Three Essays on Sanctions of Politicians in Brazil

A proposal submitted in partial fulfillment of the requirements for the Degree of Doctor of Philosophy in Public Policy

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Abstract

This dissertation project will investigate the relationship between legal sanctions and politics in Brazil. In the first paper, I look at the effect of convictions for electoral infractions on electoral performance in four municipal elections between 2004 and 2016. The second paper tests whether State Court judges significantly rule in favor of politicians involved in small claim court cases. Finally, the last paper investigates whether active and passive transparency simultaneously improve government performance and increase the number of legal sanctions for government wrongdoing. These papers contribute significantly to the literature in political science, economics, and law by exploring the relationship between legal sanctions and local political dynamics in developing countries. In addition, I also contribute new data sources in the form of judicial decisions and innovative identification strategies using institutional features of Brazilian electoral and judicial systems.

Keywords: political economy of development; electoral politics; judicial politics; transparency; economics of crime.

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1 Active and Passive Transparency in Brazilian Municipalities

1.1 Introduction

Institutional scholarship often claims that government transparency is a key factor for good governance and economic development (Kaufmann et al., 1999; Bo Rothstein, 2012). When governments make their business public, they allow for the scrutiny and oversight of actions taken by elected officials and civil servants. In many countries, for instance, citizens can check the use of public resources by accessing expense reports filled by politicians and, if unhappy, demand proper use of government funds. Under these conditions, transparency creates an accountability mechanism aligning interests of agents and principals and further supporting economic and social progress. In recent debates about the impact of institutions on development, however, there is an increasing push for more granular understanding of these accountability mechanisms. Investigations on the endogeneity of institutions and their strength (Acemoglu et al., 2005; Levitsky and Murillo, 2009; Dal Bo et al., 2010) are becoming more widespread and this project contributes to this scholarship as the first account of the simultaneous effects of *active* and *passive* transparency on government performance.

There are many studies looking at active and passive transparency separately. The former can be understood *as any action initiated by government, or its partners, releasing information about government business*, of which top-down monitoring is the most important mechanism. Using experimental evidence from Indonesia, Olken (2007) shows that delivering top-down audits of road construction projects with certainty reduces the amount of missing funds by eight percentage points, while grassroots community initiatives have no effect on the misallocation of public resources. Ferraz and Finan (2008) investigate whether the release of corruption information via audits impacts the electoral performance of incumbent mayors in the Brazilian municipal elections of 2004. They find that stronger corruption allegations (as measured by the level of corruption revealed in the audit reports) significantly reduced the chances of incumbent reelection by as much as seven percentage points. In the presence of a local AM radio station, the impact increases to a 23 percentage point hit to the probability of reelection of incumbent mayors. Bobonis et al. (2016) document a 67 percent reduction in corruption when municipalities in Puerto Rico undergo their timely audits before election period, and corroborates the evidence that top-down monitoring consistently prevents misallocation of resources.

The monitoring effect on corruption is present even when accountability comes from media coverage. Campante and Do (2014) show that isolated U.S. state capitals have higher corruption levels, as measured by federal convictions for corruption-related crimes, due to the lower concentration of population and newspapers in and around their geographical area. This media monitoring effect does not only impact criminal behavior, such as corruption, but also non-criminal behavior, such as day-to-day political work. Snyder Jr and Strömberg (2010) use the geographical intersections of media markets and U.S. congressional districts to isolate the effect of media coverage on political behavior. They find that representatives from districts where media coverage is larger are more

aligned with their constituents' preferences, more likely to participate in congressional hearings, and to serve in committees directly relevant to their constituents. Though these studies are conducted at different periods and across different countries, they jointly point to the same positive effect of active transparency on government accountability.

Passive transparency, on the other hand, has only recently become a topic of academic interest, so much so that it does not have a widely-accepted definition yet. To that end, I define it *as any action initiated by government, or its partners, in which information is made available but released only upon request.* The key difference to active transparency is the information release component. In actuality, passive transparency has mostly taken the form of freedom of information acts (FOIAs). FOIAs constitute dormant accountability measures which are activated when there is an explicit request from the public, the media, or any other non-governmental agent. In one of the earlier analysis of freedom of information policies, Escaleras et al. (2010) find that passive transparency does not reduce corruption; in fact, in developing nations, their evidence is that implementing FOIAs actually *increases* corruption. Costa (2013) corroborates these findings with micro-level data from the World Bank Business Environment and Enterprise Performance Survey, where she shows that after the adoption of FOI laws firms are eight to 12 percentage points more likely to perceive corruption as an obstacle to business. These studies, however, rely on corruption perception indexes and thus are susceptible to two simultaneous measurement errors: the increase in corruption could come from (i) FOIAs detecting more of otherwise uncovered corruption in Escaleras et al. (2010), leading to (ii) firms perceiving more corruption in Costa (2013). Both cases are compatible with unchanged (or lower) levels of corruption. The results in Cordis and Warren (2014) are more aligned with the expected relationship between passive transparency and corruption: using the same corruption (objective) measure of Campante and Do (2014), federal convictions for corruption-related crimes, they find that U.S. states switching from weak to strong FOIA institutions experience twice as many corruption detection and conviction cases.

To my knowledge, this is the first study bringing together active and passive transparency. At first, analyzing the joint effect of transparency might seem uninteresting. If separately these policies improve governance, either by looking at corruption or political behavior, and are both expressions of government accountability, then it is intuitive to conclude that both favor good governance and performance. A more nuanced reasoning, however, reveals interesting puzzling questions. In a world where government resources are scarce, authorities might perceive them as competing policies and choose the implementation of one over the other. As such, any analysis that directly compares the effect of each alternative is of great policy value. In addition, if we allow for heterogeneous behavior of individuals working in government, we can expect different reactions to the implementation of either policy, e.g. they might fear audits more than FOIA requests. Finally, there are a number of recent studies looking at whether better informed voters can ensure better governance practices (Pande, 2011; Winters and Weitz-Shapiro, 2013; Chong et al., 2015; Weitz-Shapiro and Winters, 2017). An open question remains as to which type of transparency produces the most credible information for holding politicians and bureaucrats accountable for their actions.

I take advantage of an unique policy environment in Brazil to answer these questions. Between 2003 and 2015, the Office of the Comptroller-General (CGU) implemented a random audit program investigating the use of federal resources by municipalities across Brazil to implement local public policies. This program provides exogenous variation in active transparency for a random sample of municipalities during this period. In 2012, however, Brazil also enacted its Freedom of Information Act, known *in portuguese* as LAI, establishing channels of information release across all government levels. By overlaying random audits and LAI across municipalities over time, I artificially create a two-by-two factorial experiment where municipalities fall into one of four treatment arms: (i) control (municipalities not audited before LAI); (ii) passive transparency (municipalities not audited after LAI); (iii) active transparency (municipalities audited before LAI); (iv) active and passive transparency (municipalities audited after LAI). I then compare the effect of these treatments on government performance and sanctions applied to politicians and civil servants charged with wrongdoing between 2006 and 2018.

Besides the random audit policy, CGU also established a program in 2015 called *Transparent Brazil Scale* (EBT), which measures the implementation of the freedom of information act across a random sample of municipalities via submission of homogeneous information requests to local governments. To the same extent as the corruption findings published in CGU reports,[1] the data collected in the EBT program forms an unbiased, objective measure of information quality when FOIAs are enacted – precisely speaking to the credible information literature. Thus, using the outcomes from both CGU programs, I take one step further and provide estimates of the cross-effect of transparency, i.e. the effect of active transparency on information quality and the effect of passive transparency on misallocation of resources.

Preliminary results are interesting.

The remaining of this paper is organized as follows: in section 1.2, I discuss the institutional design that allows for the causal identification of both active and passive transparency effects; section 1.3 presents the data used in this project; section 1.4 suggests the theoretical mechanisms and hypotheses of the impact of various types of transparency on government performance; section 1.5 outlines the empirical strategy yielding the results in section 1.6; finally, section 1.7 concludes laying the groundwork for the conclusion of this project.

Table 1: Descriptive Statistics by Treatment Condition

	Active Transparency			*Passive Transparency*			*Active and Passive Transparency*		
	Control	Treatment	Diff.	Control	Treatment	Diff.	Control	Treatment	Diff.
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Share Urban (Pop.)	0.632	0.626	0.006	0.625	0.632	-0.007	0.630	0.629	0.001
			(0.415)			(0.398)			(0.944)
Share Female (Pop.)	0.505	0.505	0.000	0.505	0.505	-0.001	0.505	0.506	-0.001
			(0.443)			(0.173)			(0.292)
Illiteracy Rate	0.170	0.181	-0.011	0.179	0.171	0.008	0.172	0.192	-0.020
			(0.001)			(0.038)			(0.002)
Income Per Capita (ln)	9.150	9.041	0.109	9.052	9.142	-0.09	9.132	8.995	0.136
			(0.000)			(0.000)			(0.003)
Gini Coefficient	0.510	0.514	-0.004	0.512	0.510	0.002	0.510	0.522	-0.011
			(0.037)			(0.375)			(0.005)
Human Development Index	0.653	0.644	0.009	0.645	0.652	-0.007	0.652	0.637	0.015
			(0.000)			(0.008)			(0.001)
Share Poor (Pop.)	0.249	0.274	-0.024	0.270	0.251	0.019	0.253	0.288	-0.035
			(0.000)			(0.004)			(0.004)
Presence of AM Radio	0.204	0.203	0.001	0.203	0.204	-0.001	0.204	0.203	0.001
			(0.929)			(0.944)			(0.960)
Presence of Health Council	0.759	0.773	-0.014	0.767	0.761	0.005	0.761	0.802	-0.041
			(0.304)			(0.725)			(0.131)
Presence of Ed. Council	0.973	0.967	0.006	0.971	0.972	-0.001	0.973	0.952	0.021
			(0.313)			(0.866)			(0.148)
Seat of Judiciary Branch	0.500	0.505	-0.005	0.486	0.505	-0.018	0.498	0.586	-0.088
			(0.745)			(0.310)			(0.009)
N	4,177	1,187		960	4,404		5,137	227	

Note: This table displays means for all observations in each treatment arm against all other. Thus, the sum of observations is larger than the total sample size (5,364). Columns (1)-(3) are the means for the control group, the treatment group, and difference across means; p-values are displayed in parentheses.

Table 2: Observations by Transparency Condition

	Passive		
Active	Pre-LAI	Post-LAI	Total
Not Audited	-	4,177	4,177
Audited	960	277	1,187
Total	960	4,404	5,364

1.2 Institutional Background

1.3 Data

1.3.1 Sampling Strategy

1.4 Theory

1.5 Empirical Strategy

1.6 Preliminary Results

Table 3: The Effect of Passive Transparency on Corruption

	Outcomes:					
	Acts of Corruption (ln)		Acts of Mismanagement (ln)		No. of Irregularities (ln)	
	(1)	(2)	(3)	(4)	(5)	(6)
Passive Transparency	−.082***	−.128***	.452***	.457***	−.047***	−.088***
	(.011)	(.008)	(.057)	(.057)	(.010)	(.007)
Municipal Controls	-	Yes	-	Yes	-	Yes
Observations	1,187	1,187	1,187	1,187	1,187	1,187
R^2	.003	.232	.034	.046	.001	.204
Adjusted R^2	.003	.224	.034	.036	.000	.196

Note: This table displays the regressions measuring the effect of passive transparency (post-adoption of freedom of information act – LAI) on corruption and mismanagement of public resources for a random sample of municipalities which audited by the Office of the Comptroller-General (CGU) from 2006 to 2015. For each outcome, I display two regressions including and excluding municipal controls. The variable of interest is whether municipalities were audited after the implementation of LAI. Robust standard errors are in parentheses. *p<0.1; **p<0.05; ***p<0.01.

1.7 Further Development

[1] As extensively discussed in Ferraz and Finan (2008, 2011); Brollo et al. (2013); Zamboni and Litschig (2018); Finan et al. (2018).

Table 4: The Effect of Active Transparency on Information Requests

	Outcomes:			
	FOI Request (time)		FOI Request (quality)	
	(1)	(2)	(3)	(4)
Active Transparency	−.073***	−.050***	−.085***	−.063***
	(.004)	(.003)	(.004)	(.004)
Municipal Controls	-	Yes	-	Yes
Year Fixed-Effects	-	Yes	-	Yes
Observations	4,404	4,404	4,404	4,404
R^2	.002	.122	.002	.123
Adjusted R^2	.001	.119	.002	.120

Note: This table displays the regressions measuring the effect of active transparency (being audited by a team of officials from the Office of the Comptroller-General – *CGU*) on information requests for a random sample of municipalities across Brazil participating in the *Transparent Brazil* program. For each outcome, I display two regressions including and excluding municipal controls and year fixed-effects. The variable of interest is whether the municipality was audited by CGU after 2012. Robust standard errors are in parentheses. *p<0.1; **p<0.05; ***p<0.01.

Table 5: The Effect of Active and Passive Transparency on Performance and Sanctions

	Outcomes:			
	MDP Adoption		Sanctioned	
	(1)	(2)	(3)	(4)
Active and Passive Transparency	−.009	−.026***	.008***	.010***
	(.008)	(.006)	(0.000)	(0.000)
Municipal Controls	-	Yes	-	Yes
Year Fixed-Effects	-	Yes	-	Yes
Observations	5,364	5,364	5,364	5,364
R^2	0.000	.262	0.000	.049
Adjusted R^2	-0.000	.259	0.000	.046

Note: This table displays the regressions measuring the effect of active and passive transparency (being audited by CGU after 2012) on the adoption of municipal development plans (MDP) and on sanctions imposed to politicians and bureaucrats for a sample of random municipalities selected for audits and participation in the *Transparent Brazil* program. For each outcome, I display two regressions including and excluding municipal controls and year fixed-effects. The variable of interest is whether the municipality was audited by CGU after 2012. Robust standard errors are in parentheses. *p<0.1; **p<0.05; ***p<0.01.

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