Political Competition, Rent-Seeking and Corruption: The Emergence of "Clean" Government in Chile

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- Puzzle
  - Why does corruption persist despite competitive elections?

- Previous work
  - Electoral and constitutional rules

- My work
  - The structure of competition to influence policy

- Theory
  - Principal-agent model of incumbent control (Ferejohn 1986)
    - Citizens as principals
    - Politicians as agents

  - Main implications
    - Principals can be induced to compete against each other
    - Incumbent can keep almost all government revenues

  - Key condition
    - Whether principals demands are multi- or uni-dimensional

Figure 1. Model of Incumbent Control in Multidimensional Arena

	V1	V2	V3	I $(1-\sum V_i)$
t	1/3	1/3	1/3	0
t + 1	1/3	1/3	0	1/3
t + 2	0	1/3	1/6	1/2
t + 3	1/6	0	1/6	2/3
.	.	.	.	.
.	.	.	.	.
.	.	.	.	.
t + n	ε	ε	ε	$1-\sum\varepsilon$

Figure 2
Model of Incumbent Control in Unidimensional Arena

- Summary argument
    - When competition for policy benefits occurs along a single dimension, challengers can make credible promises to voters and pose credible threats to incumbents.
    - The credible threat of challengers keeps incumbents "clean."

- Application
  - Chile
    - 1891-1924: "Parliamentary republic"
    - 1925-1931: Military dictatorship
    - 1932-1952: Period of stronger presidency

- Rationale
  - Tradition of "clean" government in Chile

- Measurement
  - Corruption
    - Policy-induced rents
    - Returns to capital and labor

Table 1. Rents and Returns to Capital
(1912-1923, 1941-1952)

	Trade Rents (million)	Return to Capital	Real Wages	
			Labor	Employee
1912-14	135.1	40.63	-	-
1915-17	138.3	29.70	-	-
1918-20	130.9	28.05	-	-
1921-23	222.5	20.92	-	-
1941-43	673.8	14.75	103.13	110.83
1944-46	746.7	16.24	115.47	119.77
1947-49	1054.7	15.15	113.50	113.97
1950-52	1241.2	6.20	127.63	135.63

- Measurement
  - Dimensions of competition for policy benefits
    - Political party cohesion scores
    - Principal-component analysis on legislative votes

Table 3. Principal Component Analyses: Legislative Votes in the Chilean Congress as Variables*

Congressional sessions	1903 -06	1906 -09	1915 -18	1918 -21	1937 -41	1941 -45
Percentage of Votes Strongly Correlated with:						
Factor 1	34.8	23.2	36.3	43.7	79.1	66.7
Factor 2	21.7	8.9	21.2	12.5	0	6.7
Factor 3	8.7	5.3	0	12.5	2.3	0

- Conclusion
  - Rents and corruption prevalent when competition to influence policy was multidimensional
  - Rents and corruption declined when competition aligned along a single dominant dimension

- Implication
  - Trade-off between representation of interests and control of incumbents

Table 2. Cohesion Scores for Major Parties in Chilean Congressional Sessions*

Party	1903 -06	1906 -09	1915 -18	1918 -21	1937 -41	1941 -45
Conservative	76.4	74.5	90.9	90.3	90.2	99.1
Liberal[1]	62.8	65.2	74.7	72.9	89.9	94.7
Radical	77	70.7	79.0	81.8	91.3	90.2
Socialist[2]					89.8	92.9
Communist[3]					96.0	100.0
Number of Deputies	99	99	120	120	146	147