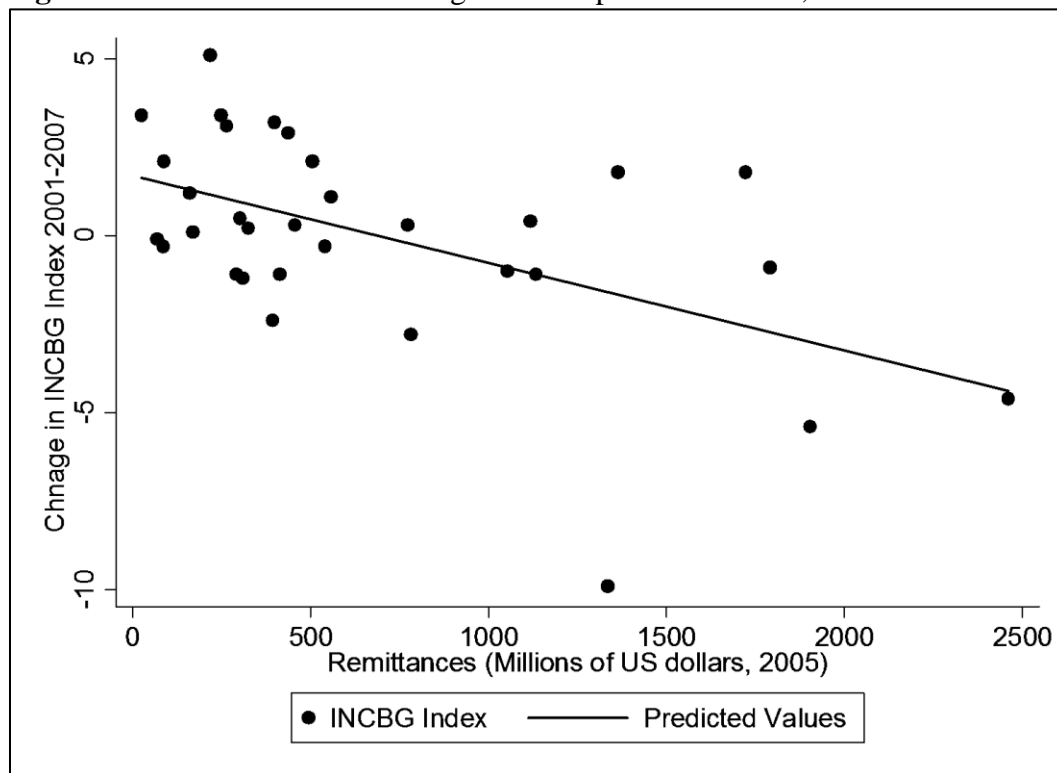
former opposition parties to PRI hegemony have contrasting economic ideologies and characteristic constituencies (Martinez 2007). The PAN supports market-oriented economic policies based on an ideology developed by entrepreneurs and religious activists against growing state intervention and anti-clericism (Shirk 2005). Presently, the PRI and PAN share similar liberal economic ideologies and tend toward similar policies. The PRD represents the political and economic left with ideological ties to the rural opposition--which initiated the revolutionary movements in Mexico, but ultimately gave power to the PRI (Ard 2003). The PRD tends toward a statist economic ideology of increased taxation and redistributive economic policies. However, this orientation does not necessarily yield corruption. In fact, the PRD stands against the PRI's historically corrupt political and economic policies. The PRD's reformist ideology suggests reduced corruption where it competes for power.

### **The Role of Remittances in Mexico**

Table 4.1 compares *Transperencia Mexicana's Índice Nacional de Corrupción y Buen Gobierno* (INCBG) to remittance income for each of the Mexican states. As measured, lower index values indicate lower levels of corruption and negative changes indicate decreases over time. The highest remittance-receiving states, Michoacán and Guerrero, exhibit significant decreases in corruption, while low recipient states like Tlaxcala, Baja California Sur, and Coahuila have increased corruption. While this suggests a positive correlation, corruption increased in the State of Mexico and Veracruz, despite high remittance inflows. The correlation between remittances and change in corruption is fairly strong (Pearson's  $r = -.52$ ), but Figure 4.1 depicts a number of significant outliers. Also notable, the data demonstrate a strong correlation between

remittances and the levels of corruption observed in 2001 (Pearson's  $r = .55$ ), but this correlation decreased substantially by 2007 (Pearson's  $r = .27$ ).

**Figure 4.1:** Remittances and Change in Corruption in Mexico, 2001-2007.



**Table 4.1:** Corruption and Remittances in Mexico

State	INCBG 2001	INCBG 2007	Change	Remittances 2005
Aguascalientes	4.5	4.7	0.2	324.8
Baja California	5.7	8.8	3.1	263.2
Baja California Sur	3.9	7.3	3.4	25.1
Campeche	7.3	7.2	-0.1	67.4
Chiapas	6.8	7.1	0.3	772.1
Chihuahua	5.5	8.7	3.2	398.7
Coahuila	5	8.4	3.4	247
Colima	3	3.1	0.1	169.1
Distrito Federal	22.6	12.7	-9.9	1333.9
Durango	8.9	6.5	-2.4	392.5
Guanajuato	6	5.1	-0.9	1791.6
Guerrero	13.4	8	-5.4	1904.8
Hidalgo	6.7	7.1	0.4	1117.3
Jalisco	11.6	8.8	-2.8	782.1
México	17	18.8	1.8	1723.1
Michoacán	10.3	5.7	-4.6	2461.8
Morelos	7.7	9.8	2.1	504.9
Nayarit	6.4	5.2	-1.2	308.3
Nuevo León	7.1	6	-1.1	291.4
Oaxaca	7.4	6.4	-1.0	1053.6
Puebla	12.1	11	-1.1	1133.3
Querétaro	8.1	7	-1.1	412.4
Quintana Roo	6.1	5.8	-0.3	86.9
San Luis Potosí	5.7	6.8	1.1	557.5
Sinaloa	7.8	8.1	0.3	455.4
Sonora	5.5	6	0.5	302.5
Tabasco	8.5	9.7	1.2	160.3
Tamaulipas	6.3	9.2	2.9	435.6
Tlaxcala	6.6	11.7	5.1	218
Veracruz	7.9	9.7	1.8	1364.4
Yucatán	6.8	8.9	2.1	88.8
Zacatecas	6.2	5.9	-0.3	541
<i>Sources: INEGI, Transperncia Mexicana. Remittances reported in millions of US Dollars</i>				



The additional resources provided by remittances change the government's incentives to allow or encourage corruption. Other studies of Mexico find that the relative balance of power between government and private society helps explain the observed differences in corruption between states (Morris 1991; Fox 1992). When the state is relatively more powerful, the corruption incentive is stronger. Conversely, corruption incentives decrease when society is strong enough to hold government accountable.

Remittances increase their recipients' ability to engage in political activity and improve government accountability. In its simplest form, political participation varies as a positive function of resources and motivation. Because remittances reduce socioeconomic stratification, all things equal, it follows that they also increase the ability to influence policy through participation (Verba, Brady, and Schlozman 1995). Kurtz (2004) provides substantial evidence that remittances strengthen recipients relative to the state, encouraging them to vote for opposition parties and hold their elected leaders accountable (see also Burgess 2005). Remittances reduce dependence on government and allow recipients to improve their investment climates, by providing independent access to public goods and thus minimizing interactions with corrupt government. For example, Adida and Girod (2011) note that some Mexican communities utilize remittances to connect to water infrastructure and avoid dealing with service providers that, while private, are not exempt from political interference given the legacy of centralization under the PRI regime and the slow process of decentralization. It might be argued that this creates a moral hazard. However, this form of political exit provides an opportunity for competing political elites to mobilize citizens who are increasingly autonomous from

clientelistic state-society relationships and obviously dissatisfied by government provision of public goods.

The barriers to collective action impede sustained and coordinated political organization from dispersed interest groups, but evidence demonstrates that individuals do systematically utilize their remittance resources to this end. Increased participation in government administration provides the most direct example. As a result of income sent from family and community members abroad, remittance recipients took positions as local committee leaders and directly oversaw infrastructure improvement projects more frequently (Cohen 2002). In the state of Puebla, remittances allowed a community to finance and monitor the construction of its own sewage infrastructure (Smith 1998). Remittances also fund the individual administration of socially and politically important celebrations known as the *mayordomia*. Remittance recipients become active stewards of the committee, which elevates their social status and likelihood of political participation with other levels of government. Moreover, service as a committee administrator provides experience with local administration, political awareness, and an ability to recognize bureaucratic corruption. Absent remittances, individuals would either forgo opportunities for development of local administration or remain reliant on state politicians and bureaucrats, opening the door to corruption.

Collective remittances from Transnational Migrant Associations (TMAs) further contribute to increased political activity and government accountability (Orozco and Lapointe 2004). These funds consist of additional monetary transfers from organized migrants abroad directly to their communities. Unlike family remittances, all collective transfers further economic infrastructure and human development by financing

community paving projects, purchasing ambulances and other healthcare needs, and providing scholarship opportunities for community children (Orozco 2002). Often, TMAs administer their own projects directly or through local representatives. This is significant, since experiences with TMAs abroad introduce migrants to participation in formal political processes such as voting for leaders, establishing bylaws, and attending meetings (Alarcón 2000). More importantly, they facilitate collective action, provide experience with political participation, and give migrants leverage to make demands on the state using remittances as both carrot and stick.

Mexico's *Paisano* program exemplifies TMAs' ability to leverage remittances into public policy back home. Faced by extortion, theft, and abuse at the hands of corrupt public servants, political groups, including TMAs abroad, demanded protection from the federal government. In the late 1980s, migrant groups made their demands in light of the state's potential losses from reduced travel home and remittance transfers, essentially threatening a development lifeline during the economic crisis that spurred economic reforms by the PRI government. The resulting *Paisano* program protects migrants and their financial transfers from bureaucrats by streamlining access across the border, thus limiting the opportunities for corruption. It also provides a confidential reporting mechanism, introducing the threat of punishment for corrupt civil servants, turning the tables in favor of society.<sup>11</sup>

The state and opposition political parties remain active agents in the causal story. The changing structural incentives open opportunities for policy changes to co-opt remittances for political and economic goals or to engage other actors to maintain power.

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<sup>11</sup> See the *Paisano* program website for a more detailed account. [www.paisano.gob.mx](http://www.paisano.gob.mx).

Mexico's introduction of remittance-matching programs demonstrates how policymakers react to changing structural incentives. Beginning with Zacatecas' PRD-led *Dos-por-Uno* at the sub-national level and *Tres-por-Uno* at the federal level, these programs supplement funds for infrastructure and community-building that improves recipient communities. These programs indicate a larger reorientation by the Mexican state toward migrants as a result of remittances and their importance to the economy. Former President Vicente Fox notably called migrants national heroes and sought to increase their ties with the state. To this end, the 2006 election represented the first time Mexican citizens abroad could request absentee ballots and participate in elections. The process featured a number of logistical obstacles and uneven results, but represents a new development in state-migrant relations led by the PAN.

### **Methodology, Measures, and Data**

The theoretical possibility of mutual causation between corruption and remittances merits consideration. Individuals and families may migrate for political and economic reasons related to corruption. Specifically, individuals might leave more corrupt states intending to remit and positive results would reinforce that decision. Thus, changes in corruption could influence the amount and frequency of remittances.

However, Rapoport and Docquier (2005) assert that remittances represent an informal contract between family members as well as a strategy for financing investments. The family ties between sender and receiver suggest that corruption in the receiving state should not affect remittance inflows. However, the potential for endogeneity demands further investigation, which I undertake below.

To determine remittances' relative significance to the political economy of corruption, I test cross-sectional data from Mexico's 32 autonomous states using OLS regression. Again, restricting the study to Mexico trades some external validity for greater control over differences introduced by cross-national variation in institutions and characteristics of remittance sending states that may influence how remittances impact corruption. Specifically, I estimate the following equation to test the hypothesis that remittances reduced corruption:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 x_7 + \beta_8 x_8 + e$$

where  $y$  represents the average change in corruption at the state level between 2001 and 2007. The independent variables include family remittances adjusted for size of the economy, population, GDP per capita, GINI coefficient, the effective number of parties (ENPP) in the legislature (Laasko and Taagepera, 1979), the PRI vote share for the first gubernatorial election post-2000, and the difference in production value for large and small commercial enterprises. To be clear, the dependent and independent variables are measured at the state level throughout. All economic and demographic data originated from Mexico's *Instituto Nacional de Estadística y Geografía* (INEGI), while *El Instituto de Mercadotecnia y Opinión* (IMO) serves as the source for electoral and legislative data. Positive coefficient estimates indicate increases in corruption and negative coefficients the opposite.

I measure corruption using *Transparencia Mexicana's* INCBG, introduced above. The index registers reported corruption for services to gauge how often Mexican citizens rely on under-the-table and otherwise "extra-political" activities to obtain public goods. The index is imperfect given that access to postal service, signatures from public

officials, connections to water, telephone, and other state regulated services are measured together as equal instances. Specifically, the INCBG index is derived as the number of times a service is reported as acquired with a bribe divided by the number of times the service was utilized during the year, multiplied by 100. One shortcoming is that the survey does not capture variation in the severity of corrupt acts. For example, paying extra money to obtain legal documents from the bureaucracy and paying a police officer to avoid an infraction or detention receive the same weight. However, the measure sufficiently indicates government transparency and the ease with which citizens can utilize public services without relying on clientelistic relationships. Increases in the index correspond to increased instances in corruption.

Remittances may affect absolute levels and change in corruption; however, absolute levels include more idiosyncratic characteristics of state politics relative to changes over a short time period. Accordingly, I measure the average change in corruption between 2001 and 2007. Still, these unsystematic characteristics could affect coefficient estimates. Therefore, I control for the starting level of corruption in 2001. States with higher levels of starting corruption are more likely to see larger improvements in corruption control. The lagged dependent variable also provides some leverage over establishing causation and reflects corruption's general stability over time (Acemoglu and Verdier 2000). The data are measured every 2 years, providing 3 measures of change (2001/2003, 2003/2005, 2005/2007). Taking the average change reflects the sometimes uneven process of change within states and ensures that the estimates are not unduly influenced by contingencies of the specific end points.

INEGI provides data on remittances and economic activity by state. I measured remittances as the total *remesas familiares* (family remittances) divided by GDP for each state in 2005. Family remittances include all money transferred from an emigrant working abroad back to a family member or supporting community in the state of origin. INEGI distinguishes between large and small commercial enterprises when reporting statistics, reflecting the importance of firm size as an economic cleavage in Mexico. To model relative importance to the economy, I measure the percent difference between the small-to-medium and large business production shares. The measure should be significant and positive in the model, indicating that corruption increases where small, import-oriented firms are relatively more important to the economy than their export counterparts.<sup>12</sup>

As a proxy for electoral competition, I calculated vote share for the PRI in the first gubernatorial election to occur after 2000. PRI vote share is often employed as a proxy for electoral competition in Mexico (e.g., Morris 2009). Again, where electoral races are closer, government officials are more likely to seek support by representing the interests of dispersed groups. Though parties may increase corruption during elections, this type of behavior differs from the pervasive, consistent corruption measured by the INCBG that I expect remittances to influence. In addition, I include the effective number of political parties in the state as a measure party competition. Legislatures with more

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<sup>12</sup> It is fair to point out that this measure does not ensure that import and export competing interests were actually present and caused changes in corruption. Debate continues, but evidence shows a strong correlation between open economies and internationally oriented constituencies that hold government accountable for corruption as well as a correlation between closed economies and constituencies reliant on government protection for their prosperity (Gerring and Thacker 2005). The latter group often remains silent about government corruption so long as they benefit, but also engages in corruption to bypass economic restrictions and gain favorable exemptions. At the least, evidence shows that open markets reduce corruption while closed economies foster it. While the measure does not measure how active these groups pursue policies that reduce corruption, it captures that dynamic market openness as the best available proxy.

effective parties in power are more able to identify and publicize bureaucratic corruption, increasing its potential electoral costs.<sup>13</sup>

A number of control variables appear in the model. Because citizens in poorer states may be more susceptible to corruption, specifically cash benefits, meals, groceries and other subsistence gifts, than those with more resources, I include GDP per capita. Similarly, higher levels of inequality may increase corruption's effectiveness. I control for income inequality using GINI coefficients from the World Bank. Finally, more populated states present more opportunities for corruption.

### **Regression Diagnostics**

OLS can be sensitive to sample size and endogeneity, which I address before presenting results. Specifically, the relatively small sample size requires a more detailed investigation of residuals, leverage, and influential data points to ensure robust results.<sup>14</sup> Taking into account that 5% of data points will be “rare” (larger than 2 standard residuals), the two outliers indicated by residual analysis, Nayarit and the Federal District (DF), are not terribly troublesome. The politics of capital cities tend to differ substantially from the rest of the state in Latin American countries (Myers and Dietz 2002). Thus, it is not completely surprising that the Federal District produced a significant residual. Following previous studies, I introduce a dichotomous indicator for the Federal District to control for this phenomenon (e.g., Morris and Klesner, 2010).

Data points are considered to have high leverage if their individual values are twice that of the sample average, .28125 in this case. Using this rule, I consider the

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<sup>13</sup> Weitz-Shapiro's (2008) suggested measure, the seat share for the opposition party, could also be used. The results are not significantly different than those presented here.

<sup>14</sup> Variance inflation factors and a Breusch-Pagan test did not reveal significant issues with collinearity or heteroskedasticity. GDP showed the most correlation with other independent variables ( $vif = 3.02$ ,  $1/vif = .33$ ). The Breusch-Pagan test produced a  $\chi^2$  statistic of 2.18 ( $p(\chi^2) = 0.14$ ).



Federal District (.77), State of Mexico (.69) and Michoacán (.565) potential problems. Large residual and high leverage observations can significantly influence coefficient estimates, but not necessarily. Using Cook's Distance and DFBetas to identify the affected coefficients, I find that only the Federal District produced a significant statistic (Cook's Distance = 2.17). DFBetas indicate that the DF influences the GDP per capita and starting corruption estimates--not surprising given the capital's much higher living standards and history as the center of the PRI's hegemonic regime. To ensure robust results, I conduct additional regressions both omitting and including a dummy variable for the DF as well as a robust regression on the entire sample.

The empirical results may also be biased by endogeneity if migrants take corruption changes into account when deciding how often and how much to remit. This is theoretically possible given that migrants act with strategic motives, though the familial relationship between sender and receiver suggests not. I employ instrumental variable analysis to test for statistically significant differences between OLS and 2SLS estimates. Suitable instrumental variables correlate highly with the original predictor but are not theoretically related to the outcome variable. A lagged value of remittances would suffice since transfers from before 2000 could not be related to changes in corruption between 2001-2007. Moreover, the PRI's fall in 2000 represents a critical juncture at which migration and remittance decisions changed significantly. Unfortunately, the Bank of Mexico began recording remittances officially in 2003, a year that could be affected by corruption changes.

As a suitable replacement, I utilized the INEGI's *Censo General de Población y Vivienda 2000*'s to measure migrant returns for 1999. This is a theoretically appropriate

instrument because not all migrants remit, but those who plan to return are more likely to do so in order to reap the benefits. The instrument satisfies the exclusionary principle since returns before 2000 are unrelated to changes in corruption between 2001 and 2007.<sup>15</sup> A second instrument employed is the 2000 level of education, specifically the percent population over 15 years old with no education. Migrants with more education tend to remit less than those without.<sup>16</sup> Using Hausman tests for simultaneity, I fail to reject the null hypothesis that the OLS coefficients are statistically the same as the 2SLS estimates ( $p > \chi^2 = .3654$ ;  $p > \chi^2 = .2480$ , respectively). Thus, I discuss the more efficient and still consistent OLS results.

## Results

The results support my expectation that remittances reduce corruption in recipient states. The coefficient is statistically significant and negative, which indicates that higher levels of remittances contribute to greater reductions in corruption. Also, the result is robust to instrumental variable analysis, influential observations, and model specification. The inconsistent measurement units make standardized coefficients the clearest indicator of relative importance. Remittances have the second strongest impact on changes in corruption behind population (beta = -.558). Moving from the minimum to the maximum value of remittances causes a 2.1 unit decrease in the INCBG index, or approximately one standard deviation. More realistically, a one standard deviation increase in remittances as a share of GDP creates a .53 unit decrease in corruption or approximately 5% fewer reported instances of corruption over the time period. The remittance-fueled process of reducing corruption is gradual, but progressive and meaningful.

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<sup>15</sup> The correlations between the instruments and remittance variables are .6840 and .5214, respectively.

<sup>16</sup> Singer (2010) and Adams and Page (2005) utilize similar instruments with satisfactory results.

Trade politics play the expected significant role in corruption. Recall that the measure calculates the differences in total production between small, import-oriented and large, export-oriented firms, adjusted for size of the economy. The positive, significant coefficient shows that, as the share of production from import-oriented firms increases relative to the export share, corruption increased over the time period. States dominated by small businesses that demand protection from international markets tended to have increased corruption between 2001 and 2007. Consider a brief comparison of two states, Puebla and Querétaro. Puebla received \$1.113 billion in remittances in 2005 compared to a significant, but smaller \$412 million for Querétaro. However, Querétaro, by far the more populated state, has an even balance between import and export-oriented firms, with the former contributing only 1.3% more than the latter. Puebla's economy features a 17% difference in favor of import-orientation. Both states have PRI governments and saw the same change in corruption over the time period (-.67 per period). The comparison suggests both remittances and export-oriented interests can lead to significant corruption reform. Interestingly, the measure of economic interest groups overcomes the influence of relative standards of living. When the variables are introduced into the model iteratively, GDP per capita predicts significant decreases in corruption, but becomes insignificant after accounting for import-export share. The types of groups generating wealth within the state impact corruption, but wealth itself may not.

The results also support previous findings about Latin American politics (Myers and Dietz 2002; Morris 2009). The Federal District dummy variable indicates that, all else considered, corruption fell relatively more in the capital. As suggested by the influential data analysis, the dummy variable for the Federal District is significant and

negative. The result reflects both the DF's relatively large 2001 levels of corruption remaining stable for a short period after the 2000 transition to the PAN nationally and PRD locally, but dropping significantly afterward. In general, past levels of corruption still help explain the present. The lack of systematic findings support Grindle's (2008) alternative hypothesis that competition has an uneven, inconsistent effect on corruption. Certainly, as Mexico continues its gradual political liberalization, the participation-corruption debate will continue.

The findings presented in Table 4.2 illustrate the explanatory power of the political economy approach to corruption. The model performs well, explaining about 80% of the dependent variable's variation while producing predicted values that correlate strongly with actual values (Pearson's  $r = .92$ ). Removing the lagged value of corruption reduces explanatory power by a modest 3.5%, which is evidence of substantively significant reductions in corruption since 2001.<sup>17</sup>

## **Conclusion**

The chapter began by highlighting corruption and remittances as significant issues in Mexico. This case is particularly important and interesting because of the state's high levels of remittances and corruption, but uneven distribution between federal entities. I argued that remittances change the structural conditions that support corrupt state-society relations by improving government accountability and providing incentives to initiate corruption reform. An OLS model using data from Mexico in 2001-2007

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<sup>17</sup> Specifying the model using the 2001 level to predict the 2007 level accomplishes the same goal and produces exactly the same results with the exception of the direction for the lagged dependent variable, which is to be expected. In that model specification, the lagged dependent variable indicates that states with relatively high levels of corruption in 2001 have relatively high levels in 2007. In the model presented, it indicates that states with high levels in 2001 are more likely to have decreases than states with low levels in 2001.

supports my expectation while demonstrating remittances' substantive contribution to changing levels of corruption. The results also highlight political-economic theory as a powerful paradigm for examining corruption in international political research.

**Table 4.2:** Multivariate Analysis of Corruption Change in the Mexican States, 2001 - 2007

	Model 1 (OLS)	Model 2 (DF Omitted)	Model 3 (DF Dummy)	Model 4 (Robust)
Remittances / GDP	-5.64531 (-2.79)**	-6.916508 (-3.53)**	-6.916508 (-3.53)**	-7.600973 (-3.65)**
ENPP- Legislature	0.1578851 (1.00)	0.0102521 (0.06)	0.0102521 (0.06)	0.0210834 (0.12)
PRI Vote Share	0.0147589 (1.40)	0.0015698 (0.14)	0.0015698 (0.14)	0.0022047 (0.18)
Import Share - Export Share	3.839117 (3.79)**	4.230886 (4.43)**	4.230886 (4.43)**	4.428727 (4.38)**
GDP per capita	-0.0000145 (-0.67)	0.000014 (0.58)	0.000014 (0.58)	0.0000131 (0.52)
GINI	0.7188692 (0.48)	-0.47858 (-0.32)	-0.47858 (-0.32)	-0.2526754 (-0.16)
Population	$2.34 \times 10^{-7}$ (4.39)**	$2.34 \times 10^{-7}$ (4.75)**	$2.34 \times 10^{-7}$ (4.75)**	$2.24 \times 10^{-7}$ (4.28)**
Corruption 2001	-0.1755554 (-4.46)**	-0.1062626 (-2.21)	-0.1062626 (-2.21)*	-0.0922301 (-1.81)*
Federal District Dummy	-	-	-2.381643 (-2.21)*	-2.545225 (-2.22)*
Constant	-0.8564099 (-0.66)	-0.2720576 (-0.22)	-0.2720576 (-0.22)	-0.4255321 (-0.32)
Number of Observations	32	31	32	32
F Statistic	13.33	8.92	14.38	13.72
Prob > F	0.0000	0.0000	0.0000	0.0000
R <sup>2</sup>	0.8226	0.7643	0.8547	-
Adj. R <sup>2</sup>	0.7609	0.6786	0.7953	-
<i>Note: Reported values are unstandardized coefficient estimates with t-scores in parentheses. **p(t) &lt; .01 *p(t) &lt; .05</i>				

The results are strong and robust, but do require some qualification. The research design trades external for conceptual validity. This significantly limits our ability to generalize from this study, but its findings do suggest implications for other remittance-receiving states. As the international corruption literature expects, competition between concentrated interests groups significantly determines patterns of corruption in Mexico. Remittances, however, flow directly to a dispersed group that bears the costs of corruption and enables it to seek reform through political activity. Thus, remittances change the structural incentives supporting corruption. Differences in regime type and political competition may also influence this phenomenon. Political and party competition are not significant predictors of corruption changes in Mexico, but this could be attributed to its uneven transition to democracy, rather than as evidence against previous cross-national findings.

Further, the research design above cannot untangle the relative importance of the proposed causal pathways, necessitating further investigation. Remittances increase government accountability to dispersed interest groups and provide top-down incentives to reduce corruption. We observe that the Mexican government's orientation towards its nationals abroad has changed. Remittances earned migrants a voice and significant leverage in national politics through the ballot box and control over how their collective funds are used in communities. Other studies document how remittance recipients use remittances to fund projects and become involved in politics. At the same time elites at both the federal and state level court migrant dollars through their matching programs and policies to reduce corruption bureaucratic practices. The results show that

remittances contributed to reduced corruption, but determining the relative importance of mechanisms must be left to future research.

Despite these limits, this study suggests that future research should consider how remittances influence other political phenomenon within states. Remittances fit well into the literature on international sources of domestic politics (Gourevitch 1978). Indeed, scholars interested in trade (Greenhill, Mosley, and Prakash, 2009), trans-national epistemic communities (Haas 1989), international organizations (Finnemore, 1996; Sandholtz and Gray, 2003), and policy diffusion (Simmons, Dobbin, and Garrett 2008) have identified conduits through which international influences permeate state borders. Remittances represent an international resource exogenous to domestic politics that may alter the balance of state-society relations.

## Chapter V

### Are Remittances a Resource Curse in India?

India represents another important test case. Like Mexico, India uses a federal political system, and both the independent and dependent variables differ across states. Endemic corruption remains a serious issue in India despite its relatively fast economic growth and rising international status. India radically transformed its economic policy in 1991 by ending five decades of import-substituting industrialization, but corruption reform has been much slower. Transparency International ranked India 87<sup>th</sup> internationally and 16<sup>th</sup> in Asia in its 2010 *Corruption Perceptions Index* (CPI). The Indian chapter of Transparency International quantifies corruption levels using a survey instrument similar to the cross-national CPI. According to their 2005 study, experiences with corruption in Bihar, Jammu and Kashmir and Madhya Pradesh are nearly three times greater than in the least corrupt state, Kerala. Similar variation exists for migrant remittances. Some states report negligible receipts, but remittances are an important part of the economy in Kerala, Tamil Nadu, Uttar Pradesh, Bihar and other provinces.

The Indian and Mexican cases do share some common features, but on balance, they are too different to be considered strictly comparable. Both states industrialized post-World War II and experienced debt crises in the late 1980s. They also share similar federal systems and generally comparable levels of democracy. Many of the institutional and interest groups variables are comparable as a result. Yet, India's unique history as a British colony and the nature of its migrant's remittances confound the logic of comparative case studies. Mexico experienced relatively homogenous colonization under Spain from Cortez's conquering of the Aztec Empire until the country gained



independence in the 1820s, nearly 120 years before Indian decolonization. In contrast, a number of different colonial powers, including the British, Dutch, and Portuguese, ruled parts of India. The United Kingdom certainly held the most territory with more extensive institutions, but even its involvement varied over time and across regions. Mexico's migrants generally work and remit from the United States. Indian nationals travel to a diverse set of states with different political institutions and norms, including neighboring Bangladesh and Nepal, petro states in the Persian Gulf, and wealthy democracies in Western Europe and North America. It is unclear whether the diversity of host states matters in the Indian context, but it surely complicates comparison with Mexico.

India does, however, provide a more difficult test of my theory and hypothesis. I do so using cross-sectional analysis of India's sub-national governments similar to the last chapter. India has added states and changed sub-national borders as recently as 2000, but currently, there are 28 independent and autonomous states and 7 additional union territories. Only the independent states, the National Capital Territory of Delhi and the union territory of Puducherry have directly elected legislatures and chief ministers that citizens can hold accountable for corruption. I exclude the other territories from the analysis, leaving 30 separate jurisdictions.

The chapter begins by applying the political economy theory of corruption to the Indian case. I emphasize the lasting effects of India's colonial history on current property rights and then briefly refer back to the theory built in Chapters II and III. The following section addresses methodological issues related to operationalizing corruption in the Indian context. Transparency International does maintain a sub-national chapter in India, but it has not produced studies as extensive as those done in Mexico. Their surveys

systematically target subsets of the population and avoid smaller states without transparent reasoning. I follow the example set by other research and measure corruption using data on electricity theft. This is still a relatively novel measure, but one informed by the growing literature linking power losses to corruption in India. A methodological section discusses the remaining data and estimation techniques before interpreting the results from regressions. I conclude by discussing remittances' substantive impact, some preliminary comparisons to Mexico, and suggestions of how the findings may generalize.

### **The Political Economy of Remittances and Corruption in India**

In India, British colonial land tenure systems still shape the political economy of corruption through their influence on present-day property rights. As described by Banerjee and Iyer (2005), three land tenure systems existed in India during the British colonial period. The first and most widely used, *zamindari*, placed revenue liability with a landlord that extracted wealth from tenants using any number of intermediaries. This system allowed landlords to appropriate as much wealth as possible as long as they met the tax burden imposed by the British. Tenants did not own their property under *zamindari*, creating weaker respect for property rights, less incentive to invest in the land, and greater income inequality.

The second system, *raiyatwari*, was an individual-cultivator system with revenue burdens determined by land surveys and codified contractually. The third and least prevalent system, *mahalwari*, placed the tax burden on a village council that then determined how best to raise revenue.<sup>18</sup> The *raiyatwari* and *mahalwari* systems tended to grant greater individual property rights, and therefore, saw significantly more individual

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<sup>18</sup> Not all of the present-day Indian states were directly ruled by the British, but the more autonomous Princely states had similar land tenure systems.

investment and growth compared to states under *zamindari*. Though the Indian states have undergone land reform since independence, *zamindari*, *raiyatwari* and *mahalwari* have had lasting influences on the distribution of wealth and exercise of political power in India (see also Besley and Burgess 2000; Deininger, Jin, and Nagarajan 2009). A fourth group of states, including those beyond Assam to the Northeast as well as Jammu and Kashmir, had indigenous systems that differed from *zamindari*, *raiyatwari* and *mahalwari*. British colonial rulers could not or did not establish minimally centralized institutions because of uprisings by indigenous tribes.

Despite a state's property rights institutions, political leaders in India only benefit from corruption and rent-seeking if they maintain power. Rent seeking is defined as obtaining higher prices for goods and services by manipulating the political environment that economic activity occurs in (Tullock 1967). Governments obtain funds through taxation which they use to pay for public and private goods, but also to build political coalitions by collecting and distributing rents (Brennan and Buchanan 1980). Private sector interest groups seek rents through policies that increase profits, such as tariffs and subsidies. Import-competing industries will seek closed economic policies and subsidies from government, but export-oriented industries will pressure government to keep corruption low, because corruption weakens a state's investment climate (Ades and DiTella 1999; Sandholtz and Gray 2003; Gerring and Thacker 2005).

Government may want to seek rents and build coalitions through redistributive policies, but can only do so much when constrained by institutions and political competition. India's federal democracy allows citizens to replace their representatives and bureaucrats, decreasing incentives to engage in corrupt behavior. Competition

between political factions within the state may also dampen incentives to engage in corruption. Political parties, for example, can be effective at identifying and publicizing corrupt behavior by their competitors in order to take or maintain power (Weitz-Shapiro 2008). However, highly competitive political environments may also foster corruption as parties vie for political support. Governments in states that lack these sources of competition can engage in corruption with less fear of detection and punishment. Either way, party competition must be considered.

Migrants are an especially active interest group in India. Prior to the 1990s, India's emigrants could not participate in politics meaningfully unless they returned home. Shortly after beginning a period of liberal economic reform, Prime Minister P.V. Narashima Rao and Finance Minister Manmohan Singh looked to Non-Resident Indians (NRIs) as a source of development finance and political support.<sup>19</sup> As discussed by media outlets at the time, many of the earliest attempts to attract support failed because NRIs demanded faster reductions in corruption than was politically feasible (Datta-Ray 1996). By 2003, the Indian government had intensified its efforts to gain the political support and remittances of NRIs. The government continued policy experiments with dual-citizenship in order to expand NRI's ability to participate directly in politics through voting. Government also responded to demands for corruption reform, which NRIs generally saw as the largest obstacle to participation in Indian politics and the market (Ghosh 2003). In 2007 Mr. Jasbir Khangura became the first NRI to return to India and win office in his state's Assembly (Punjab). This also marked the first election in which

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<sup>19</sup> Non-resident Indians are defined as emigrants living outside the state, but have, or are eligible for, Indian citizenship. This includes children born outside the country whose grandparents have or held an Indian passport. Other migrants of Indian ethnicity may also be important remitters and political players, but as of now they are members of the larger diaspora without any affiliation with the state.

NRIs holding dual citizenship could vote. Mr. Khangura credited NRI supporters for his victory, praising them for their monetary contributions to his campaign for “ethical politics” (Page 2007). Thus, Indian emigrants have become increasingly influential in their home state's politics and remittances appear to be an important component of their success. Without the financial resources for starting up small-and-medium size businesses to drive economic growth, NRIs would not be as politically important.

### **Identifying Corruption in India**

In the context of Indian politics, the amount of electricity lost in transmission and distribution (T&D) offers a unique, but especially promising proxy for corruption given the definition proposed in Chapter II. If corruption is the process in which public institutions stop providing public goods and begin providing private benefits for political gain, the most direct evidence of corruption comes from observing institutions designed to provide a public good being used for private political gain. Electricity provision in India is a responsibility delegated to the sub-national governments, allowing for cross-province comparisons similar to those used in the previous chapter.

Not all electricity loss occurs as a result of corruption--some electricity is lost to resistance as it moves through the grid-- but electricity theft is a major problem. Theft itself is not evidence of corruption, but people who use illegal connections at the street level to siphon energy often bribe officials to engage in meter fraud (Golden and Min 2011). State governments also provide free energy to important industrial sectors or large scale agriculture as a form of illegal subsidy. This measure captures the government's willingness, or lack thereof, to impartially provide public goods and punish violators. Previous work, including Charron (2010) and Bussell (2011), has used Transparency

International's *India Corruption Study* results as an indicator of corruption. This is certainly a useful measure; however, the data are limited to the 20 most populous states, truncating an already small sample. It is worth noting that the Transparency International and energy theft measures correlate moderately (Pearson's  $R = .66$ ).<sup>20</sup>

Electricity loss in T&D also provides an objective measure of corruption. The challenge of measuring corruption is well documented (see e.g., Philip 1997; Morris 2008). Subjective measures use surveys to gauge citizens' or expert observers' perceptions about corruption. Many now ask about specific experiences. But all such surveys introduce measurement error if respondents over-report their dissatisfaction by including non-corruption-related complaints in their answers. Some objective measures--for example, those relying on press reports or conviction records--suffer from similar shortcomings.<sup>21</sup> The illegality of corruption leads to error as perpetrators conceal their activities, and monitoring and policing efforts fall short. Electricity loss is less subject to such sources of measurement error. Governments know how much power is produced and how much revenue is taken in. Any variation beyond predictable technical loss rates must originate from grid theft.

For these reasons, the political economy of electricity provision is becoming increasingly important as a part of the larger literature on political corruption and public goods provision. Rampant power theft has become a focal point for World Bank, especially because of its development projects in the Indian states (Kenny 2009). New

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<sup>20</sup> While .66 does indicate a strong correlation using the conventional .5 cut-off value, an even stronger correlation would be desirable. However, corruption in India seems to be very fluid. The correlation between the Transparency International scores from 2005 and 2007 only correlates at a slightly stronger level (Pearson's  $R = .6918$ ).

<sup>21</sup> Kingston (2004) used the number of federal public servants transferred for corruption-related offenses as an indicator. However, for political reasons, actual cases and transfers could be lower in more corrupt states.

Delhi has been deemed the world's power theft capital, but actually has only the 14th highest reported losses in India (Gregory 2006). States with ongoing internal civil wars, like Nagaland, Jammu and Kashmir, and Orissa lose between 40% and 55% of their electricity in T&D compared to 37% in the capital. Incredibly, Manipur, a tourism state known as “the jewel of India,” loses 63% of the electricity its produces.

The proxy for corruption, electricity lost in T&D, is monitored by India's Central Electricity Authority. This government agency measures the electricity produced, consumed and paid for in each state. Power losses are estimated by comparing the amount of electricity provided to that purchased. Estimates are generally accurate because electricity cannot be stored easily and therefore generated as needed. The difference between these two totals is attributed to normal losses due to resistance in lines or theft, though the exact cause cannot be tracked. The variable takes two forms. First, I explain both the 2008 level of power lost and the average level of power lost between 2002 and 2008 to test whether remittances contribute to lower absolute levels of corruption in the Indian states. Second, I predict the change in power lost over the same period.

### **Method and Data**

I test my hypotheses using cross-sectional data from India's autonomous sub-national governments. Currently, there are 28 independent states and 7 union territories. Only the independent states, the National Capital Territory of Delhi and the union territory of Puducherry have directly elected legislatures and chief ministers that citizens can hold accountable for corruption. I exclude the other territories from the analysis, leaving 30 separate jurisdictions. The independent variables in the model include

measures of remittances' importance in the economy, the relative strength of concentrated import and export groups, party competition in the legislature, per capita state gross domestic product, and colonial land tenure system. All models are estimated using OLS regression for the basic equation:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + e$$

where  $y$  equals a proxy for corruption measured at the state level. In some models I include a lagged dependent variable to provide leverage over causation and change over time. A description of the data follows.

### *Remittances*

Remittance and emigration data for the states are not directly available, but can be reliably estimated. India has introduced a number of incentive programs to attract remittances. These schemes encourage migrants to open Non-Resident Accounts and eases accounting; however, the Reserve Bank of India reports only the net of all deposits and withdrawals. As an alternative, I estimate remittance levels using the Indian National Sample Survey Organization's (NSSO) *Migration in India 2007-2008*. This publication utilized representative surveys in all of the autonomous territories to estimate the remittance receipts. To control for differences in potential migrant populations, the survey reports the ratio of remittances to households reporting remittance receipts during the previous calendar year.

### *Interest group and party competition*

In addition to remittances, I include the difference between the manufacturing and agricultural shares of the state economy to model interest group politics. Indian manufacturing, especially in textiles, and technology sectors are firmly export-oriented



while agriculture tends to favor subsidies and price supports. This is especially true for Indian energy production. Indian firms reported electricity scarcity as their number one concern in the World Bank's 2006 Enterprise Survey. In contrast, large Indian land owners represent an important interest group that benefits from government intervention in the electricity market that favors agricultural, relative to domestic and industrial, consumers (Golden and Min, 2011). Manufacturing, technology, and agricultural data are available from the Reserve Bank of India and are measured as the average share for the 2000-2006 period.<sup>22</sup> To model the relative strength of these groups, I use the difference between agricultural sector share and the sum of the manufacturing and technology sector shares. In states with important agricultural sectors and little manufacturing and technology sector activity, the measure will be positive. Thus, I expect a positive relationship between this and the dependent variable.

Agricultural interests are strongest during periods of intense drought. In some states in India, politically important farmers are allowed access to electricity for a flat rate fee or for free. This is especially true during rainfall shortages when electric pumps are used to extract ground water for irrigation. This increases the amount of electricity that goes unpaid for, but not necessarily due to corruption. To control for this phenomenon, I include the difference between average and actual rainfall over the time periods. Rainfall data are kept by the India Meteorological Department.<sup>23</sup>

Political competition in the state legislatures may also influence corruption, especially in the Indian case. Having more parties may increase accountability since parties can monitor each other and expose corrupt behavior to the electorate. On the other

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<sup>22</sup> This is the most recent year for which data for all 30 states in the sample is reported.

<sup>23</sup> 2004-2010 rainfall data used in this paper originated with India Meteorological Department and were accessed through the India Waterportal <http://www.indiawaterportal.org/node/7185>.

hand, intense party competition may encourage corruption as a means to provide private benefits to their constituencies, especially when continued violence makes resources scarce.<sup>24</sup> I test for these effects by calculating the effective number of political parties in each state legislature using the Laasko and Taagepera (1979) method.

### *Colonial Legacies*

A dichotomous indicator represents whether or not the present day Indian state operated under the *raiyatwari* or *mahalwari* land tenure system (from here individual or village) compared to the *zamindari* (landlord) or other indigenous systems. The 30 jurisdictions in the sample do not correspond perfectly with the colonies, but it is still possible to determine the prevalent land tenure system by supplementing Banerjee and Iyer (2005) with secondary historical sources. Their work measures systems at the district level, making it possible to determine if states created after independence have a colonial history different than the parent state.<sup>25</sup> *Zamindari*-dominated and excluded states are expected to have higher corruption relative to others.<sup>26</sup>

## **Results and Discussion**

The results displayed in Table 5.1 support the main hypothesis that remittances associate with both lower levels and greater reductions in corruption.<sup>27</sup> Model 1 examines

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<sup>24</sup> Model 4, located in the statistical appendix, includes a dummy variable for the presence of on-going civil conflict in the state.

<sup>25</sup> Colonial Puducherry (France) and Goa (Portugal) had tenure systems that resembled their British neighbors. Puducherry had an individual cultivator system while Goa is known for its *comunidades*, a system that resembles village or communal ownership (see Axelrod and Fuerch 2006).

<sup>26</sup> Separating the variable into indicators for each land tenure system only slightly improves model fit, but does not alter the direction or significance of other variables. Doing so shows that the individual system associates with significantly lower values of the dependent variable than the village system when compared to the excluded category. Landlord systems associate with slightly lower levels of the corruption proxy, but do not add significant explanatory power.

<sup>27</sup> The small sample size merits a more detailed investigation of the models' residuals. Fortunately, regression diagnostics do not indicate bias caused by heteroskedastic errors, outliers, or high leverage data points. None of the data points produced errors larger than two standard residuals.

the average level of corruption between 2003 and 2008 to ensure that the choice of year does not unduly influence the results. Model 2 explains the level of corruption in 2008, the most recent year available. The models perform well in terms of fit, explaining about three quarters of the cross-sectional variation in the corruption proxy (Adj.  $R^2 = .737$  and  $.75$ , respectively). Model 3 predicts the change between 2002 and 2008, including a lagged dependent variable as an independent variable since states with larger initial values have the most potential to change. The model's explanatory power decreases modestly, but the significance and direction of the coefficient estimates remain unchanged. All three models produce predicted values slightly lower than those actually observed; however, the predicted and actual values still correlate strongly (Pearson's  $R = .890$ ). In general, the parsimonious political-economy model is a useful tool for explaining corruption.

Remittances play a substantively important role in predicting corruption outcomes in India. The different units of measurement make standardized beta estimation the best indicator of relative importance. As shown in Table 5.2, only the legacy of land tenure institutions has a stronger effect on the model's predicted values than the measure of remittances' importance to the state economy. Remittance totals vary widely across the states, with some states receiving less than \$1 million and the largest recipient earning close to \$7 billion. Shifting from the minimum to maximum level of remittances corresponds with a 15.9% reduction in the proxy for corruption, controlling for all other factors. More realistically, a one standard deviation increase in remittance income causes a 2.87% decrease in the level of power lost in the model. The results from Model 3 show that each standard deviation increase in remittances contributes to a .4 standard deviation

decrease in the predicted level of change. This corresponds to a 4% greater decrease over the 2002-2008 period, all else equal.

<b>Table 5.1: Remittances and Power-loss in India, OLS Estimates</b>			
Variable	Model 1 Average Level '02-'08	Model 2 2008 Level	Model 3 Change '02-'08
Remittances	-0.002 (-3.50)**	-0.0023 (-3.46)**	-0.00188 (-2.70)*
Agricultural - Manufacturing & Tech Share of GDP	20.12673 (2.16)*	25.629 (2.38)*	29.17196 (3.07)*
Effective Number of Political Parties in Legislature	2.962039 (2.35)*	4.006045 (2.74)**	3.431216 (2.41)*
Raiyatwari or <i>Mahalwari</i> -system	-12.05178 (-3.93)*	-13.6808 (-3.86)**	-8.65713 (-2.33)*
% Rain Shortfall	-0.0677172 (-1.14)	-0.10198 (-1.48)	-2.06908 -0.32
Power Lost in T&D, 2002	-	-	-0.65521 (-4.30)**
Constant	33.39786 (7.83)*	28.35501 (5.75)*	16.5298 (2.05)*
Observations	30	30	30
R-squared	0.7783	0.7931	0.6224
Adj. R-squared	0.7321	0.75	0.5239
Note: P-value in parentheses * significant at .05; ** significant at .01; one-tailed test.			

<b>Table 5.2: Standardized Coefficient Estimates</b>			
Variable	Model 1	Model 2	Model 3
Remittances	-0.3470414	-0.33124	-0.39287
Agricultural - Manufacturing & Tech Share of GDP	0.3173202	0.256601	0.556346
Effective Number of Political Parties in Legislature	0.2272342	0.337377	0.318409
Raiyatwari or <i>Mahalwari</i> -system	-0.5083289	-0.4818	-0.44169
% Rain Shortfall	-0.1297014	-0.16308	-0.04723
Power Lost in T&D, 2002	-	-	-0.77051

Historical legacies and trade politics play their expected roles in influencing corruption. States with *raiyyatwari* or *mahalwari* land tenure legacies start with power-loss levels 12% to 13% lower than the *zamindari* and other states. Interestingly, historical legacies maintain statistical significance in the model of change between 2002 and 2008, suggesting that changes in corruption are more difficult in states with historically weak property rights regimes. Despite more than 70 years of independence, colonial land tenure systems still influence the rate of change of corruption in India. States with strong manufacturing and technology sectors also have lower levels of corruption. Recall that the model uses the difference between the agricultural and manufacturing and technology shares of each state's economy. The positive, highly significant coefficient indicates that corruption increases as the share of agricultural output increases relative to the manufacturing sector.

Legislative politics also influence corruption in the Indian states. As the effective number of political parties in the legislature increases, the indicator of corruption also increases. This result should be interpreted with some caution. If we generalize the finding beyond the Indian case, it suggests that governments with greater legislative

competition will have increased corruption. This may be true; however, the result here may be driven by the saliency of ethnic politics in India.<sup>28</sup> The states with more effective political parties are also those with more ethnic divisions within the state and ongoing ethnic violence.<sup>29</sup>

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<sup>28</sup> Table 3 three investigates whether the presence of on-going civil conflict directly impacts corruption outcomes. A dummy variable indicating an on-going conflict in the state is not statistically significant; however, it does correlate with the number of parties in a state. Table 3 also presents evidence that including a measure of wealth does not influence the results.

<sup>29</sup> The results presented above will be biased if migrants take corruption into account when making decisions to migrate and remit, as the theory suggests. To alleviate concerns about endogeneity, I collected outmigration information from the 2001 Indian census and constructed the ratio of out migrants to the state population. This measure correlates strongly with remittances, but is measured in periods prior to the outcome variable. A Durbin-Wu-Hausman test does not find evidence of endogeneity. Table 4 presents the results from the IV OLS analysis to show that the results are unchanged, though less efficient.

### Appendix to Chapter V

<b>Table 5.3: Remittances and Power-loss in India, IV OLS Estimates</b>			
Variable	Model 4 Average Level '02-'08	Model 5 2008 Level	Model 6 Change '02-'08
Remittances	-0.0031288 (-3.72)**	-0.00292 (-2.91)**	-0.00262 (-2.61)*
Agricultural - Manufacturing & Tech Share of GDP	21.64259 (2.47)*	27.87336 (2.40)*	29.34356 (3.06)**
Effective Number of Political Parties in Legislature	2.254062 (1.71)*	3.955416 (2.57)*	3.263513 (2.26)*
Raiyatwari or <i>Mahalwari</i> -system	-11.11081 (-3.65)**	-13.2307 (-3.51)**	-8.12457 (-2.18)**
% Rain Shortfall	-10.57612 (-1.75)*	-0.08951 (-1.21)	-4.30848 (-0.63)
Power Lost in T&D, 2002	-	-	-0.63509 (-4.62)**
Constant	37.70222 (8.68)**	29.41521 (5.51)**	17.00951 (2.06)*
Observations	30	30	30
R-squared	0.7709	0.7708	0.6166
Adj. R-squared	0.7231	0.7230	0.5166
Note: P-value in parentheses * significant at .05; ** significant at .01; *** significant at .001, one-tailed test.			





## **Chapter VI:**

### **Both Curse and Cure: Remittances and Corruption**

How well do the Mexican and Indian cases generalize to the rest of the developing world? The findings from the preceding chapters support my hypothesis that remittances can help mitigate corruption, but in studies that control for institutional differences by studying within-case variation. This chapter introduces institutional variation using panel data with observations from 127 developing states between 1996 and 2010. Political economy research often faces the problem of deciding whether or not to compare countries that are obviously not identical, but not entirely unique. Because it constrains the effect of variables to be the same for all countries, the decision to pool observations from heterogeneous countries can lead to biased inferences. I account for unit heterogeneity and investigate the relationship between remittances and corruption using hierarchical linear modeling (HLM). HLM provides a means of testing the effect of remittances on corruption, but also leaves open the possibility that the relationship varies across units. The models also allow the researcher to investigate whether the average effect of remittances between states masks important variability in the relationship within states.

The results support my hypothesis that domestic political institutions condition the effect of remittances on corruption. Remittances themselves are neither a curse nor a cure: rather, both outcomes are possible. Power-seeking leaders may want to gain politically through expenditure substitution and corruption, but migrants and their beneficiaries may use remittances as leverage to resist. As a result, aggravating effects seem most likely in authoritarian regimes because governments require smaller

supporting coalitions and may be more likely to view remittances as an opportunity to increase political patronage. Moreover, the costs of political activity are higher for migrants from and recipients in authoritarian regimes. The potential gains from reform may be higher, but the probability of successfully influencing corruption is lower. Mitigating effects seem most likely in open regimes. Democratic institutions require that governments attract relatively more political support, making them more likely to respond to political pressure. Democracy also offers more and lower-cost opportunities for political participation and increases the probability of influencing corruption.

The effect of remittances is also likely to differ between states for other, unobserved, reasons. The results suggest that remittances are associated with inferior corruption control on average, but the statistically significant relationship between states is dwarfed by the differences within states. It is not uncommon for the remittance-corruption relationship to be considerably more positive or negative than the sample average.

This chapter begins by comparing the substitution hypothesis with my argument that remittances may also help mitigate corruption. I then tie together previous research by considering how remittances interact with *both* government and migrant groups' incentives in the domestic political environment. After describing the data, the empirical analysis compares a number of specifications to demonstrate the value of multilevel modeling in answering this research question.

### **Remittances and the Political Economy of Corruption**

The debate surrounding remittances centers on expectations about how they change government's political incentives to control corruption. The substitution

perspective argues that remittances allow governments to divert spending away from public goods to private goods and patronage (Ahmed 2012). Remittances serve as a form of social insurance for their recipients, allowing them to purchase food, clothes and medicines. Governments may react by substituting remittance wealth for their own spending.

I have argued that the unique characteristics of migrants as an interest group and remittances as a capital flow may help mitigate corruption. Migrants and remittance recipients are an increasingly important dispersed interest group in many states. Though migrants and remittance recipients might not have the political clout of concentrated interest groups, they have won significant political concessions in some states. Migrants' successes may be due to their stronger preferences against corruption and their organizational advantages relative to other dispersed interest groups. Migrants are especially attuned to corruption because they remit purposively to improve living standards back home (Conway and Cohen 1998), and the increased transaction and opportunity costs associated with corruption are especially harmful to their goals. Along with the monetary resources, migrants transmit their experiences living abroad along with their financial resources. Both can encourage political participation and support for liberal norms of government (Adida and Girod 2010). Patterns of migration may reinforce this tendency. Immigrants abroad often originate from the same communities back home and form civil society groups in their host states (see Levitt 1998). These communities keep migrants connected and provide opportunities to become socially active back home.

The similarities between the theories suggest that the effect of remittances on corruption may vary predictably by regime type. Ahmed (2012) found that the substitution effect especially benefitted authoritarian leaders while chapters IV and V of this project tested the accountability hypothesis using sub-national variation within democracies. Governments of authoritarian regimes have much smaller winning coalitions and are generally more resistant to bottom-up political pressure, while democratic institutions require governments to win support from larger segments of their populations. This leads to my hypothesis that remittances will likely exacerbate corruption in relatively authoritarian states, but mitigate it in democracies.

In addition to the systematic variation explained by institutions, the effect of remittances may differ between states for less obvious reasons. Regime type should explain systematic differences between states by providing information about a government's survival calculus. However, other, less observable, characteristics of the different polities may alter how remittances influence incentives to curb corruption. For example, institutional heterogeneity and regime goals among authoritarian regimes cannot be measured easily, but may influence how remittances affect corruption control. Democracies tend to have similar goals, but remittances may encourage better corruption control in some cases, but not others, due to less observable dynamics. I test this possibility by including an additional random term that allows the coefficient for remittances to vary by group.

Other international, socio-economic and historical variables merit discussion. Wealthier states tend to have larger middle classes with more resources to punish government for poor governance (Treisman 2000). Relative wealth also correlates with

better pay for bureaucrats, which discourages corruption and increases competence. Indeed, governments in states with few resources may allow bureaucratic corruption as a means of gaining loyalty and increasing compensation. State population may also influence control of corruption. Leaders in larger, more populous states may be able to extract more resources from the population to stay in power while less populated states must be well run (see Knack and Azfar 2002). The nature of this relationship is contested (see Knack and Azfar 2003), but population merits consideration. Cultural and institutional traditions may also constrain a government's use of corruption. Specifically, individualistic religions, such as Protestantism, may encourage challenges to abusive authority more than others (You and Khagram 2005). British colonial history and common law legal tradition are also thought to encourage procedural fairness and decrease corruption (LaPorta *et al.* 1999; Treisman 2000).

### **Data and Method**

To analyze the relationship between remittances and corruption, I constructed a panel of data with observations from 108 non-OECD states from 1996 to 2010.<sup>30</sup> Much of the data, including the outcome variable, originated from the World Bank's *World Development Indicators* online database. The time period is not arbitrary. Rather, it reflects the year that the dependent variable became available. Table 6.1 displays summary statistics for the outcome and independent variables.

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<sup>30</sup> The sample is unbalanced due to data limitations and the creation of new states throughout the post-Cold War period. Still, the average number of observations per state is 10.

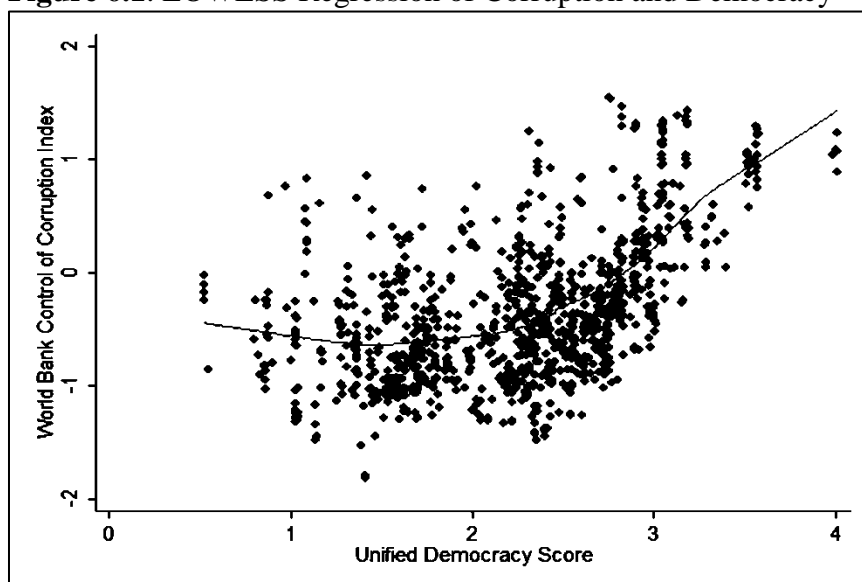
<b>Table 6.1.</b> Cross-national Summary Statistics					
<b>Variable</b>	<b>N</b>	<b>Mean</b>	<b>SD</b>	<b>Min</b>	<b>Max</b>
Control of Corruption Index	1438	-0.367	0.633	-1.82	1.80
Remittances (% GDP)	1443	5.086	7.448	0.00	61.99
Unified Democracy Score	1191	0.232	0.639	-1.48	2.01
Gross Domestic Product Per Capita (log)	1443	7.466	1.190	4.72	10.37
Natural Resource Rents (% GDP)	1443	9.285	14.958	0.00	121.10
Trade (Imports + Exports / GDP)	1402	85.082	36.651	14.93	237.99
Population (log)	1443	15.639	2.060	10.60	21.01
Protestant Population (%)	1427	10.016	16.522	0	76.30

I measure corruption using the World Bank's control of corruption indicator, one of the six indices that comprise the organization's World Governance Indicator (WGI). The WGI closely follows Nye's (1967) definition, defining control of corruption as the degree to which government exercises public power for the private gain of its members. It also considers situations where powerful elites and interest groups completely “capture” the state. The WGI measure is a survey of surveys gauging perceptions of corruption for each included economy. The variable has a range from -2.5 to 2.5, with negative values indicating that government control of corruption is weak. I measure remittances using workers' remittances as a percentage of gross domestic product (GDP), obtained from the World Bank's *World Development Indicators* online database.

I measure regime type using the Unified Democracy Score (UDS) estimated by Pemstein, Meserve and Melton (2010). This variable is both theoretically and methodologically appropriate. The UDS uses a Bayesian measurement model to synthesize information from ten democracy scales to produce a reliable indicator of

regime type that considers both institutional and behavioral characteristics.<sup>31</sup> Previous research demonstrates that the relationship between regime type and corruption is nonlinear (Montinola and Jackman 2002). Specifically, strong autocracies sometimes control corruption more effectively than mixed regimes, but neither does so as well as firmly democratic regimes. Figure 6.1 depicts a locally weighted regression of democracy and corruption in the sample. The results confirm this relationship and suggest that regime type does not begin to influence corruption control until a discernible threshold (see Davenport and Armstrong 2004). I account for the nonlinear relationship using a linear spline.<sup>32</sup>

**Figure 6.1.** LOWESS Regression of Corruption and Democracy



The framework discussed earlier suggests a number of additional control variables. I include a one year lag of per capita GDP (logged) to control for the size of the middle class as well as bureaucratic pay (see Sandholtz and Gray 2003). Since some

<sup>31</sup>This is particularly beneficial because other measures of regime type, such as Freedom House Political Rights and Polity IV indicators, may favor one set of attributes over the other while also concealing meaningful variation due to their aggregation methods (Armstrong 2011).

<sup>32</sup> Figure A1 of the online appendix clearly depicts the relationship. The spline was estimated using the `mkspline` command in Stata 12. The knot is located at approximately 2.26 of the UDS score.

scholars have compared remittances to the natural resource curse, I include each state's natural resource exports as a share of GDP. International integration and trade may also influence corruption levels. I measure the importance of the international economy as the ratio of imports and exports to GDP. States with larger populations may have more difficulty monitoring corruption. As such, I control for the size of the state using the logarithm of population. Data for all of these variables are available from the World Bank's online data depository.

Again, states with larger Protestant populations and common law legal traditions may have lower levels of corruption. I include an indicator variable for common law tradition as well as the percentage of Protestants in the population for each state. These data come from La Porta *et al.* (1999).<sup>33</sup>

#### *Estimation Technique*

Because state-year observations are, by nature, clustered, it is important to allow for dependence among responses. Random intercept models account for within-cluster dependence by allowing the intercept term to vary between states. They also provide an opportunity to examine variation within and between clusters. The random intercept model takes the basic form:

$$y_{ij} = \beta_1 + \beta_2 x_{2ij} + \cdots + \beta_p x_{pij} + \epsilon_{ij}$$

where

$$\epsilon_{ij} \equiv \zeta_{1j} + \varepsilon_{ij}$$

so

$$y_{ij} = (\beta_1 + \zeta_{1j}) + \beta_2 x_{2ij} + \cdots + \beta_p x_{pij} + \varepsilon_{ij}.$$

The term  $\beta_1 + \zeta_{1j}$  is known as the random portion of the model with the remainder representing the fixed effects of the variables. Estimates in the fixed portion represent the

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<sup>33</sup> Downloaded on 15 June 2012 from <http://www.economics.harvard.edu/faculty/shleifer/paper>.



mean effect of the independent variables. The random term  $\zeta_{1j}$  provides information about the distribution of the intercept term and can be interpreted as the effect of unobserved characteristics of the clusters that explain differences between the sample's mean level of corruption and the state-specific mean. Assessing Hypothesis 2 requires an additional random term to allow the effect of remittances to vary between clusters. The random coefficient approach relaxes the assumption that the effect of a particular variable is constant for all clusters, taking the form:

$$y_{ij} = (\beta_1 + \zeta_{1j}) + (\beta_2 + \zeta_{2j})x_{2ij} + \dots + \beta_p x_{pij} + \varepsilon_{ij}.$$

Coefficient estimates will be biased if the level-one error term correlates with the independent variables due to endogeneity. Reverse causation clearly merits consideration because the theory assumes that migrants take the level of corruption into account when deciding how best to allocate resources. I utilize the ratio of world remittances to world GDP for all other recipient states as an instrumental variable to ameliorate the endogeneity problem. As discussed by Barajas *et al.* (2009), this ratio captures increases in remittances due to decreases in associated transaction costs and other microeconomic determinants. The instrument also satisfies the exclusionary principle because the given state's remittances and GDP are omitted from the ratio.<sup>34</sup>

Panel-specific serial correlation is the subject of a large and growing literature in political economy.<sup>35</sup> The simplest method of addressing serial correlation is to add a lagged dependent variable (LDV) to the model; however, it is now well known that using LDVs in random effects models introduces endogeneity between the LDV and the

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<sup>34</sup> Specifically, the instrument was used in a first-stage regression to generate predicted values for the endogenous remittance variable. These predicted values were included in the second-stage model.

<sup>35</sup> A Wooldridge (2002) test for serial correlation in panel data models indicated within-panel temporal dependence.

subject-specific intercept. Using fixed effects, however, creates another type of endogeneity (Nickell 1981).<sup>36</sup> I account for within-panel serial correlation by specifying an autoregressive (AR1) model.<sup>37</sup>

## Results

Table 6.2 presents the estimated effects of remittances on corruption control from five model specifications. Model 1 regresses government control of corruption with random intercepts and no interaction terms. The coefficient for remittances in the fixed portion is negative and statistically significant, suggesting that remittances associate with worse corruption control on average. Model 2 omits controls for states with common law legal traditions and Protestant populations to show that statistically insignificant variables do not unduly influence the results.<sup>38</sup> Model 3 includes the random term for the slope of remittances to explore whether there is significant variation around the population-averaged estimate. The random coefficient is large relative to the fixed coefficient and statistically significant. This indicates that unobserved, country-specific factors condition how remittances affect corruption control within a state.

Models 4 and 5 consider whether regime type influences how remittances affect corruption control. Model 4 estimates interaction terms between remittances and the democracy before and after the spline. The interaction between UDS and remittances is

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<sup>36</sup> This bias becomes smaller as the number of time periods increases, becoming tolerable at around 20 periods when compared to the alternatives for short panels (Beck and Katz 2011). Unfortunately, there is no consensus on the “best” method for panels that are longer than 3 or 4, but not 20. These alternatives include instrumental variable methods using the lagged and differenced values of the dependent variable, like the Arellano-Bond estimator. This approach faces potential issues when the lagged differences are poor instruments. This is the case in this sample where the lagged second-difference of the DV correlates with the lagged difference of the outcome at only -0.09. The Kiviet estimator offers another approach, but cannot be applied to unbalanced panels.

<sup>37</sup> An Im-Pesaran-Shin unit root test found evidence in favor of stationarity.

<sup>38</sup> Results with the control variables included can be found in Table A2 of the appendix. The results are unchanged.

not statistically significant before the spline, but becomes so at the 5% level for larger values. Model 4 trims the insignificant interaction term to reduce colinearity's impact on the standard errors. The interaction term remains statistically significant while  $\zeta_{\text{remit}}$  still adds important information to the model, supporting Hypothesis 3.<sup>39</sup> The standard deviation of  $\zeta_{\text{remit}}$  (0.033) is large compared to the mean coefficient (-0.035), indicating the effect of remittances may be significantly more positive or negative than the population-weighted average coefficient. Ninety-five percent of the coefficient estimates for remittances would fall between approximately -.101 and 0.031. Inferences about remittances and corruption that omit unit effects may be misleading.

How well do the results reflect theory? The results demonstrate a tendency for closed regimes in the sample to have worse corruption control as remittance inflows increase ( $H_1$ ). The  $\beta_1$  term in the fixed portion estimates the mean change in corruption control attributed to remittances in states with relatively closed institutions (low values of UDS). Theoretically, these regimes provide leaders with the most ability to engage in substituting behavior, while remittance recipients have the least incentive to try and change the status quo. As expected, the coefficient is negative and statistically significant.

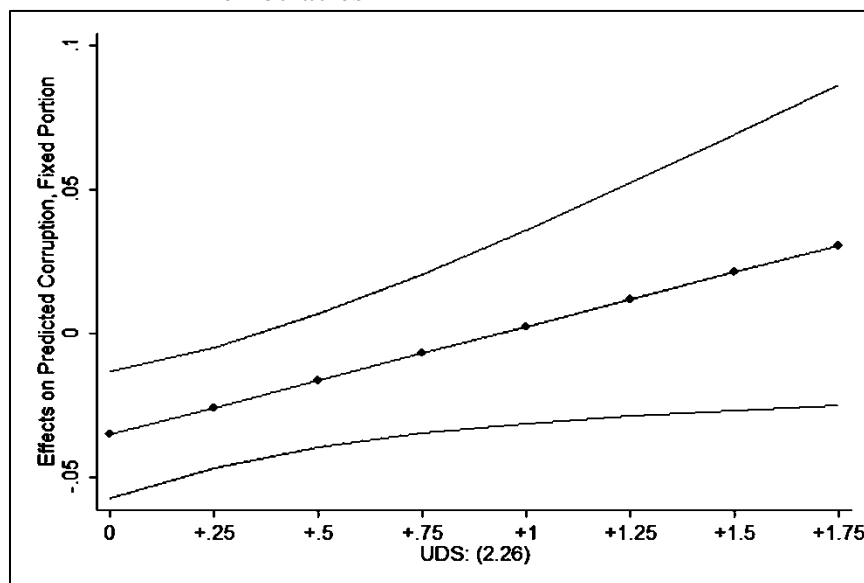
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<sup>39</sup> There is no straightforward method to estimate a coefficient of determination, such as  $R^2$ , for HLM models with random coefficients. However, Snijders and Bosker (2012) suggest removing the random term for the slope and comparing the model to a model without covariates to estimate the proportional reduction in error. This only estimates the variation explained by the model, but they argue that these are close approximations. Overall, the covariates reduce error by approximately 25% compared to the null model. Comparing models can be done using likelihood-ratio (LR) tests or comparison of information criterion. Selection based on the Bayesian information criterion suggests that Model 4 provides the most information.

<b>Table 6.2: Remittances and Control of Corruption, HLM Results</b>					
	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>
Remittances (% GDP, fitted)	-0.027*** (0.011)	-0.027*** (0.011)	-0.028*** (0.024)	-0.030 (0.026)	-0.035*** (0.095)
UDS (before spline)	-0.013 (0.048)	-0.011 (0.048)	-0.021 (0.048)	-0.019 (0.087)	-0.034 (0.048)
Remittances*UDS (before spline)	-	-	-	-0.003 (0.013)	-
UDS (after spline)	0.357*** (0.065)	0.353*** (0.065)	.348*** (0.065)	0.187* (0.090)	0.194** (0.095)
Remittances*UDS (after spline)	-	-	-	0.039** (0.018)	0.038** (0.017)
GDP Per Capita (t-1, logged)	0.103*** (0.024)	0.102*** (0.024)	0.102*** (0.024)	0.097*** (0.024)	0.097*** (0.024)
Trade (% GDP)	0.002*** (0.001)	0.002*** (0.001)	0.002*** (0.000)	0.002*** (0.001)	0.002*** (0.001)
Population (log)	-0.075*** (0.022)	-0.085*** (0.022)	-0.085*** (0.020)	-0.084*** (0.020)	-0.084*** (0.020)
Resource Rents (% GDP)	-0.005*** (0.002)	-0.005*** (0.002)	-0.006*** (0.002)	-0.006*** (0.002)	-0.006*** (0.002)
Protestantism (% population)	0.002 (0.003)	-	-	-	-
Common Law Tradition	0.065 (0.089)	-	-	-	-
Constant	0.082 (0.436)	0.179 (0.430)	0.176 (0.408)	0.232 (0.434)	0.263 (0.410)
std. dev. $\zeta_j$	0.347	0.353	0.386	0.419	0.418
std. dev. $\zeta_{jremit}$	-	-	0.030	0.033	0.033
Rho	0.815	0.814	0.803	0.791	0.791
Number of observations	1,045	1,045	1,045	1,045	1,045
Log-Likelihood	210.42	209.72	212.46	212.90	212.87
BIC	-330.47	-342.97	-330.87	-321.522	-328.43
Note: HLM coefficients with p-values in parentheses. ***p<.01 **p<.05 *p<.10, two-tailed.					

The relationship between remittances and corruption control clearly differs in more open regimes. Democratic institutions require governments to attract larger supporting coalitions, making them more likely to respond to demands for better corruption control. Migrants and remittance beneficiaries also have more and lower-cost options for influencing government and have a greater probability of seeing returns on political investments. The positive and significant interaction term indicates that the relationship becomes significantly better for these regimes compared to closed states. Figure 6.2 plots the average marginal effect of remittances on corruption as the UDS increases from the spline. The effect becomes positive for the most democratic regimes, but the lower boundary of the confidence interval never crosses zero.

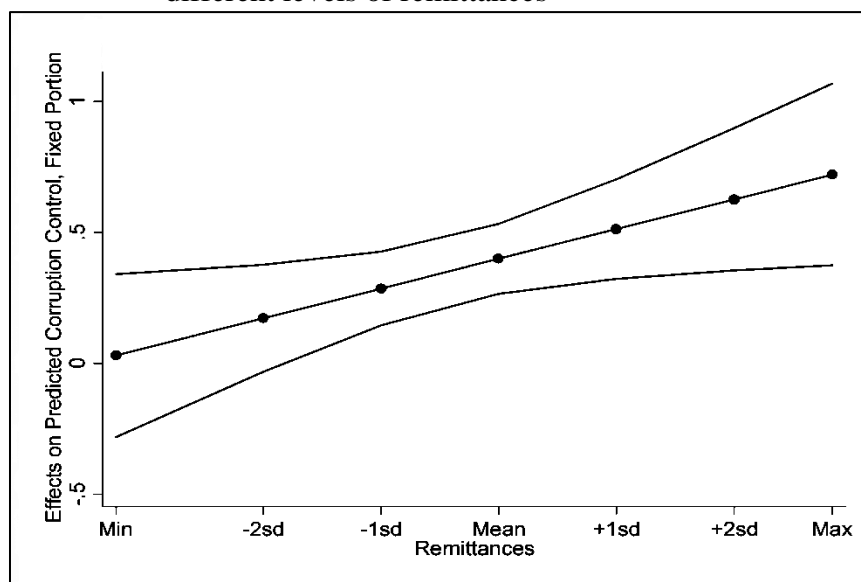
**Figure 6.2.** Marginal Effect of Remittances on corruption in Democracies



Remittances may not directly improve corruption control in more democratic regimes, but the results do reflect an accountability mechanism through democracy. Figure 6.3 presents the conditional marginal effect of democracy on corruption control

across the range of remittance inflow. The change in corruption control associated with the “average” regime above the spline cannot be distinguished from zero at low levels of remittances. However, democracy’s effect becomes increasingly positive and statistically significant as remittances increase. Linear combination tests confirm that states with larger remittance inflows control corruption better than those with fewer remittances, but similar regimes. Rather than mitigating corruption control in more democratic states, remittances appear to enhance a democracy’s control of corruption. We can infer that open regimes will have better control of corruption as remittances increase. In closed regimes governments can engage in substitution behavior, essentially “pulling” the benefits from remittances their way. Governments in democracies may try to benefit similarly, but remittances appear to help migrants pull back through democratic institutions.

**Figure 6.3.** Marginal Effect of Democracy on Corruption at different levels of remittances



Turning briefly to the control variables, the results generally support other findings in the corruption literature. Both the controls for per capita GDP and trade are positive and significant. Larger middle class populations and integration into the international economy both tend to improve corruption control as expected by the general political economic theory (Sandholtz and Grey 2003). Larger state populations associate with lower corruption control as well. More populous states may have more difficulty detecting and containing corruption, or larger populations may simply indicate more opportunities to engage in corruption. Rents from natural resource extraction also tend to reduce corruption control, as expected.

## **Conclusion**

This chapter reaffirms that remittances do influence corruption, but shows that the relationship varies considerably between states. Institutions explain much of this variation by shaping political incentives for leaders, migrants, and recipients. Leaders in closed regimes tend to successfully leverage remittances for their own political benefit, but remittances associate with better corruption control in more democratic regimes. Other state characteristics also play an appreciable role. HLM can help account for this complexity, and should continue to be a useful tool for political-economy research using panel data. As remittances continue to grow in volume, it will be important for research to avoid the temptation of making unidirectional assertions about their political effects.

## Chapter VII

### Conclusion

Migrant remittances have increased in size and importance in the last 25 years, but research has struggled to understand their political and economic effects. When development scholars first recognized remittances' positive micro-level effects, many expected that migrant money would drive economic growth in recipient states (e.g., Kapur 2004). Unfortunately, remittances have not fulfilled those hopes. Critics argued that remittances harmed macroeconomic growth by inducing the Dutch Disease--a difficult combination of inflation and declining export competitiveness. Research falsified that approach, causing scholars to search for answers in the political environment that shapes economic growth. Scholars correctly searched for remittances' impact on corruption, but they relied on a flawed analogy comparing remittances to unearned income like foreign aid or the revenue from natural resource extraction. This led to a simplistic, unidirectional framework for understanding remittances that ignores many of migrant money's unique characteristics.

This dissertation furthers our understanding of remittances and corruption conceptually, theoretically, and empirically. Chapter II reviewed the conceptual development of corruption and argued for a unified definition that combines a macro-social perspective of the phenomenon with an institutional focus. Specifically, I defined corruption as the process in which public institutions stop extracting and allocating wealth impartially and begin providing private benefits for political gain.

Elements of the definition not discussed previously merit some attention here. Another formulation of this process-oriented approach might focus on the erosion of the



distinctions between the public and private spheres. Political and bureaucratic institutions can be thought of as barriers that separate the business of the state from the business of private citizens. The degree to which institutions do this varies from place to place, but I and others have argued that some semblance of public-private separation exist in all but the most totalitarian states, and perhaps even there. This recognition points to two distinct ways in which institutions can influence corruption, similar to Clark's (1982) meat-eating vs. grass-feeding typology. Governments can weaken institutions by offering a basket of public and private goods to secure political power, but then deviating from that agreement to shore up their winning coalitions against future challenges. On the other hand, powerful concentrated interest groups can use their political resources to influence the provision of public and private goods. Again, the government may win power by offering one particular mix, but the policy basket may deviate due to the additional influence of political actors.

Remittances affect both sides of the corruption equation. Remittances provide governments with an opportunity to deviate from their original policy basket through the substitution effect (Ahmed 2012). Remittances appear to ameliorate the political consequences of increased corruption by helping recipients maintain the same standard of living despite any additional economic costs. This has a somewhat disturbing implication for those who view remittances as a potential cure for corruption: democratic governments may also engage in substitution behavior free from political consequences.

The theoretical framework proposed in Chapter III explains the effect of remittances on corruption using the logic of political survival and interest group competition. The survival logic suggests that governments are most able to use corruption

for political benefit when political institutions limit the amount of support required to stay in power. Democratic institutions, all else equal, make it less likely that governments will increase corruption because of the greater likelihood of political punishment.

However, if remittances keep migrants from feeling the economic effects of corruption, they may lack the psychological motivation to demand reform from government. Put another way, recipients' retrospective evaluations of government performance may not be negative enough to induce a change in political behavior (Bravo 2007).

This is an interesting possibility, especially since most critics of my accountability hypothesis argue that I have misread or misapplied Hirschman's (1970; 1986) theory of exit to migration. Migration is not the focus of this project, but it is a necessary condition for remitting. I have argued that migrating itself is a form of political exit that robs government of legitimacy and resources. Various conference participants and anonymous reviews challenge that corrupt governments will most likely continue to prey on citizens at a constant rate and that migration leaves behind those with the least means of resisting. In the past, I have retorted that conditions may get worse before they get better, but the rising cost of living under abusive government also increases the incentives for collective action to reform or remove leaders.

Remittances can be a catalyst for reform in two ways. First, remittances can help migrants and remittance-recipients engage in a different form of political exit: the private provision of public goods. Remittance-receiving communities do create better access and higher quality public goods at the local level (Pérez-Armendáriz and Crow 2010). This reduces interactions with corrupt government, and helps people break clientelistic relationships (Kurtz 2004), and spurs local economic development. The process creates

new stakeholders and political competitors that can push governments to control corruption. Second, remittances can provide the financial opportunity to participate politically when an individual may not be able to otherwise.

But what if remittances undercut the psychological motivation to punish government for reform? One possibility is that migrants can also help overcome psychological barriers to political activity through social remittances (Levitt 1992; Adida and Girod 2010). Future research may need to measure social remittances and monetary remittances together to determine whether they complement each other. This work is already underway. “The corruption gap,” the relative levels of corruption between the migrants’ host and home states, may help explain the impact of remittances on corruption. Migrants can communicate liberal social norms and attitudes about government by calling and traveling home (Levitt 1992; Orozco 2013). These interactions make friends and family more likely to participate in elections and other political activities (Pérez-Armendáriz and Crow 2010). Indeed, remittances tend to increase before elections, following a political investment cycle that makes migrants and their connections an important transnational interest group (O’Mahoney 2012). Information about better control of corruption abroad may also increase dissatisfaction with corruption at home, providing the motivation to overcome barriers to collective political action (see Miller and Ritter, forthcoming).

The Mexican and Indian cases provided evidence that remittances can help mitigate corruption, especially in democracies. Chapter IV used sub-national data from Mexico and found that states with higher levels of received remittances saw lower levels and greater reductions in corruption, all else equal. Examples of active and well-

organized trans-migrant associations in the United States demonstrate Mexican migrant's organizational advantages in addition to their financial leverage. Chapter V showed a similar pattern in India, though the historical legacy of colonial property rights regimes weighed heavily in the analysis. It is also worth noting that India's migrant diaspora is not concentrated in one state with better corruption control. Rather, some migrants work in the Gulf States where corruption is rampant, especially for non-citizens.

It is also possible that governments make migrants part of their winning-coalition and purchase their support with private benefits. The Philippines exemplifies this outcome. Under Marcos, remittances supported corruption because of the government's institutionalized labor-exporting regime until the regime instituted a policy of mandatory remittance percentages. This policy contributed to the downfall of the authoritarian regime. The new democratic government institutionalized 'migrant friendly' policies, which created a path-dependent process of increasing returns for migrants that promotes the status-quo of continuing corruption even under a democratic regime.

I began this project as a second year graduate student thinking that remittances would unequivocally help reduce corruption. As the preceding paragraphs show, the story is much more complicated. The dissertation does find that democratic institutions significantly reduce the likelihood that remittances increase corruption, and that democracies with remittance inflows tend to control corruption better than similar regimes without them. Clearly, remittances are both a curse and a cure for corruption.

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### PUBLICATIONS

#### *Articles in Peer Reviewed Journals*

Tyburski, Michael D. (forthcoming). "Curse or Cure? Remittances and Corruption in the Developing World." *Journal of Politics*.

Tyburski, Michael D. (2012). "The Resource Curse Reversed? Remittances and Corruption in Mexico." *International Studies Quarterly* 56 (2): 339-350.

#### *Book Chapters*

Horowitz, Shale, and Michael D. Tyburski (2012). "Reacting to Russia: Foreign Relations in the Former Soviet Bloc." In *To Support, Follow, or Challenge: The Limits of Hegemony and the Rise of the Rest*, Kristen P. Williams, Steven E. Lobell and Neal G. Jesse eds. Stanford, CA: Stanford University Press: 161-176.

#### *Book Reviews*

Tyburski, Michael D. Forthcoming. "Much More than Money: Remittances and Human Development." Review of *Migrant Remittances and Development in the Global Economy* by Manuel Orozco. *International Studies Review*. Accepted Nov 2013.

### WORKS IN PROGRESS

*(Abstracts/Drafts Available On Request)*

"When are Similar Regimes Most Likely to Form Alliances? Institutions and Ideologies in the Post-Communist World." (with Shale Horowitz). Revise & Resubmit at *Conflict Management and Peace Studies*.

*Moving More than Money: The Political Consequences of Migrant Remittances*. (with Robert Beck). Book manuscript proposal in-progress.

“The Corruption Gap: Exploring Divergent Effects of Remittances on Corruption?” (with Gina Miller, University of Alabama). Working Paper.

“Remittances and the Political Economy of Persistent Corruption in the Philippines.” (with Julia Meszaros, Florida International). Working paper.

“Are Remittances a Resource Curse? Evidence from India.” Working paper.

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“The Corruption Gap: Exploring Divergent Effects of Remittances on Corruption.” Southern Political Science Association Annual Meeting. New Orleans, LA, January 8-12, 2014.

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“Corrupt at Birth? Legitimacy, Corruption and State Failure.” International Studies Association Annual Meeting. San Francisco, CA, April 3-6, 2013.

“Are Remittances a Resource Curse? Evidence from India.” Midwest Political Science Association Annual Conference. Chicago, IL, April 12-15, 2012.

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