

# **Money in Politics**

Personal Enrichment, Campaign Spending,  
and Golden Parachutes

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# Chapter 1

## 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 in the day and placed in Delhi's notorious Tihar Prison. It was the apex of a scandal that, in the words of a journalist, set "a new national benchmark for corruption caused by the nexus between politics and business."<sup>1</sup> As India's communications minister, Raja oversaw an industry in which the number of mobile phone users doubled every few years. In particular, he was responsible for the sale of 2G mobile spectrum licenses in 2008. Soon thereafter, auditors accused the ministry of a plethora of violations. The licenses were significantly undervalued. The implementation of the sale deviated from the regime approved by the cabinet. Deadlines were arbitrarily changed on short notice, eliminating companies without prior knowledge. Applications by other companies were processed even though documents were fake or missing.<sup>2</sup> All in all, the 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>

Walt Minnick also had a close relation with the business sector and received a lot of money from it. The former U.S. representative admitted that he "would spend two or three hours a day as a congressman trying to raise money." These efforts were necessary because Minnick had a target to meet: "I needed to raise \$10,000 to \$15,000 a day."<sup>4</sup> In fact, Minnick did not even wait to actually take up office before

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<sup>1</sup>*Caravan Magazine*, December 1, 2010, <http://www.caravanmagazine.in/perspectives/spectrum-shadiness>.

<sup>2</sup>*Comptroller and Auditor General of India*, November 16, 2010. <http://www.cag.gov.in/content/report-no-19-2010-performance-audit-issue-licences-and-allocation-2g-spectrum-union>.

<sup>3</sup>*Times of India*, February 11, 2011, <http://timesofindia.indiatimes.com/india/A-Raja-made-Rs-3000cr-in-bribes/articleshow/7471835.cms>; *BBC News*, February 2, 2011, <https://www.bbc.co.uk/news/world-south-asia-12344236>.

<sup>4</sup>*This American Life*, March 30, 2012, <https://www.thisamericanlife.org/461/transcript>.

he tried to capitalize on it. Only five days after his election win, 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 had 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. Its capacity was large enough to deliver almost 70 percent of Germany's annual gas usage. Construction costs were estimated to exceed €4 billion (about \$4.9 billion given exchange rates 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> In November of that year, Schröder left office. Only 17 days later, he accepted a position as the board chairman of the consortium building the pipeline, with an estimated salary of several hundred thousand dollars per year.<sup>7</sup>

What these three cases have in common is that they are examples of elected politicians taking large sums of money. They all illustrate the potential for such money to tilt policy in a way that runs counter to the preferences of the majority of voters, thus highlighting a fundamental tension in democratic politics. What is different between the cases is the *way* each of the three politicians used the money. Raja enriched himself while in office, Minnick financed his reelection campaign to try to stay in office, and Schröder took up a lucrative "golden parachute" job after leaving office.

Why did these politicians make use of the money they had access to in different ways? Is it because of their arbitrary personal preferences, or is there something more systematic to it? If the latter, is the presence or absence of these different types of money in politics independent of each other and driven by separate causes, or are the forms connected and can be explained by common factors? Under what conditions is each type present, and does having less of one form mean that there is more of another? What does this imply for the effectiveness of regulation trying to limit money in politics? And what difference does it make for a democracy if

<sup>5</sup> *Center for Responsive Politics*, <https://www.opensecrets.org/members-of-congress/summary?cid=N00006288>.

<sup>6</sup> *Stern*, September 8, 2005, <https://www.stern.de/politik/deutschland/deutsch-russische-plaene-polen-sind-sauer-ueber-ostsee-pipeline-3295122.html>; *Zeit Online*, September 8, 2005, <http://www.zeit.de/online/2005/37/Gas>.

<sup>7</sup> *Washington Post*, December 10, 2005, <https://www.washingtonpost.com/archive/politics/2005/12/10/schroeder-accepts-russian-pipeline-job/16041227-0f16-4402-9a20-2dc87940426d>; *Manager Magazin*, April 9, 2010, <http://www.manager-magazin.de/magazin/artikel/a-680306-9.html>.

politicians enrich themselves 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, as campaign spending, and in the form of golden parachute jobs – are all part of a *common system* and should therefore be analyzed in a *single framework*. This approach is distinct from most of the existing literature, which either studies money in politics in a comparative manner, but without distinguishing between different types; or examines one form of money while ignoring the others, typically in one 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 shows how the different forms are connected to each other, that explains when money enters politics in what way, how a change in one form affects the other types, and what consequences this has for democracy.

This 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 straightforward that stricter regulation of campaign finance leads to less campaign spending. What is not as straightforward is that the downstream effects of this are *more* self-enrichment in office and *more* golden parachute employment. It is only once we examine the different forms of money as part of a *common system* that we see how a change in one type leads to opposite effects among other forms. Furthermore, money in its distinct forms has different consequences on numerous facets of democratic competition, for example on voters' view of politics or on who wins elections. Thus, a change in one form of money leads not only to second-order changes in other forms, it also has *third-order effects* on various aspects 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 the prior literature. They also do not play a part in public discussion. I show that not looking at 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*. In the following paragraphs, I provide 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 the three forms is that they all are crucial in advancing politicians' career goals. As Mayhew (1974) famously argued, one of their central aims is to get reelected. But in addition, they are also interested in bettering their personal financial situation. Money furthers both of these goals. The different forms of money are therefore partially *fungible*. As utility-maximizing actors, politicians will seek to use money in the ways that best suits their needs, given the conditions they operate in. This highlights the necessity to develop a framework that gives us an idea when each form is more or less prevalent, and what downstream effects the increase or decrease of one type has on the other types.

## How Money Enters Politics

Second, I provide 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 one is the *legal environment*. The different forms of money are governed by separate laws, and there are differences in how strictly they are regulated. I argue that politicians arbitrage these disparities, leading to important *second-order effects*. If one type of money is subject to more rigid laws, it unsurprisingly will become less prevalent. However, this does not necessarily mean that money simply disappears from politics. Instead, because the different forms are fungible, less of one type has the consequence of leading to *more* of the *other* forms.

The second factor that determines how money enters politics I highlight is the *electoral campaign environment*. While self-enrichment and golden parachute jobs benefit politicians directly, election spending has an indirect effect by helping them increase their chances of being in office. How much politicians make use of this indirect help depends on how demanding the campaign environment is. In particular, there is variation in the *a priori* competitiveness of races as well as in the effectiveness of the prevalent campaign technologies. These factors influence how much politicians spend on their campaigns. But again, because the different forms of money are part of a common system, this has second-order consequences. If politicians spend less on elections, they have more leeway to make use of the other types of money, and vice versa.

These two factors jointly determine how money enters politics. They produce a

map that tells us to what extent politicians use the funds they have access to for self-enrichment, as campaign spending, or in the form of a golden parachute job. This allows us to understand the interconnected system of money in politics, explaining why we see different types in different contexts. The map also offers insights into the downstream effects that an increase or decrease of one form of money has on other types. If we only look at one type of money in isolation, we miss these opposing second-order effects. Instead, they show up as unintended consequences. My approach instead makes it possible to think clearly about the knock-on effects of changing one type, and thus to anticipate hitherto 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 above are therefore followed by important *third-order effects*.

First, I show that not all forms of money are created equally in the eyes of voters. Instead, they react differently depending on whether the same amount of money is used by politicians for campaign spending, self-enrichment in office, or self-enrichment after leaving office. If, for whatever reason, one form becomes less common, and another one in response gets more prevalent, it results in changes of how voters view their representatives. This has significant implications for the public's confidence in politics.

Second, how money enters politics matters for who wins elections. Since campaign spending helps candidates gain votes, conditions that lead to more money in that form affect the outcomes of elections. This is especially true when, as is usually the case, some candidates or parties have access to more funds 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, with important consequences for democratic competition. A change to one type of money thus has far-reaching consequences that go beyond what we typically think about.

## Evolving the Conversation about Money in Politics

The argument I put forward makes it clear that studying one form of money in isolation from the others means missing out on crucial insights. This book is therefore a call for an evolution in the conversation about money in politics: Instead of talking about the different forms separately, we should consider them together as a *system*. This allows us to think clearly about the different types in conjunction, examine how they are interdependent and interwoven with each other, and anticipate what

knock-on effects a change to one of them has. This will lead to a better understanding of money in politics, and ultimately to policies that can be more successful at keeping 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 to show the second- and third-order effects that this implies, I have to overcome a series of challenges.

The first and most obvious one is what *data* to use. Anyone who wants to understand money in politics sooner or later has to face the fact that they have chosen to study a topic that is not exactly hospitable to rigorous empirical analysis. Much of what we are interested in happens hidden from public view. One common solution to this has been to use perception-based indicators. However, existing measures do not differentiate sufficiently 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 disclosure of relevant information, or use “forensic” approaches to try to 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 is not enough to test an argument about the connections between the different types. In contrast to almost the entire literature, I therefore need to study situations where there is data on *several forms* of money at the same time.

A second challenge for the empirical parts of the book is the issue of *causality*. I argue that the legal and the electoral campaign environments shape how money enters politics. However, it is likely that the latter also has an effect on the former: Campaign finance reforms tend to be passed in response to increases in campaign spending, and stricter regulations of enrichment in office often follow revelations of egregious self-dealing (see e.g. Pinto-Duschinsky, 2002; Fisman and Golden, 2017a).<sup>8</sup> I therefore have to pay careful attention to identify situations that provide plausibly exogenous variation in the legal or electoral campaign environments which should affect the relative prevalence of the three types of money in politics that I analyze.

The need for data of several types of money in situations that allow me to get a handle on the direction of the causal arrow presents a considerable hurdle. However, it is not impossible to overcome. Several of the world’s largest democracies provide the kind of data that makes it possible to study the connection between the different

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

forms of money. This allows me to conduct a series of within-country studies using micro-level data from India, Brazil, and the United States.

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 versus how much resources they have accumulated to spend on their reelection campaign. In the Brazilian case, I also assemble data on politicians' asset development, as well as explicit information on their campaign spending. Finally, for the United States, I not only make use of the country's campaign finance disclosures, but also 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 what second-order consequences a change in one form of money has on the others. Where possible, I exploit plausibly exogenous changes to politicians' legal and electoral campaign environments, for example as a result of redistricting, discontinuities in laws, or court rulings. When 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 consequences on voters' attitudes and election outcomes, I conduct original survey experiments in India and the United States and exploit the staggered introduction of laws in the U.S. states.

Of course, these three countries are not a representative sample of democracies. The decision to make information publicly available is strategic (Hollyer, Rosendorff and Vreeland, 2011; Berliner, 2014), and 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 study in India, Brazil, and the United States. Nevertheless, these are insightful countries to examine money in politics. They are all large democracies in which the issue plays an important role in public debate. The countries are also central to the study of money in politics, 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 the existing academic literature, official statistics, and reports by anti-corruption groups as well as news organizations to analyze the connection between the different forms in various countries. The set of 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 and less so 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. Taken together, this allows me to provide a comprehensive set of empirical tests of my argument.

## 1.3 Contributions of the Book

A contemporary review article argues that “[a]sking how different forms of corruption accompany or substitute one another is perhaps the most important topic in contemporary corruption studies” (Mistree, 2015, 367). In this book, I take this task head on. Focusing on *politicians*, I provide an account that combines the three most common ways in which they use money in a unifying framework. The argument and evidence I provide make it clear that much can be gained from treating self-enrichment, campaign financing, and golden parachute employment as part of a single system. This 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 June 2020, it runs more than 660 pages long and contains almost 8,250 entries.<sup>9</sup> 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, which is the subject of this book, fall into two camps.

The first camp took off when indicators such as Transparency International’s Corruption Perceptions Index became available. They provided researchers with annual quantitative data, which allowed for large-n comparative studies. This literature has been successful in 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 consequences this has (for overviews see Treisman, 2000, 2007).

Studies in the second camp take a more narrow approach. They typically focus on one or a small number of countries and use micro-level data of one form of money in politics. For example, there is a literature on campaign contributions, mostly

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<sup>9</sup>See <http://www.law.harvard.edu/faculty/mstephenson>.

focusing on the United States. Another, separate, literature studies politicians' enrichment in office. And a small but growing literature focuses on the move of politicians into the private sector. These studies have refined our understanding by examining in detail the ways money is used by politicians.

Despite the considerable scientific advances made by these two camps, the fact that there is a bifurcation in the literature has limited our understanding of money in politics. To see how, it is useful to employ the analogy of scientific theories as maps (Giere, 1990; Clarke and Primo, 2012). In the study of money in politics, we basically have two types of maps. On the one hand, we have world maps that show all countries. They necessarily have a high level of abstraction and display only broad shapes. On the other hand, we have maps that provide quite detailed pictures of one country, but only with respect to a single characteristic. To continue the analogy, we have something akin to a map that shows only a country's highways. For another country, we may only have a map of its train tracks.

To be clear, these approaches to studying money in politics are very useful, and having these two kinds of maps has improved our understanding of the topic. However, they have also caused a number of blind spots. In this book, I combine the strengths of both approaches 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. This results in breadth, but often comes at the expense of depth. In particular, cross-national indicators such as the Corruption Perceptions Index aggregate many different forms of money at various levels, ranging from bribe-extorting policemen to government ministers who stash away millions or illegally finance their campaigns. They thus have a *black box* quality to them.<sup>10</sup>

This makes it impossible to examine the causes and consequences of specific ways in which money enters politics. Instead, studies identify broad reasons for why some countries are on aggregate more corrupt than others. If there is a change in one of its determinants, the message goes, then corruption 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.

<sup>10</sup>The Varieties of Democracy project has developed a number of indicators that distinguish between the arenas in which corruption is happening, for example the legislative or the executive. However, these measures also do not distinguish between different forms of money.

The United States is well known for its expensive election campaigns. For example, spending in the 2020 elections was more than \$14 billion just for federal races.<sup>11</sup> This exceeds the annual GDP of countries like Armenia, Nicaragua, or Namibia.<sup>12</sup> At the same time, the majority of members of Congress who leave office become lobbyists or take up seats on corporate boards.<sup>13</sup> What is *not* common in the United States, some rare exceptions aside, is lawmakers enriching themselves while in office.<sup>14</sup>

In India, elections are also expensive. The cost of the 2019 campaign was estimated to be more than \$8.5 billion.<sup>15</sup> And Andimuthu Raja is only one of many cases where politicians have been caught enriching themselves in office. What is unknown in India is politicians leaving office to take up lucrative private sector jobs. In fact, observers often lament the exact opposite problem – that politicians hardly ever see the necessity to exit politics.

And finally, Gerhard Schröder was not the only German politician who took up a private sector job after concluding his public service: More than a third of his cabinet did as well, as do many members of parliament.<sup>16</sup> On the flip side, parties spend less on their entire national election campaigns than some U.S. Senators do on a single race, and enrichment in office is practically unheard of in post-war German politics.<sup>17</sup>

Thus, it is decidedly *not* the case that different forms of money in politics go together, or that some 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 determinants drive whether the dominant form in a given country 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 different forms are part of a common system and thus connected to each other because of their partial

<sup>11</sup> *Center for Responsive Politics*, October 28, 2020, <https://www.opensecrets.org/news/2020/10/cost-of-2020-election-14billion-update>.

<sup>12</sup> [https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?most\\_recent\\_value\\_desc=true](https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?most_recent_value_desc=true).

<sup>13</sup> Lazarus, McKay and Herbel (2016); Palmer and Schneer (2016, 2019).

<sup>14</sup> Eggers and Hainmueller (2013, 2014).

<sup>15</sup> *CNN*, June 8, 2019, <https://www.cnn.com/2019/06/08/asia/india-election-spending-intl/index.html>.

<sup>16</sup> See Klein and Höntzsch (2007); Edinger and Schwarz (2009); Dörrenbächer (2016).

<sup>17</sup> On the lack of personal enrichment among Germany politicians, see McKay (2003). On German campaign spending, see *The Atlantic*, September 30, 2013, <https://www.theatlantic.com/international/archive/2013/09/why-germany-s-politics-are-much-saner-cheaper-and-nicer-than-ours/280081/>.

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 we see a lot of continuity in the overall levels of money in politics, despite a great many reforms trying 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, while leaving the door open for others, which invites arbitrage efforts. As a consequence, reforms often only have 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 the equivalent of detailed maps of specific features in one country. Just like 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. In particular, the piecewise approach makes it difficult to put the findings together into a comparative picture. Studies in this *partial equilibrium* research tradition have therefore generated a somewhat fragmented understanding of the role of money in politics. This 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 the prevalence of personal enrichment, campaign spending, and golden parachute employment are explained 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). Despite this, Indian companies do not hire former politicians.

The argument I put forward in this book explains why this is the case by highlighting that the 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 what effect holding office has on different forms of money. Contributions that examine personal enrichment generally find that after a few years, the assets of narrow winners are only slightly higher than those of narrow losers (e.g. Bhavnani, 2012; Querubin and Snyder, 2013; Fisman, Schulz and Vig, 2014). In contrast, winners of close elections raise *much* more campaign money than the comparison group of close election losers (Fournaies and Hall, 2014). These findings are especially puzzling once we take into account 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 is the effect of holding office on money smaller in the high-corruption contexts?

Looking at the different forms of money as part of a common system helps solve this puzzle. As I will show, the electoral campaign environment, and its competitiveness in particular, play an important role in how money enters politics. Because they compare 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 the former and a small effect on the latter.

And finally, there is a curious disconnect when it comes to the consequences of changes to one type of money in politics. On the one hand, studies find that, for example, stricter campaign finance legislation limits campaign spending and has an effect on various election characteristics (e.g. Milligan and Rekkas, 2008; Avis et al., 2020; Fournaies, forthcoming). On the other hand, it does not seem to be the case that these reforms have much of an effect on the influence of money on 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 also have 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 are part of an interconnected system, a change in one form leads to opposing trends in the other forms, weakening the impact of reforms designed to diminish the impact of money on politics. Due to the siloed nature of the micro-mechanism literature, this important context has been missing so far.

## Towards 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 for money to enter politics*. So far, its efforts have 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; Naoi and Krauss, 2009; Bennedsen, Feldmann and Lassen, 2009; Harstad and Svensson, 2011; You, 2017). The book adds to this line of inquiry by studying the choice between the different ways in which money flows to elected politicians.<sup>18</sup>

This moves us further towards a *general equilibrium analysis of money in politics*. By providing a framework that situates different forms within a common system, the book focuses attention on the second-order consequences that result from the responses of politicians affected by different legal or electoral campaign environments. This helps us to better anticipate what so far have 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 the way the policy community approaches the issue of money in politics. The bifurcated thinking that is prevalent in the academic literature can also be found in advocacy work and public debate. On the one hand, there is a black-box approach that tries to tackle money in politics writ large by combating its non-specific determinants. For example, greater transparency is thought to be a potent weapon against the undue influence of money in all of its forms, and is therefore widely promoted – as evidenced by the fact that the most well-known organization is called Transparency International and claims that “shedding light on rules, plans, processes and actions” is “the surest way of guarding against corruption.”<sup>19</sup> But as my argument and evidence make clear, different factors often have different effects on different forms of money in politics. While non-specific determinants may decrease some types, they may also increase others, resulting in an ambiguous overall effect. And indeed, the evidence for the effect of transparency on corruption writ large is mixed (e.g. Rothstein, 2011; Hollyer, Rosendorff and

<sup>18</sup>There are a few studies, most of them theoretical, distinguishing between money used for personal or electoral gain (e.g. Nyblade and Reed, 2008; Golden, 2012; Gingerich, 2014b).

<sup>19</sup><https://www.transparency.org/what-is-corruption/#what-is-transparency>.

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 (Aam Aadmi Party, 2014). 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 asks for regulation of post-politics jobs (High Pay Center, 2015). And in the United States, groups with names like Americans for Campaign Reform or Citizens for Clean Elections advocate for limitations on election spending.

Thus, efforts to curb money in politics typically focus on *one* single form, whichever is most common in a specific context. The hope is that doing so will limit the total amount of money that flows into politics. The system perspective I take in this book shows this argument to be problematic. Because the different types of money are partially fungible, a decrease in one form will have the second-order effect of increasing other forms. Efforts to “get money out of politics” are thus often not successful, or at least not as successful as hoped for.

An important implication of this book is therefore that policies should be coordinated to address several forms of money simultaneously.<sup>20</sup> However, this is easier said than done. In particular, money in the form of golden parachute employment that goes to now-again private citizens is difficult to restrict in societies in which the freedom to choose one’s occupation is important. Thus, it is difficult to remove money from politics by relying on restrictions alone, and alternative approaches that directly reduce the demand for and supply of money may be more successful.

Beyond that, coordinated reforms that restrict several forms of money or that change the demand for it require concerted efforts by a broad coalition of stakeholders over an extended period of time. In most contexts, this is difficult to pull off. So, realistically, piecemeal reforms are here to stay. In that case, the implication of this book is that stakeholders should not just think about the immediate consequences of a restriction on one form of money. Instead, this book helps anticipate the second-order increases in other forms, as well as to foresee (potentially negative) third-order implications for various aspects of democracy, such as who wins elections and what citizens think about politicians. Reforms are more likely to be successful if we pay attention to these downstream effects, weight their positive and negative consequences *ex ante*, and make an informed prediction about whether the quality of a democracy will be better once the reform’s effects and knock-on effects

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<sup>20</sup>See also Fisman and Golden (2017b).

have played out. This book offers the insights needed to have these more informed deliberations.

## Theory-Driven Causal Empiricism

Finally, the book also makes a contribution to 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 with this “causal empiricism” approach is that too little is done to use theory to motivate the study of specific cases and to situate the results within a larger context (Huber, 2013). And indeed, some have argued that synthesis studies which review a body of causally identified case studies are the appropriate venue for theory development (Samii, 2016).

But theory development and careful empirical study of situations that allow for causal identification within the same piece of research are not mutually exclusive. In this book, I begin by laying out a general theory of how the different forms of money in politics are part of an interconnected system. The predictions of the theoretical framework 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 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 travel to a broader context. This proves to be a fruitful approach and can be one way forward in striking a balance between theoretical and empirical rigor in our research.

## 1.4 A Note on Scope

My goal 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 study all of them in a single book. It is therefore necessary to clearly delineate what falls within the scope of my argument, and what does not.

This book is about 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; Bus-sell, 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 that



have access to money, either from special interest groups or through appropriating state resources. While I will discuss the sources of that money, the focus will be on the decisions of politicians.

Because electoral competition plays a major role in my argument, the focus is on *democracies*. Money is important for politicians in authoritarian regimes as well, but the context is so different that the theoretical argument I put forward 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).

Among politicians in democratic contexts, I focus on instances in which money or material goods go *to* politicians.<sup>21</sup> As the comprehensive review of the literature in the next chapter will make clear, the main ways in which this happens are through politicians enriching themselves while holding office; through campaign money; and through legislators taking up golden parachute jobs in the private sector after leaving office. Most importantly, the focus on transfers to politicians excludes lobbying (see instead e.g. Baumgartner et al., 2009; Yadav, 2011; Klüver, 2013; de Figueiredo and Richter, 2014). While a lot of money is spent on this activity, it does not go to politicians. Instead, money is paid to lobbyists who in turn provide (selective) information to lawmakers.<sup>22</sup> Lobbying is best seen as complementary to 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 will use the term money in politics rather than corruption. The latter is commonly defined as the abuse of public office for private or electoral gain, where abuse usually means that it is against the law. Thus, corruption focuses on the illegal use of money in politics. However, my interest here is in both legal and illegal uses, and in fact I make the argument 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. In particular, I highlight that we lack an understanding of whether and how these different forms 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 the legal and electoral campaign environments determine how money

<sup>21</sup>The money can go directly to the politician, or through intermediaries such as their campaign.

<sup>22</sup>Of course, if former politicians are hired as lobbyists, or if lobbyists make campaign contributions, money *is* transferred to them and is covered by this book.

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 a series of empirical analyses. In Chapter 4, I use detailed asset disclosures 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 U.S. state legislators into the private sector. In Chapter 6, I use a series of qualitative case studies to show that my argument also explains cross-national variation in the way money enters politics. Chapter 7 turns to the third-order implications on democracy, showing 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 the conversation about money in politics, stressing that instead of looking at the different forms in isolation, we should think about them as part of an interconnected *system*.