

## Introduction

Andimuthu Raja's arrest came on February 2, 2011. After being called in for questioning by India's Central Bureau of Investigation in the morning, he was detained later that day and placed in Delhi's notorious Tihar Prison. This marked the apex of a scandal that one journalist described as setting "a new national benchmark for corruption caused by the nexus between politics and business."<sup>1</sup> As India's communications minister, Raja had overseen the sale of 2G mobile spectrum licenses in 2008. Auditors accused the ministry of a plethora of violations: The implementation of the sale deviated from the procedure approved by the cabinet, and licenses were significantly undervalued. Deadlines were arbitrarily changed on short notice, eliminating companies without prior knowledge. Applications by others were processed even though documents were fake or missing.<sup>2</sup> Auditors concluded that the losses to the state, and the gains for telecommunications companies, were as high as \$40 billion. But the corporations were not the only one's who received a windfall: Raja is suspected of having pocketed millions for himself.<sup>3</sup>

Former US Congressman Walt Minnick also had a close relationship with the business sector and received a lot of money from it. He admitted that he spent "two or three hours a day as a congressman trying to raise money" because he "needed to raise \$10,000 to \$15,000 a day."<sup>4</sup> Minnick

<sup>1</sup> "Spectrum Shadiness," *Caravan Magazine*, December 1, 2010.

<sup>2</sup> "Performance Audit of Issue of Licences and Allocation of 2G Spectrum of Union Government, Ministry of Communications and Information Technology," *Comptroller and Auditor General of India*, November 16, 2010.

<sup>3</sup> "A Raja Made Rs 3,000cr in Bribes," *Times of India*, February 11, 2011; "Indian Authorities Arrest Ex-Telecoms Minister A Raja," *BBC News*, February 2, 2011.

<sup>4</sup> "461: Take the Money and Run for Office," *This American Life*, March 30, 2012.

did not even wait to take office before he tried to capitalize on it. Only five days after he won his election in 2010, a couple of months before being sworn in, he was already busy making calls asking people to pay up. Two years later, the first-term representative with little clout in the legislature had amassed more than \$2.6 million.<sup>5</sup> The major difference between Raja and Minnick is that whereas the former enriched himself personally, the latter spent the millions he raised on his reelection campaign to try to stay in office.

Finally, in September 2005, the heads of Russian and German energy companies signed an agreement to build a new gas pipeline through the Baltic Sea that was large enough to deliver almost 70 percent of Germany's annual gas supplies. Construction costs were estimated to exceed €4 billion (about \$4.9 billion given the exchange rate at the time). Both German Chancellor Gerhard Schröder and Russian President Vladimir Putin signed off on the project. Schröder did so despite considerable opposition at home and abroad. For example, the Polish prime minister lamented that "we were not able to convince the Germans that this is bad for them."<sup>6</sup> Schröder left office two months later. Only seventeen days thereafter, he accepted the position of chairman of the board of Nord Stream, the consortium building the pipeline, with an estimated salary of several hundred thousand dollars per year.<sup>7</sup>

All three cases are examples of elected politicians taking large sums of money. They all illustrate the potential for such money to influence policy in a way that runs counter to the preferences of the majority of voters, thus highlighting a fundamental tension in democratic politics. But they differ in *how* the politicians used the money. Raja enriched himself while in office, Minnick financed his reelection campaign, and Schröder accepted a lucrative "golden parachute" job after leaving office.

Why did these politicians use the money they had access to in different ways? Is it because of their arbitrary personal preferences, or are there more systematic underlying reasons? If there is a pattern, is the presence or absence of these different types of money in politics independent of each other and driven by separate causes? Or, if the forms are connected, can they be explained by common factors? Under what conditions is each type present, and does having less of one form mean there is more of another?

<sup>5</sup> "Rep. Walt Minnick – Campaign Finance Summary," *Center for Responsive Politics*.

<sup>6</sup> "Polen sind sauer über Ostsee-Pipeline," *Stern*, September 8, 2005; "Gaspipeline vereinbart," *Zeit Online*, September 8, 2005.

<sup>7</sup> "Schroeder Accepts Russian Pipeline Job," *Washington Post*, December 10, 2005; "Die Gerhard-Schröder-AG," *Manager Magazin*, April 9, 2010.

What does this imply for the effectiveness of regulation designed to limit money in politics? And what difference does it make for a democracy if politicians enrich themselves while in office, raise money to try to stay there, or cash in on their position after leaving it?

# 1.1 ARGUMENT: THE SYSTEM OF MONEY IN POLITICS

In this book, I answer these questions by arguing that the most common ways in which politicians use money – for self-enrichment, to fund campaigns, and by accepting golden parachute jobs – are all part of a *common system* and should therefore be analyzed in a *single framework*. My approach is distinct from most prior studies, which tend to either examine money in politics in a comparative manner, but without distinguishing between different types, or explore one form of money while ignoring the others, typically in a single country. Here, I look at *several types of money in politics together* while taking an explicitly *comparative perspective*. I develop and test a theoretical framework that: (1) shows how the different forms are connected to each other; (2) explains when money enters politics in what way; (3) illuminates how a change in one form affects the other types; and (4) reveals the consequences this has for democracy.

This analysis provides a string of novel, and often surprising, insights. It reveals that the different types of money are partially *fungible*, so a change in one form leads to important *second-order changes* in the opposite direction for the other types. For example, it is somewhat obvious that regulating campaign finance more strictly leads to less campaign spending. Yet it is less straightforward that the downstream effects of such regulation are *more* self-enrichment in office and *more* golden parachute employment. It is only once we examine the different forms of money as elements of a *common system* that we see how a change in one type leads to opposite effects in other types. Furthermore, various types of money in politics have different effects on numerous facets of democratic politics, such as voters' view of politicians or who wins elections. Thus, a change in one type of money leads not only to second-order changes in other forms; it also has *third-order effects on the quality of democracy*.

The connections between the different forms of money in politics, and the second- and third-order effects this implies, have received little attention in prior studies. Nor do they play a part in public discussion. I show that ignoring these connections leads to an incomplete, and possibly misleading, understanding of the topic. The central implication of this book is therefore that we can only fully understand the role of money in

politics if we think of it as a *system*. The rest of this section provides a brief overview of my argument, which I make in three steps.

### The Connection between the Types of Money in Politics

In a first step, I argue that self-enrichment, campaign spending, and golden parachute jobs should neither be treated as equivalent nor as entirely separate. Instead, they are part of a *system* and should be analyzed in a common framework.

The link that connects all three is that they are crucial in advancing politicians' career goals. As Mayhew (1974) famously argued, one of politicians' central aims is to get reelected. But extensive research shows that they are also interested in improving their personal financial situation. Money furthers both of these goals. As utility-maximizing actors, politicians will seek to use money in the ways that best suit their needs, given the conditions they operate in. In other words, the different forms of money are partially *fungible*. This highlights the need to develop a framework that gives us an idea when each form is more or less prevalent, and what downstream effects an increase or decrease in one type has on the others.

### How Money Enters Politics

Second, I develop a theoretical framework that clarifies when money enters politics for self-enrichment, for campaign spending, or comes in the form of golden parachute jobs, and how a change in one form affects the others. I examine the impact of two macro-level factors that systematically shape how much of each type there is.

The first is the *legal environment*. Different laws govern the three forms of money, and some are more strictly regulated than others. I argue that politicians arbitrage these disparities, which generates important *second-order effects*. If one type of money is subject to more rigid laws, it is – unsurprisingly – likely to become less prevalent. However, this does not necessarily mean that money simply disappears from politics: because the different forms are partially fungible, less of one type generally leads to more of the others.

The second factor that determines how money enters politics is the *electoral campaign environment*. While self-enrichment and golden parachute jobs benefit politicians directly, campaign spending has an indirect effect – increasing their chances of getting elected. How much politicians spend on a campaign depends on how demanding the campaign environment is,

in particular how competitive the race is likely to be and how effective the prevalent campaign strategies and technologies are. Because the different forms of money are part of a common system, this again has second-order consequences: politicians who spend less on elections are more likely to use the other types of money.

These two factors jointly determine how money enters politics. They help us predict whether politicians use the money they have access to for self-enrichment, as campaign spending, or in the form of a golden parachute job. Mapping the landscape in this way helps us understand the interconnected system of money in politics, and to explain why we see different types in different contexts. The map also offers insights into the downstream effects that an increase or decrease in one form of money is likely to have on other types. If we only look at one type in isolation, we miss these opposing second-order effects; they instead show up as unintended consequences.

### Consequences for Democracy

In a final step, I argue that different forms of money have different repercussions for important aspects of *democratic politics*. The second-order consequences highlighted earlier are therefore followed by important *third-order effects*.

First, I show that voters react differently depending on whether politicians use the same amount of money for campaign spending, self-enrichment in office, or golden parachute employment. If, for whatever reason, one form becomes less common and causes another to become more prevalent, it changes how voters view their representatives. This has significant implications for the public's confidence in politics.

Second, how money enters politics influences who wins elections. Since campaign spending helps candidates win votes, conditions that lead to more of that type of money affect election outcomes. This is especially true when, as is usually the case, some candidates or parties have access to more money than others. And since changes in campaign spending can be brought about by changes in the other forms, *any* event that alters one form of money in politics potentially affects who wins elections, which has far-reaching consequences for democratic competition.

### Evolving the Conversation about Money in Politics

Studying a single form of money in isolation thus overlooks crucial insights. This book highlights the need to move the conversation about

money in politics forward by treating the different forms as part of an interdependent *system*. This allows us to examine how they are linked and to anticipate the knock-on effects that a change to one of them may generate. This will improve our understanding of money in politics, and inform the implementation of policies that can more successfully keep its influence in check.

## 1.2 TESTING: CHALLENGES, EMPIRICAL APPROACH, AND CASE SELECTION

To test the argument that the different types of money in politics are part of a common system, and investigate the second- and third-order effects it generates, I must overcome a series of challenges.

The first and most obvious difficulty is what *data* to use, given that money in politics is often hidden from public view. A common solution to this challenge has been to use perception-based indicators. However, existing measures do not sufficiently differentiate between different forms of money, so they are not suitable for my purpose. Instead, I follow an increasing number of studies that make use of laws requiring the disclosure of relevant information, or use “forensic” approaches to indirectly infer the quantities of interest (cf. Golden and Picci, 2005; Di Tella and Weinschelbaum, 2008; Djankov et al., 2010; Fisman and Golden, 2017a). However, such studies typically focus on a single form of money, which obviously would not allow me to test an argument about the connections between the different types. In contrast to nearly all prior research, I need to study situations in which there is data on *several forms of money* at the same time.

A second challenge for the empirical sections of the book is the issue of *causality*. I argue that the legal and electoral campaign environments shape how money enters politics. However, the latter is also likely to affect the former. For example, campaign finance reforms tend to be passed in response to increases in campaign spending, and stricter regulation of enrichment in office often follows revelations of egregious self-dealing (see e.g. Pinto-Duschinsky, 2002; Fisman and Golden, 2017a).<sup>8</sup> I therefore have to carefully identify situations that provide *plausibly exogenous variation* in the legal or electoral campaign

<sup>8</sup> For discussions of reverse causality in the study of money and politics, see Lambsdorff (2006); Treisman (2007).

environments that should affect the relative prevalence of the three types of money in politics.

It is difficult – but not impossible – to obtain data on several types of money in situations that allow me to get a handle on the direction of the causal arrow. Several of the world's largest democracies – India, Brazil, and the United States – make available the kind of information that permits me to study the connection between the different forms of money. I therefore use microlevel data from these contexts to conduct a series of within-country studies.

For India, I analyze detailed mandatory asset disclosure affidavits that politicians have to submit before each election. They enable me to assess how much their personal assets have grown over the course of a legislative period and how much resources they have accumulated for their reelection campaign. In the Brazilian case, I also assemble data on politicians' asset development, as well as on their campaign spending. Finally, for the United States, I analyze the information provided in candidates' campaign finance disclosure forms and assemble new data that tracks if (and when) thousands of state legislators left office and took up a golden parachute job.

In each instance, I use detailed case knowledge to identify situations that allow me to study the second-order consequences of a change in one form of money. Where possible, I exploit plausibly exogenous modifications to politicians' legal and electoral campaign environments, for example as a result of redistricting, discontinuities in laws, or court rulings. Where it is not possible to exploit exogenous interventions, I carefully try to ensure that I am analyzing comparable cases. Finally, to test the third-order effects on voters' attitudes and election outcomes, I conduct original survey experiments in India and the United States and exploit the staggered introduction of laws that regulate money in the US states.

Of course, these three countries are not a representative sample of democracies. Decisions about whether to make information publicly available are strategic (Hollyer, Rosendorff, and Vreeland, 2011; Berliner, 2014), and the demand for information on politicians is more pronounced in systems with an individualistic vision of representation (Carey, 2009). It is thus no accident that data mainly exists for first-past-the-post legislative or executive positions, which is what I examine in my three cases. Nevertheless, these countries are insightful to study. They all are large democracies in which money in politics plays an important role in public debate. They are also central to the academic study of the issue, so I am able to connect my findings to existing scholarship.

Nevertheless, the within-country examinations raise a third challenge: Do the patterns identified *within* these three democracies also hold when looking *between* countries? To address this question, I complement the single-country examinations with a series of shorter case studies to test my argument cross-nationally. This approach has a long tradition in the literature on money in politics (e.g. Scott, 1972; Johnston, 2005, 2014). I use sources such as previous academic studies, official statistics, and reports by anti-corruption groups and news organizations to analyze the connections between the different forms of money in various countries. The cases I examine vary along the two explanatory dimensions and show that my argument also explains why some forms of money are more common in some countries than in others.

This book thus takes a two-pronged empirical approach, using within-country quantitative as well as between-country qualitative analyses. It therefore combines attention to the broader cross-national patterns of how money enters politics with the within-country identification of the marginal effects of the explanatory variables. This approach allows me to provide a comprehensive set of empirical tests of my argument.

### 1.3 CONTRIBUTIONS OF THE BOOK

A contemporary review article of research on money in politics argues that “[a]sking how different forms of corruption accompany or substitute one another is perhaps the most important topic in ... corruption studies” (Mistree, 2015, 367). In this book, I seek to do just that. Focusing on *politicians*, my account combines the three most common ways they use money in a unifying framework. My argument and evidence demonstrate the benefits of treating self-enrichment, campaign financing, and golden parachute employment as parts of a single system. This study advances the academic literature on money in politics on several fronts. It also has important policy implications for how to think about and address the impact of money on the functioning of our democracies.

### Understanding Money in Politics

Legal scholar Matthew Stephenson has made it his mission to maintain a constantly updated bibliography of research that studies corruption. As of May 2021, it is more than 700 pages long and has almost 8,800 entries (Stephenson, 2021). The role of money in politics is thus by no means



an understudied area. Broadly speaking, modern empirical studies of the flow of money to politicians fall into two camps.

The first camp took off when indicators such as Transparency International's Corruption Perceptions Index (CPI) became available. Such measures provided researchers with annual quantitative data to employ in large-*n* comparative studies. This literature has been successful at providing an overview of corruption, broadly conceived, around the world. We now have a much better idea of which countries have more or less of it, what drives these differences, and what the consequences are (for overviews see Treisman, 2000, 2007).

Studies in the second camp take a narrower approach. They typically focus on one or a small number of countries and use microlevel data on one form of money in politics. One such literature evaluates campaign contributions, mostly focusing on the United States, while another studies politicians' enrichment in office. And a small but growing literature assesses politicians' moves to the private sector. These studies have refined our understanding by examining in detail how politicians use money.

Despite the considerable scientific advances made by each of these two camps, the resulting bifurcation of the literature has limited our understanding of money in politics. Imagine each approach represents a different type of map (cf. Giere, 1990; Clarke and Primo, 2012). The first camp would comprise world maps that show all countries; they would have a high level of abstraction and display only broad shapes. The second camp would be depicted by maps that provide detailed pictures of single countries, but only with respect to a particular characteristic: one map might limit itself to displaying a country's highways, and another only its train tracks.

Both approaches are very useful, and have improved our understanding of money in politics. But they have also led to a number of blind spots. This book represents a step toward addressing those blind spots. I combine the strengths of each camp by studying the *mechanisms* of how money enters politics in a *comparative* framework. We can gain many additional insights this way, and we can solve a number of puzzles that the current approaches to studying money in politics pose.

### *Solving Puzzles of the "Black Box" Approach*

Studies that use large-*n* cross-country research designs provide a large, but abstract, world map that often lacks depth. Cross-national indicators such as the CPI aggregate many different forms of money at various levels, ranging from bribe-extorting policemen to government ministers who

embezzle millions or illegally finance their campaigns. They thus have a *black box* quality to them.<sup>9</sup>

Such studies identify broad reasons why some countries are, on aggregate, more corrupt than others, but cannot examine the causes and consequences of the specific ways in which money enters politics. If a country, for instance, experiences a change in one of the determinants, then its corruption score will increase or decrease. This implicitly conveys that different forms of money in politics go together. However, even a cursory look at the three countries that Andimuthu Raja, Walt Minnick, and Gerhard Schröder hail from reveals this not to be the case.

The United States is well known for its expensive election campaigns. Upwards of \$14 billion was spent in the 2020 elections on federal races alone<sup>10</sup> – more than the annual GDP of Armenia, Nicaragua, or Namibia. At the same time, the majority of members of Congress become lobbyists or join corporate boards after leaving office.<sup>11</sup> However, US lawmakers rarely enrich themselves while in office.<sup>12</sup>

Elections in India are also expensive. The 2019 campaign was estimated to have cost more than \$8.5 billion.<sup>13</sup> And Andimuthu Raja is only one of many Indian politicians suspected of having enriched themselves in office. Yet the phenomenon of politicians leaving office to take up lucrative private sector jobs is unknown in India. In fact, observers often lament the opposite problem – that the country's politicians hardly ever see the necessity to exit politics.

Finally, Gerhard Schröder is not the only German politician to have taken up a private sector job after leaving office: More than a third of his cabinet did as well, as do many members of parliament.<sup>14</sup> Yet parties in Germany spend less on their entire national election campaigns than some US senators do on a single race, and enrichment while in office is practically unheard of in German politics.<sup>15</sup>

<sup>9</sup> The Varieties of Democracy project (Lindberg et al., 2014) has developed a number of indicators that distinguish between the arenas in which corruption occurs, such as the legislative or the executive. However, these measures do not distinguish between different forms of money.

<sup>10</sup> “2020 Election to Cost \$14 Billion, Blowing Away Spending Records,” *Center for Responsive Politics*, October 28, 2020.

<sup>11</sup> Lazarus, McKay, and Herbel (2016); Palmer and Schneer (2016, 2019).

<sup>12</sup> Eggers and Hainmueller (2013, 2014).

<sup>13</sup> “India’s Election Spending Surges Past US to Record High,” *CNN*, June 8, 2019.

<sup>14</sup> See Klein and Höntzsch (2007); Edinger and Schwarz (2009); Dörrenbächer (2016).

<sup>15</sup> McKay (2003); “Why Germany’s Politics Are Much Saner, Cheaper, and Nicer Than Ours,” *The Atlantic*, September 30, 2013.

Thus, it is decidedly *not* the case that different forms of money in politics go together, or that a given determinant has the same effect on all three types. The black box approach cannot explain why different forms of money are common in different countries; nor can it tell us why the different types apparently respond in different ways to a common factor.

This book solves these puzzles. It provides a map of how money enters politics that shows which characteristics determine whether the dominant form in a given context is self-enrichment, campaign spending, or golden parachute employment. This explains whether (and why) a typical politician in a country is like Andimuthu Raja, Walt Minnick, or Gerhard Schröder. By highlighting that the various forms are part of a common system and thus connected to each other because of their partial fungibility, the book also shows that decreasing one form often leads to increases in other types.

The latter helps resolve another puzzle in the literature, as it makes clear why there is considerable continuity in overall levels of money in politics, despite a great many reforms designed to limit it (see e.g. Lambsdorff, 2007; Warner, 2007; Persson, Rothstein, and Teorell, 2013; Mungiu-Pippidi, 2015, 2017; Rothstein, 2018). Such reform efforts typically target only *one* form of money, and leave the door open for others, which invites arbitrage efforts. Therefore, reforms often have only a limited effect on how much money enters politics.

### *Solving Puzzles of the “Partial Equilibrium” Approach*

Studies that focus on one form of money, typically in a single context, are akin to detailed maps of specific features in one country. Just as having a map of a country’s highways is vital, but only does so much to help us understand its entire infrastructure, the focus on one type of money in politics is important, but only provides a partial understanding. The piecemeal approach makes it difficult to combine the findings to build a comparative picture. Studies in this *partial equilibrium* research tradition have therefore generated a somewhat fragmented understanding of the role of money in politics, which has resulted in some puzzling findings. Studying the different forms in a common framework helps make sense of them.

One characteristic of partial equilibrium studies is that they explain the prevalence of personal enrichment, campaign spending, and golden parachute employment independently of each other. For example, the most widely accepted explanation for golden parachute jobs is the private sector’s “need” for the connections that politicians provide (cf. de Figueiredo

and Richter, 2014). But it seems unlikely that companies in, say, India have no need for better political connections. In fact, one study characterizes an “Indian business model in which cultivating political connections in Delhi became the core competence and the most important survival imperative for businesses” (Khatri and Ojha, 2016, 63). Yet Indian companies do not tend to hire former politicians.

My framework explains why this is the case by highlighting that a country’s legal and electoral campaign environments determine how money enters politics. In India, these environments are such that self-enrichment in office is widespread and politicians see no need to leave politics for the private sector to earn money. More broadly, this book explains why Andimuthu Raja, Walt Minnick, and Gerhard Schröder are typical cases for their countries.

Another puzzle emerges when looking at the effect sizes of different partial equilibrium analyses. A series of recent studies use regression discontinuity designs that compare winners and losers of close elections to estimate the effect of holding office on different forms of money. Those that examine personal enrichment generally find that after a few years, narrow winners have only slightly more assets than narrow losers (e.g. Bhavnani, 2012; Querubin and Snyder, 2013; Fisman, Schulz, and Vig, 2014). Yet winners of close elections have been found to raise *much* more campaign money than losers of such elections (Fouirnaies and Hall, 2014). These findings are especially puzzling given that the first set of studies use data from the high-corruption environments of the historical United States or contemporary India, whereas the latter examine the comparatively low-corruption United States in recent times. Why does holding office have a lesser effect on money where levels of corruption are high?

Looking at the different forms of money as part of a common system helps solve this puzzle. I show that the electoral campaign environment, particularly its level of competitiveness, plays an important role in how money enters politics. Because they compare the winners and losers of close elections, regression discontinuity designs by definition focus on electorally vulnerable candidates. These incumbents have reason to prioritize campaign spending. As a second-order effect, they then have less leeway to enrich themselves. This helps explain why studies find a large effect of being in office on campaign spending and a small effect on self-enrichment.

Finally, there is a curious disconnect regarding the consequences of changes to one type of money in politics. For instance, prior studies have

found that stricter campaign finance legislation limits campaign spending and affects various election characteristics (e.g. Milligan and Rekkas, 2008; Avis et al., 2021; Fourinaies, 2021). However, such reforms have little effect on the influence of money in politics. For example, Pinto-Duschinsky (2002) observes that “[t]he frequency with which new laws concerning campaign and party finance are enacted is testimony to the failure of many existing systems of regulations” (Pinto-Duschinsky, 2002, 69). Systematic examinations of the consequences of stricter laws regulating money in politics have also produced a string of null results (e.g. Issacharoff and Karlan, 1998; Werner, 2011; Law and Long, 2012; Norris and Abel van Es, 2016; Abdul-Razzak, Prato, and Wolton, 2020).

Again, this book helps solve that puzzle and explains why such reforms are often so ineffective, and why money in politics is so persistent. Because the different types of money form part of an interconnected system, a change in one form leads to opposing trends in the other forms, which weakens the impact of reforms designed to reduce the impact of money on politics. Due to the siloed nature of the micro-mechanism literature, this important context has been missing from past studies.

### *Toward a General Equilibrium Analysis of Money in Politics*

All of this means that this book contributes to a growing literature on the *connections between different avenues via which money enters politics*. Past research in this area has focused on the links between legal and illegal forms of influence (Kaufmann and Vicente, 2011), between grand and petty corruption (Bussell, 2012), between different forms of the same type of money in politics (Issacharoff and Karlan, 1998; La Raja and Schaffner, 2015; Ang, 2020), or between the political arena and the bureaucracy (Boehmke, Gailmard, and Patty, 2005; Campos and Giovannoni, 2007; Bennedsen, Feldmann, and Lassen, 2009; Naoi and Krauss, 2009; Harstad and Svensson, 2011; You, 2017). The current book furthers this line of inquiry by studying the choice between the different ways in which money flows to elected politicians.<sup>16</sup>

This moves us closer to a *general equilibrium analysis of money in politics*. By providing a framework that situates different forms of money within a common system, the book highlights the second-order consequences that result from the responses of politicians affected by various legal or electoral campaign environments. This helps us better anticipate

<sup>16</sup> A few (mostly theoretical) studies distinguish between money used for personal versus electoral gain (e.g. Nyblade and Reed, 2008; Golden, 2012; Gingerich, 2014b).

what have so far been unintended consequences (cf. Fisman and Golden, 2017b). What is more, it becomes clear that the way money enters politics has profound third-order effects on important aspects of democratic competition, which have rarely been studied in the literature.

### Implications for Policy

The findings in this book also have implications for how the policy community approaches the issue of money in politics. The bifurcated thinking that is prevalent in the academic literature is also found in advocacy work and public debate. On the one hand, a black-box approach tries to tackle money in politics writ large by combating its nonspecific determinants. For example, greater transparency is widely promoted as a potent weapon against the undue influence of all forms of money. Indeed, the best-known anti-corruption organization is called Transparency International. But as my argument and evidence make clear, different factors often have different effects on different forms of money in politics. While nonspecific determinants may decrease some types, they may also increase others, resulting in an ambiguous overall effect. And indeed, the evidence on the effect of transparency on corruption writ large is mixed (e.g. Rothstein, 2011; Hollyer, Rosendorff, and Vreeland, 2014; Kosack and Fung, 2014; Corbacho et al., 2016; Bauhr and Grimes, 2017).

On the other hand, partial equilibrium thinking is also widespread among activists seeking to limit the influence of money in politics. For example, one of the central demands of India's anti-corruption Aam Aadmi Party was an independent ombudsman who monitors politicians' assets and punishes those found to have illicitly enriched themselves.<sup>17</sup> In Britain, the High Pay Centre think tank instead worries that politicians give preferential treatment to companies that may employ them in the future and demands the regulation of post-politics jobs.<sup>18</sup> And in the United States, groups with names like Americans for Campaign Reform and Citizens for Clean Elections advocate limitations on election spending.

Thus, when not focusing on nonspecific determinants, efforts to curb money in politics target a single type, whichever is most common in a given context. The hope is that doing so will limit the total amount of

<sup>17</sup> "National Manifesto 2014," *Aam Aadmi Party*, April 4, 2014.

<sup>18</sup> "The Revolving Door and the Corporate Colonisation of UK Politics," *High Pay Centre*, March 25, 2015.

money that flows into politics. The system perspective I take in this book highlights the weaknesses of this argument. Because the different forms of money are partially fungible, a decrease in one form will have the second-order effect of increasing others. Efforts to “get money out of politics” are thus often unsuccessful, or less successful than hoped.

An important implication of this book is therefore that policies should be coordinated to address several forms of money simultaneously.<sup>19</sup> However, this is easier said than done. Wide-reaching reforms that restrict several forms of money require concerted efforts by a broad coalition of stakeholders over an extended period of time. In most contexts, this is unattainable. Furthermore, money in the form of golden parachute employment for now-again private citizens is difficult to restrict in societies that value individuals’ freedom to choose their occupation.

If comprehensive reforms are not possible, this book demonstrates that stakeholders should not just think about the immediate consequences of restricting one form of money. Instead, it is important to try to anticipate second-order increases in other forms, as well as the associated third-order implications for democratic politics, such as electoral competitiveness or citizens’ views of politicians. Reforms are more likely to be successful if they take such downstream effects into account, weigh their positive and negative normative consequences *ex ante*, and make an informed prediction about whether the reform and its knock-on effects will truly improve the quality of democracy. This book offers the theory and evidence needed to inform such deliberations.

### Theory-Driven Causal Empiricism

Finally, the book advances an ongoing debate about how to study social phenomena. While the old adage that correlation does not imply causation has been a staple of introductory political science courses for decades, the discipline has become much more serious about establishing causality in recent years (for overviews, see e.g. Angrist and Pischke, 2010; Dunning, 2012; Samii, 2016). One concern associated with this “causal empiricism” approach is that it does not always use theory to motivate the study of specific cases and to situate the results within a larger context (Huber, 2013). Indeed, some have argued that synthesis studies that review a body of causally identified case studies are the appropriate venue for theory development (Samii, 2016).

<sup>19</sup> See also Fisman and Golden (2017b).

But theory development can take place alongside the careful empirical study of situations that allow for causal identification. I begin this book by laying out a general theory of how the different forms of money in politics are part of an interconnected system. The theoretical framework's predictions are then tested using a series of well-identified research designs. Thus, rather than engaging in post hoc theorizing based on known empirical results, I use a general equilibrium theoretical account to motivate and situate the empirical studies that test different components of the argument. Finally, I employ a series of qualitative case studies to test whether the within-country findings generalize to a broader context. This proves to be a fruitful approach and can be one way to balance theoretical and empirical rigor in the field.

#### 1.4 A NOTE ON SCOPE

My goal in this book is to examine the connection between different forms of money in politics. However, money plays a role in so many ways, and at so many levels of government, that it is impossible to investigate all of them in a single study. It is therefore necessary to clearly delineate what falls within the scope of my argument, and what does not.

The book's theoretical and empirical focus is on the behavior of elected *politicians*. I do *not* examine people who are tasked with implementing laws, such as bureaucrats in ministries or agencies, state administrators in government offices, or police officers; nor do I examine the judicial branch (see instead e.g. Banerjee, Hanna, and Mullainathan, 2012; Bussell, 2012; Olken and Pande, 2012; Gingerich, 2013; Brierley, 2020). The politicians that my theory applies to can be elected members of the executive or legislative who have access to money, either from special interest groups or through appropriating state resources. While I discuss the sources of that money, I argue that it is politicians who have agency over their career and thus decide how money enters politics.

Because electoral competition plays a major role in my argument, I concentrate on *democracies*. Money is important for politicians in authoritarian regimes as well, but the context is so different that my theoretical argument does not apply (see instead e.g. Chang and Golden, 2010; Truex, 2014; Hollyer and Wantchekon, 2015; Yadav and Mukherjee, 2016; Hou, 2019; Szakonyi, 2020).

I focus on instances in which money or material goods go *to* politicians (either directly or through intermediaries such as their campaign). As the next chapter makes clear, the main ways in which this happens



are self-enrichment, campaign money, and golden parachute jobs. The book thus concentrates on these three forms. It does not discuss lobbying (see instead e.g. Baumgartner et al., 2009; Yadav, 2011; Klüver, 2013; de Figueiredo and Richter, 2014) since this money is not directly channeled to politicians. Instead, money is paid to lobbyists, who in turn provide (selective) information to lawmakers.<sup>20</sup> Lobbying complements the transfer of money to politicians in its various forms, allowing special interests to communicate their policy preferences (cf. Kim, Stuckatz, and Wolters, 2020).

Finally, throughout the book I use the term money in politics rather than corruption. The latter is commonly defined as the (illegal) abuse of public office for private or electoral gain. Thus, corruption focuses on the illegal use of money in politics. I examine both legal and illicit uses, and argue that the legal environment plays an important role in determining how money enters politics. This makes money in politics rather than corruption the more appropriate term for my purpose.

## 1.5 OUTLINE: THE ROAD AHEAD

In Chapter 2, I introduce the different forms of money in politics in more detail, and discuss what we know, and don't know, about them. I highlight the lack of understanding of whether (and how) the different types are connected. Chapter 3 puts forward my argument: That the different forms of money have the same underlying motivations; that they should thus be seen as part of a common system; that a country's legal and electoral campaign environments determine how money enters politics; that a change in one form of money has second-order implications for the other forms; and that this has third-order consequences on various aspects of democracy. I derive a set of empirical implications of my argument.

The following four chapters test these implications in a series of empirical analyses. In Chapter 4, I use detailed asset disclosure and campaign spending data from India and Brazil to examine the connection between enrichment by politicians while in office and campaign spending to stay there. Chapter 5 studies the connection between campaign spending and golden parachute jobs by analyzing campaign spending information as well as newly assembled data tracking the movement of US state legislators into the private sector. In Chapter 6, I use a series of qualitative case

<sup>20</sup> If former politicians are hired as lobbyists, or if lobbyists make campaign contributions, then money *is* transferred and is covered by this book.

studies to show that my argument also explains cross-national variation in the way money enters politics. Chapter 7 examines the third-order implications for democracy, and shows that how money enters politics shapes voters' approval or disapproval of elected officials and has systematic effects on who wins elections.

Finally, in Chapter 8, I discuss the implications of my book for future research, public debate, and policy design. I call for an evolution in how we think about money in politics: Instead of looking at the various forms in isolation, we should treat them as part of an interconnected *system*.