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CORRUPTION SCANDALS, PRESS REPORTING, AND ACCOUNTABILITY.  
EVIDENCE FROM SPANISH MAYORS

**Elena Costas-Pérez, Albert Solé-Ollé, Pilar Sorribas-Navarro**

**Fiscal Federalism**

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**CORRUPTION SCANDALS, PRESS REPORTING, AND  
ACCOUNTABILITY. EVIDENCE FROM SPANISH MAYORS \***

Elena Costas-Pérez, Albert Solé-Ollé <sup>†</sup>, Pilar Sorribas-Navarro

**ABSTRACT:** We analyse the effects of local corruption on electoral outcomes with Spanish data. Based upon press reports published between 1996 and 2009, we are able to construct a novel database on corruption scandals and news related to bribe-taking in exchange for amendments to land use plans. Our data show that local corruption scandals first emerged during the 1999-2003 term, but that they peaked just before the 2007 elections. We estimate an equation for the incumbent's vote share at this electoral contest and find the average vote loss after a corruption scandal to be around 4%, and the effect to be greater for cases receiving wide newspaper coverage (up to 9%). The effects found for the 2003 elections are much lower. When we consider cases in which the incumbent has been charged with corruption and press coverage has been extensive the vote loss can rise to 12%. However, press reports have a negative impact on the vote even when no judicial charges have been brought.

JEL Codes: P16, D72

Keywords: voting, accountability, corruption

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## 1. INTRODUCTION

Corruption is a complex phenomenon, and its negative political and economic consequences have been widely analysed in recent years. Corruption is said to erode trust in government and the legitimacy of political institutions (Anderson and Tverdova 2003; Bowler and Karp, 2004) and also to harm public finances (Hillman, 2004), deter foreign investment and trade (Wei, 2000; de Jong and Bogmans, 2010) and reduce growth (Shleyfer and Vishny, 1993; Mauro, 1995; Méndez and Sepúlveda, 2005). Institutions such as the World Bank identify corruption as being the single most important impediment to development. Given the potentially devastating impact of corruption, a better understanding of the institutions that might help to mitigate it seems to be crucial. One of the main findings from recent studies of the institutional determinants of corruption (Treisman, 2000; Lederman *et al.*, 2005) is that democracies are less corrupt than other political systems. The key ingredients of democracy, including party-based competition, free elections, press freedom, and an independent judiciary, are negatively correlated with corruption (see, e.g., Goldsmith, 1999; Besley and Burgess, 2002; Adserà *et al.*, 2003; Vaidya, 2005; Alt and Lassen, 2008; Feld and Voigt, 2003).

The basic mechanism ensuring democracy works is the capacity voters have to hold politicians accountable, ousting them from office if they have evidence of corruption, and rewarding honest behaviour with re-election. Yet, most of the empirical studies addressing this question report just modest effects of corruption on a candidate's vote. For example, Chang *et al.* (2010) find that Italian legislators went unpunished during most of the post-war period. In a case study conducted in Japan during the same period, Reed (1999) finds that the electoral punishment of legislators indicted for corruption was also quite modest. Similar results were found by Peters and Welch (1980) in their study of the effects of corruption charges on the re-election of candidates to the U.S. House of Representatives. They estimate

that candidates accused of corruption during 1968-78 lost on average around 8% of the vote. An update of this study for the period 1982-90 (Welch and Hibbing, 1997) found somewhat higher results, with an average vote loss of 10%, and lower probabilities of re-election for corrupt politicians. In their analysis of the congressional check-kiting scandal in 1992, Dimock and Jacobson (1995) find that most incumbents managed to be re-elected, albeit with a reduced vote share of around 5%.

Note that all these studies focus on the behaviour of legislators, with virtually no studies having analysed the effect of corruption on the electoral prospects of other officials. In particular, the electoral outcomes of mayors, which are the focus of this paper, have been neglected<sup>1</sup>. One prominent exception is the article by Ferraz and Finan (2008) examining corrupt mayors in Brazil. They report sizeable electoral consequences when voters are provided with conclusive evidence of corruption in the form of federal audits of municipal accounts showing diversion of funds. Mayors identified as being corrupt in this way might lose from 10 to 30% of their vote share and see their re-election chances reduced by as much as 17%. The authors claim that the greater impact reported in their study reflects the fact that they use data for proven incidences of corruption. However, Golden (2006) suggests that the result might also be due to the direct relationship between ousting a corrupt mayor and improving public services, a relationship that is less certain in the case of a legislator than it is for a mayor. Our paper aims at contributing to the thin body of evidence describing how voters react to corruption at this local level. We believe there is a particular need for this evidence, given recent interest in the literature for determining whether accountability can be strengthened at the local level (see, e.g., Bardhan, 1997; Hindriks and Lockwood, 2009).

The literature on the electoral effects of corruption also suggests that the severity of the electoral punishment might depend on the attention the media pays to corruption. For instance,

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<sup>1</sup> A number of papers analyse whether local officials are held accountable for public service performance (see, e.g., Brender, 2003, for the case of local governments in Israel, and Berry and Howell, 2007, who study school districts in the US).

the paper by Chang *et al.* (2010) finds that Italian legislators were only punished after considerable media coverage following a major judicial crackdown during the 11<sup>th</sup> legislature<sup>2</sup>. At the local level, Ferraz and Finan (2008) find that the punishment of Brazilian mayors found corrupt by federal audits is much higher (the probability of being ousted rising to 30%) in municipalities with a radio station.<sup>3</sup> Note, however, that none of these papers is really able to measure the degree of attention that the media devoted to each corruption case. As we explain below, we seek to improve on this by considering not only the effect of corruption scandals, but also the effect of the amount of press coverage.

Drawing on Spanish data for the 2007 and 2003 municipal elections, the present study analyses the effects of corruption on local electoral outcomes. Taking press reports published between 1996 and 2009, we construct a novel database on corruption scandals and news related to bribe-taking in exchange for amendments to land use plans that allow more development to take place. The main source of this data is the ‘Fundación Alternativas’, a Spanish think tank, which in 2007 commissioned a survey that recorded all corruption scandals as reported by national, regional and local newspapers during the period 2000-2007. This database was complemented by a bibliographical news search for the years before and after this period. Thus, the database contains 520 municipalities with at least one report of corruption during the period June 1999 to May 2007 (which covers the two terms eventually analysed here) and 5,144 news stories about corruption. The richness of the database allows

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<sup>2</sup> Brender (2003) and Berry and Howell (2007), in their respective analyses of the effects of public service performance of voting in Israel and the US, also find that punishment only occurs during terms with wide media coverage of the issue.

<sup>3</sup> Other papers focus on the effects of media coverage on accountability, but not specifically on corruption. For example, Strömberg (2004) finds that US counties with a radio station received more New Deal funds, and Snyder and Strömberg (2010) find that in House districts with more press coverage voters are better informed about the activities of their representative and, in turn, representatives tend to work harder for the district. A few papers study the relationship between media coverage and corruption. See, e.g., Svaleryd and Vlachos (2009) on the effect of media penetration on rent-extraction by Swedish municipalities, and Pugglisi and Snyder (2008) on partisan bias in the coverage of political scandals in Italy.

us not only to evaluate the average impact of corruption scandals on voting outcomes, but also to assess the role of press reporting (e.g. number of news stories, type of newspaper).

There are several reasons that make the Spanish case interesting. First, local corruption was not an issue before the elections we analyse here. The sudden emergence of corruption in Spain's local political life is the result of the recent boom in construction, which increased rewards for such behaviour. Second, and related to this, local corruption in Spain typically involves amendments to land use regulations, a type of corruption rarely studied before (see Cai *et al.*, 2009, for an exception). In Spain, municipalities are responsible for passing very detailed land use plans, which fix the exact amount of land for development in a given period, and the conditions of this development. The shortage of vacant land (and, more generally, restrictive regulations), coupled with a huge demand shock, provides developers with incentives to offer bribes to local officials in exchange for amendments to the plan that will permit more construction.

There are a number of specific traits related to this type of corruption that could potentially affect our results. First, it is a highly homogeneous type of corruption, a feature not typically found in empirical studies which tend to examine very different types of violation, some related closely with the concept of corruption (e.g. bribes, procurement fraud, and resource diversion) and others more further removed (e.g. financial irregularities, poor management, as well as other types of crime). Second, the nature of the corrupt act, entailing the modification of a regulation without directly affecting the local budget, means it might be perceived differently by voters to more traditional theft-related violations. Indeed, more lax land use regulations do have some effects that might be valued positively by certain voters, blurring the negative perception of corruption<sup>4</sup>. For instance, politicians accepting bribes in

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<sup>4</sup> In fact, there is a temptation to consider corruption of this kind as positive, since it is the mechanism by which inefficient regulations can be passed (see Fischel, 1985, for a discussion). Note, however, that even if this were true (something that is not clear once considerations regarding the preservation of open space are included), the mere fact that the act of corruption is contrary to democratically established laws and

exchange for permitting more development might be seen by some voters as entrepreneurs taking part of the profit they secure for the community in terms of higher economic opportunities related to this new development. However, as we show below (section 2.2), on average, Spanish voters have a negative perception of corruption.

Third, Spanish local corruption scandals received wide press coverage during these years, with news appearing in the main newspapers every day for extended periods. Despite this, there is anecdotal evidence that some corrupt mayors were re-elected and even improved their vote shares. Newspaper opinions on these cases reflect the popular wisdom that ‘Spanish voters do tolerate corruption’<sup>5</sup>. Local majoritarian elections with closed lists, a lack of independent media, low levels of transparency in local policy-making (see Transparency International, 2007), clientelism and patronage networks<sup>6</sup>, and a political culture of tolerance to fraud (see, e.g., Fundación Alternativas, 2008<sup>7</sup>) have often been invoked to justify these results. Thus, Spain seems a good testing ground to check the validity of some of these claims.

We use the corruption data to estimate an incumbent’s vote share equation for the 2007 and 2003 municipal elections. Most previous studies on this topic fail to account for the omission of popularity shocks. We use ‘difference-in-differences’ (DD) to attenuate this problem. Our DD estimation compares the increase in the vote share for the incumbent in two consecutive elections relative to the increase experienced by the previous incumbent in

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regulations means that it can have profound effects on the quality of democracy. In fact, in Spain, recent reports warn against the effects of the upsurge in cases of local corruption on trust in government, electoral turnout, and participation in public affairs (see Fundación Alternativas 2010).

<sup>5</sup> For example, a special report on corruption cases in Andalucía (a region in the south of Spain) by El País (a leading national newspaper) in 2007 was headlined as ‘The polls forgive accused officials’ (*‘Las urnas perdonan a los imputados’*, El País, 5/29/2007). The newspaper reported that 30 of the 40 officials facing charges of corruption before the 2003 local elections were re-elected.

<sup>6</sup> A recent article in El País expressed this in the following way: “Corrupt politicians are those that don’t reach office alone but that are able to colonize the administration with the members of a clientelistic network, and this is quite easy in Spain” (*‘La paradoja de la corrupción’*, El País, 05/04/2010).

<sup>7</sup> See also Hillman and Swank (2000), Paldam (2002), and Becker *et al.* (2009) for papers that analyse the effect of political culture on government corruption.



municipalities with and without cases of corruption. Our results for the 2007 elections<sup>8</sup> suggest that the mean vote loss after a corruption scandal is around 4% and that this effect is larger in cases receiving wide reporting in the newspapers (up to 9%). The impact in the 2003 elections is much smaller and our findings are less precise. To account for the possibility that newspaper reporting might just capture the seriousness of a scandal, we also report results (using a reduced sample for the 2007 elections) regarding the impact of reporting when controlling for judicial charges. We find that prosecuted incumbents lose up to 12% of the vote, and that even when controlling for seriousness, press reporting has a significant effect (incumbents that have not been charged but whose cases have been reported widely still lose up to 4% of their vote).

The rest of the paper is organized as follows. In the next section we provide the basic background to the Spanish case, include details about the construction of the database, and describe the recent upsurge in corruption and the role that land use planning has played in it. Section three discusses our empirical strategy and presents the results and section four concludes.

## 2. CORRUPTION IN SPANISH LOCAL GOVERNMENT

### 2.1. *Measuring local corruption: the database*

Empirical studies of corruption use at least three different approaches to obtain the data they require. Most use either *perceptions* of corruption (e.g. Wei, 2000; Alesina and Weder, 2002) or draw on data from public records relating to corruption *charges* (see, e.g., Glaeser and Saks, 2006; Alt and Lassen, 2008). Given the difficulties of gathering data of this kind, both for long periods and at the local level, some authors have used bibliographical and/or

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<sup>8</sup> Our data show that local corruption scandals first emerged during the 1999-2003 term, but that their intensity reached its peak before the 2007 elections. Thus, we focus our empirical analysis primarily on the 2007 elections, and summarise our main findings for the 2003 polls.

internet-guided searches (Glaeser and Goldin, 2004; Saiz and Simonshon, 2011). Besides overcoming problems of availability, this approach has a number of additional advantages: it accounts for corruption only if voters had access to information about it, and the number of news reports or citations provides a natural way to measure both the occurrence of corruption and its intensity.

We, therefore, take this approach in this paper. We had access to a database of corruption scandals compiled by the *Fundación Alternativas* (2007), a Spanish think-tank. In 2007, shortly after the surge in corruption scandals that occurred in 2006, this organization commissioned a survey of local corruption in order to gauge quantitatively the actual relevance of the phenomenon. They hired a journalist in each Spanish province with the task of compiling all corruption related news stories involving municipalities in the province between 1 January 2000 and 1 February 2007 appearing in national, regional or local newspapers, and that were related to this period or to the past. The search found 663 cases of corruption occurring since 1991.

Before deciding to use this database we ran various verifications of its reliability. *Fundación Alternativas* has close links with the socialist party (PSOE), and we were concerned about a possible partisan bias of its database. Our suspicions were roused by the fact that the main left-wing newspaper in Spain ('*El País*') began a crusade in 2006 against corruption, with daily news reports on corruption scandals involving the main right-wing party (Partido Popular, PP). To check for this possibility, we compared this database with another one compiled by the right-wing newspaper '*El Mundo*'<sup>9</sup>. The comparison showed that the proportion of corruption scandals by parties was not statistically different in the two

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<sup>9</sup> This database covers the same period as that of the *Fundación Alternativas* (2007) and we find that the number of reported scandals is similar. However, it only provides information as to whether a scandal happened or not, but says nothing about the number of news reports it attracted and sheds little light on the other case details that we use in this paper.

databases<sup>10</sup>. It seems, therefore, that Fundación Alternativas' database (2007) is not biased in its coverage of the scandals involving different parties. Indeed, in the description offered of the procedure employed in its data gathering, the institution states that the choice of journalists compiling the cases in each province included people working for both left and right-wing media outlets.

A further concern is the coverage provided by our database for the pre-2000 period and for the year 2007 given that the local elections took place in June of that year. Just 26 of the cases identified occurred before 2000, which could be due to the fact that most news reports were published near the date when the corruption occurred or to the fact that there were virtually no cases of corruption before that year. Moreover, just nine cases occurred in 2007, which is the result of the fact that only one month was examined in that year. Since the period we are interested in runs from May 1995 to June 2007, we completed the database with internet-guided searches in MyNews (<http://mynews.es>), a paid digital information management service covering all national and many of the regional newspapers<sup>11</sup>. We screened the periods that run from 1 January 1996 (when the service's coverage starts) to 1 January 2000 (the starting date for the other survey), and from 1 February 2007 to 1 November 2009 (the day this search was performed). We conducted a search for news reports containing the word 'corrupción urbanística' (i.e. corruption related to land planning) and each of the more than 8,000 names of the Spanish municipalities. We found 20 additional cases prior to 2000 and 203 post 1 February 2007, 131 of which occurred before the June

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<sup>10</sup> These data and the statistical test have been omitted for reasons of space but are available from the authors upon request.

<sup>11</sup> The service covers just a few of the local papers for the pre-2000 period. However, only 7% of the cases in the database from Fundación Alternativas were covered solely by local newspapers (and not by regional and national ones as well), making this problem relatively unimportant. Further, as our results show, local news is far less relevant than national and regional reports in the eyes of the voters (see next section).

2007 elections<sup>12</sup>. Thus, the overall number of cases in the database is 814, while the number of cases during the two terms of office studied (July 1999 to May 2007) is 696 (see Table 1).

[Insert Table 1]

Both databases also provide data on the publication date of each news item. The number of *scandals* during these two terms, defined as cases for which at least one news items was published during the term of office, is 565 (see Table 1). This number is lower than the number of corruption cases based on occurrence, because some of the cases were reported in the term following that in which the corruption was perpetrated. Given that we are interested in how incumbents are affected by the corruption scandals in which they were involved, we focus on scandals rather than on cases. Moreover, in our empirical analysis we do not use scandals that affected parties not in power (i.e. that had already been ousted) or that affected incumbents that had been involved in a corruption scandal in the previous term (see next section for an explanation). The numbers in parentheses in Table 1 indicate the number of scandals remaining once these two classes are removed. This reduces the number of scandals during these two terms to 453, 212 during the 1999-2003 term and 241 during the 2003-07 term of office.

The database also contains the number of news reports related to each of these cases and which were published during the term-of-office of the incumbent implicated in the scandal. The number of news reports totals 5144, with an average of ten news items per scandal. For nearly 30% of the cases there is only one news report, for 33% the number of reports is greater than one but less than five, 12% of them were mentioned in between five and ten news items, while 25% of the cases were written about in more than ten news stories. The database also informs us as to where these scandals were reported, that is in national, regional or local newspapers. National newspapers reported 46% of the scandals, regional newspapers 63%,

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<sup>12</sup> As a robustness check, we also searched for news reports containing just the word “corrupción”, but we did not find additional cases.

and local newspapers just 23%. The sum of these percentages is greater than 100 because most cases were covered by more than one type of newspaper: 20% of the scandals were covered by both national and regional newspapers, 10% by regional and local, 6.5% by national and local, and just 3% by the three types of publication at the same time. The average number of news reports per scandal in national, regional and local newspapers was 9.4, 5.8 and 2.4, respectively.

The cases of corruption included in Fundación Alternativas' (2007) database were screened by a group of researchers, lawyers, and experts on land use regulations to verify that all the cases included were relevant and also to aid in the classification of the legal violations. For a sub-sample of 133 municipalities presenting cases of corruption during the 2003-07 term<sup>13</sup>, these experts were able to classify them (undertaking complementary research in judicial files where necessary) according to their seriousness. These data allow us to separate cases with *corruption charges* (58% of the scandals) from those situations where the opposition parties or other organizations went to the press with alleged accusations of corrupt behaviour by the incumbent, without any judicial action. Cases with *corruption charges* are defined as situations in which the politician's name appears in an attorney's investigative report or indictment. Moreover, the database allows us to classify the cases with *corruption charges* into: (i) cases already *filed* but with no conviction having been made (28% of the cases), which most frequently involve situations in which the attorney initiated an investigation but he and/or the judge concluded that there was insufficient evidence to go to trial; (ii) cases involving a formal *denouncement* from an opposition party or any other organization (23%), (iii) cases in which the attorney decided to initiate an *investigation* but where the case has yet to go to trial (13%); (iv) cases in which there has been a formal

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<sup>13</sup> See Fundación Alternativas (2008) for a description of the procedure used to build this sub-sample. Its size is the result of various difficulties encountered in gathering more detailed data. The values of the main covariates are, however, more similar than they are for the whole sample (results available upon request).



































































2009

- 2009/1. Rork, J.C.; Wagner, G.A.: "Reciprocity and competition: is there a connection?"
- 2009/2. Mork, E.; Sjögren, A.; Svaleryd, H.: "Cheaper child care, more children"
- 2009/3. Rodden, J.: "Federalism and inter-regional redistribution"
- 2009/4. Ruggeri, G.C.: "Regional fiscal flows: measurement tools"
- 2009/5. Wrede, M.: "Agglomeration, tax competition, and fiscal equalization"
- 2009/6. Jametti, M.; von Ungern-Sternberg, T.: "Risk selection in natural disaster insurance"
- 2009/7. Solé-Ollé, A.; Sorribas-Navarro, P.: "The dynamic adjustment of local government budgets: does Spain behave differently?"
- 2009/8. Sanromá, E.; Ramos, R.; Simón, H.: "Immigration wages in the Spanish Labour Market: Does the origin of human capital matter?"
- 2009/9. Mohnen, P.; Lokshin, B.: "What does it take for and R&D incentive policy to be effective?"
- 2009/10. Solé-Ollé, A.; Salinas, P.: "Evaluating the effects of decentralization on educational outcomes in Spain"
- 2009/11. Libman, A.; Feld, L.P.: "Strategic Tax Collection and Fiscal Decentralization: The case of Russia"
- 2009/12. Falck, O.; Fritsch, M.; Heblich, S.: "Bohemians, human capital, and regional economic growth"
- 2009/13. Barrio-Castro, T.; García-Quevedo, J.: "The determinants of university patenting: do incentives matter?"
- 2009/14. Schmidheiny, K.; Brülhart, M.: "On the equivalence of location choice models: conditional logit, nested logit and poisson"
- 2009/15. Itaya, J., Okamura, M., Yamaguchi, C.: "Partial tax coordination in a repeated game setting"
- 2009/16. Ens, P.: "Tax competition and equalization: the impact of voluntary cooperation on the efficiency goal"
- 2009/17. Geys, B., Revelli, F.: "Decentralization, competition and the local tax mix: evidence from Flanders"
- 2009/18. Konrad, K., Kovenock, D.: "Competition for fdi with vintage investment and agglomeration advantages"
- 2009/19. Loretz, S., Moorey, P.: "Corporate tax competition between firms"
- 2009/20. Akai, N., Sato, M.: "Soft budgets and local borrowing regulation in a dynamic decentralized leadership model with saving and free mobility"
- 2009/21. Buzzacchi, L., Turati, G.: "Collective risks in local administrations: can a private insurer be better than a public mutual fund?"
- 2009/22. Jarkko, H.: "Voluntary pension savings: the effects of the finnish tax reform on savers' behaviour"
- 2009/23. Fehr, H.; Kindermann, F.: "Pension funding and individual accounts in economies with life-cyclers and myopes"
- 2009/24. Esteller-Moré, A.; Rizzo, L.: "(Uncontrolled) Aggregate shocks or vertical tax interdependence? Evidence from gasoline and cigarettes"
- 2009/25. Goodspeed, T.; Haughwout, A.: "On the optimal design of disaster insurance in a federation"
- 2009/26. Porto, E.; Revelli, F.: "Central command, local hazard and the race to the top"
- 2009/27. Piolatto, A.: "Plurality versus proportional electoral rule: study of voters' representativeness"
- 2009/28. Roeder, K.: "Optimal taxes and pensions in a society with myopic agents"
- 2009/29. Porcelli, F.: "Effects of fiscal decentralisation and electoral accountability on government efficiency evidence from the Italian health care sector"
- 2009/30. Troumpounis, O.: "Suggesting an alternative electoral proportional system. Blank votes count"
- 2009/31. Mejer, M., Pottelsberghe de la Potterie, B.: "Economic incongruities in the European patent system"
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2010

- 2010/1. De Borger, B., Pauwels, W.: "A Nash bargaining solution to models of tax and investment competition: tolls and investment in serial transport corridors"
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- 2010/16, **Dragu, T.; Rodden, J.:** "Representation and regional redistribution in federations"
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