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Uncovering the Roots of American Political Corruption: An Analysis

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Abstract

This work seeks to explore the relationship between political corruption as defined by cases brought to the United States Department of Justice against individuals holding public office from the fifty American states. An comparative analysis of determined state-by-state corruptions rates and external factors such as the net legislative salary in a given state, executive to legislative pay ratio (E/L ratio) in a given state, and the pay determinant factor. A state-by-state analysis is done to determine correlation of these variables relative to their corresponding corruption rates and the departure from average in those rates.

Keywords

Public Choice, Corruption, Economics, Legislatures, Executive Branch, Legislative Branch

Uncovering the Roots of American Political Corruption: An Analysis

The Organisation for Economic Cooperation and Development defines the term *political corruption* to mean the misuse by government or political officials of their governmental powers and resources for illegitimate, usually secret, private gain (Organisation for Economic Cooperation and Development, 2010). Political corruption is no new issue in the world today; in fact, it can be said that corruption is one of the world's oldest traditions, with evidence of the practice tracing back to ancient Rome and even beyond. From an economic standpoint, corruption often leads to an inefficient economy with bribes and similar activities extracting the economic rents entirely, which leads to the misallocation of resources. Resources are often misallocated due to rent seeking activities by producers in an economy (rarely do consumers organize a lobby) and a deadweight loss is created in the supply and demand function of the economy, and thus pushes it towards increased inefficiency.

Rent seeking itself often translates into kickbacks and bribes for public officials holding the power to distribute the economic rents a particular policy proposition would create. At the state level, corruption is often tied to an official's favoritism toward a particular individual or firm. The object of this perceived corruption often relates to an individual legislator's relationship with a rent-seeking entity, which is not easily quantifiable. However, corruption is also highly correlated with income level. Alt and Lassen (2008) cited that in the US states over 25 years, empirical data shows that higher government relative wages significantly and robustly produces less corruption. Thus, it can be postulated that state legislators who have a lower government salary relative to their cost of living at a particular locale will exhibit more frequent incidents of corruption.

So, at a higher relative wage, a public official will be less likely to undertake a corrupt act than at a lower relative wage. This is a function of a gain share in capital (the value of the corrupt act to the official) but also of the political and legal risk associated with undertaking such an act. As common sense would provide, an official would be more likely to be a party to a corrupt act if the net gain of participating is high, and less likely as the net gain decreases. Also, at a lower relative wage rate, a public official is more likely to be willing to take the risk for undertaking a corrupt act than at a comparably higher relative wage. In simple laymen's terms, a legislator who stands to lose more in a given transaction labeled as being politically corrupt will be less likely to do so, and will only do so if the benefit gained from the corrupt act is significantly more than the risk.

This above stated hypothesis can be proven with empirical data collected from a national state-specific survey of current legislative salaries. This paper expounds upon the findings in Alt and Landess (2008) and seeks to explore further the notion of sourcing political corruption. Also, examining the corruption rates by state in relation to both executive/legislative pay ratios and whether legislative salaries are set by statute or by the state's Constitution will be explored in this analysis. Corruption rates, as defined in this abstraction, can be modeled as the following function:

Corruption (%) = f(legislative salary + E/L ratio + pay determinant)

The function above can be further explained: where "Corruption (%)" is defined as the number of Department of Justice cases in each state from 1997-2006 set against state population data and a percentage rate is calculated per 100,000 residents. The terms "corruption %" and "corruption rate" may be used interchangeably. Legislative salary is defined as the gross income of an individual legislator in a given state as it compares to the national average for

legislator compensation. E/L ratio represents the ratio of the compensation of the state's chief executive (governor) to the compensation of a legislator in the same given state. The pay determinant factor is simply a finding on the method by which a given legislator's salary is set – whether by statute or state Constitution.

The corruption rates among states vary widely amongst the data set derived from a 2006 Department of Justice report on the number of individual corruption cases prosecuted at the federal level from 1997-2006. North Dakota has the highest corruption rate in this data set at 8.25 percent, while Oregon has the lowest at .68 percent. The mean corruption rate for all fifty states extrapolated from this data set is 3.15 percent, and nineteen states had a corruption rate of greater than or equal to this number. It must be noted that this Department of Justice report is not all inclusive of all indictments alleging corruption; it simply lists all indictments made by the Department of Justice against state officials, which accounts for slightly more than 80 percent of corruption indictments (USDOJ, 2006).

The second function term, the ratio of executive to legislative pay, also has a wide variance. The highest ratio is found in New Mexico at 17.21, which suggests that the governor of that state has a salary that is 17.21 times that of an individual legislator in the same state. The lowest is found in California at 1.40, which suggests that the governor of California has a salary that is 1.4 times that of an individual legislator in California. The average executive to legislative pay ratio (E/L ratio) is 4.87, which implies that the chief executive of the average state earns 4.87 times that of a single legislator in the same state.

The findings of this data set advocate that the average salary of a state's chief executive (governor) across all fifty states is $124,396 for the fiscal year 2007, while the average legislator earns $36,005 in 2007. It is important to note,

however, that most legislatures do not operate on a full-time basis, and are compensated as such. The average legislative session across the country is 88 days, and salaries of individual state legislators from given states are calculated from their compensation data computed against their legislative session dates. Most state legislators, as a result of this data, are part-time state officials and most likely hold external positions in their home districts during states' legislative recesses. State chief executives, on the other hand, operate as full-time state officials. This mean salary data above is used to extrapolate a general conclusion on the average pay for state legislators and state chief executives for computing E/L ratios for individual states.

First, there is no disputing the empirical data set forth in Alt and Landess (2008), which cites that in the US states over 25 years, data shows that higher government relative wages significantly and robustly produces less corruption. This holds true in the data set used for the findings in this paper regarding the compensation for individual state legislators. Nineteen states out of the fifty US States, some 38 percent, have an above average (3.15%) corruption rate per the data synthesized from the Department of Justice from 1997-2006. Of these nineteen states, 73.6 percent have a legislative salary that is below the average legislative compensation across the fifty states. That is, fourteen states with above-average corruption rates also have their legislative salaries below the $36,005 average, assuming a $5,000 margin on either side.

Hence, it can be said that across state legislatures, a higher level of compensation in regard to individual state legislators seemingly deters higher than average levels of corruption in those states 73.6 percent of the time. Only five states with above mean legislative salaries also had above mean corruption rates, which makes up a mere 26.4 percent of the total data set. This is consistent with Alt and Landess' (2008) conclusion and extends their hypothesis to apply to

individual state legislative bodies. Ceteris paribus conditions in this part of the analysis include: income per capita found in individual states, income tax rates in individual states, and state revenue differences among separate states.

The conclusion of this component of the function *f* regarding corruption rates in a given state as a percent is negatively correlated with legislative salary in the same given state. Thus, as an individual state's corruption rate grows relative to average, one would expect for its legislative salary to be lower relative to average. This finding holds that states with above-mean corruption rates are much more likely to have a legislative salary that is below the national average, to an extent of nearly 3:1.

Next, the novel component of this particular analysis is examined. The function postulates that in addition to legislative salary playing a distinct role in determining statewide corruption rates, the ratio of executive to legislative pay (E/L ratio) is also important. This regression finds that of the nineteen states that have a rate of corruption that is above the mean (3.15%), 63 percent have an E/L ratio of below the mean (4.87) across the fifty states. As a function of the percentage, twelve states of the nineteen with above average corruption rates have an E/L ratio of below 4.87 – a statistically significant portion. Only six states, or 37 percent, had an E/L ratio of greater than or equal to the national average.

From this result, it can be extrapolated that low E/L ratios and greater parity between the salaries of state chief executives and individual legislators does not deter corruption, in fact, the opposite is true. These findings imply that a lower E/L ratio in a given state set against a national average does not deter above-average corruption rates in the same given state 63 percent of the time. E/L ratios with regards to departure from mean ratios actually have a positive correlation when set against corruption rates in comparison to national averages.

Consequently, it can be said that as a state's corruption rate increases relative to average, one could expect that the same state's executive to legislative compensation ratio to increase relative to average. According to the data, this hypothesis holds true at a rate of more than 2:1.

The last element of the modeled function of corruption explores how individual states determine the compensation for legislators. Using data extracted from the Book of the States (2009), states set their legislative compensation via statute or by commission from the state constitution. A simple analysis results in a finding that 38 percent of states set their legislative compensation through commission by their state Constitution. Thirty one states, conversely, set their legislative compensation by state statute. It must be noted that most of these states whose legislative salary is set by statute stipulate that salary changes may not take effect until the following session, normally after an election. There are no stipulations, however, governing those state legislators who gain re-election from their districts.

This analysis finds that of the states with above average corruption rates (3.15%), 68.4 percent of those states set their legislative salaries by statute. Consequently, thirteen of the nineteen states with above mean corruption rates have their legislative compensation set by state statute. Only six of those same nineteen states set their legislative salaries by state Constitution, amassing only 31.6 percent of the total data set. This finding implies that states with above-mean rates of corruption, those same states are much more likely to have a statutory method of determining legislative compensation, on a scale of more than 2:1. Conversely, one can expect that as a state's corruption rate increases relative to average, the same state is more likely to have a method of setting its legislative compensation by statute, on the order of more than 2:1. With regard to the model's determinant function, the method of setting state legislator pay by statute

has a significant positive correlation when compared with corruption rates and their relative departures from the national average.

The overall result of a regression of this data set is conclusive and supports previous data while also expounding on new findings. An analysis the level of corruption relative to average in the fifty US states results in a finding of nineteen states with above mean corruption rates, or rates greater than 3.15 percent per 100,000 population. Of those nineteen states, 73.6 percent have a legislative salary below the national average, 63 percent have an E/L ratio below the national average, and 68.4 percent set their legislative compensation by state statute.

Accordingly, it can be determined that as corruption rates increase relative to average in a given state, the state will have a legislative salary that is below average at a nearly 3:1 rate, an E/L ratio below mean at a more than 2:1 rate, and will set its legislative compensation by statute at a more than 2:1 rate. The data set suggests that higher corruption rates in regard to departure from the national average negatively correlate with legislative salaries; as corruption rates increase relative to the mean, one can expect the legislative salary in that state to be lower relative to the national average in the same state. Furthermore, as corruption rates increase relative to the mean, the executive to legislative compensation ratio (E/L ratio) will increase with regard to the national average; these data findings are positively correlated. Further still, as corruption rates in individual states increase with regard to the average, we find that these states are more likely to use a statutory method of determining their legislative compensation.

As a baseline determinant for states' contributions to their own corruption rates, it can be expected that states must increase their salaries relative to average to deter increased rates of corruption. However, as individual states increase their

relative salaries, the average salary will inevitably increase, leading to a continuum of recurring higher-than-average corruption rates until a threshold is reached. Higher relative wage rates amongst state legislators leads to an increase in the perceived risk of committing a politically corrupt act, and thus, these legislators will commit less as a percentage of politically corrupt acts at a higher wage rate as a response to risk aversion. Thus, in parity with Alt and Landess (2008), lower legislative salaries relative to average produce more corruption, on a level of nearly 3:1.

Moreover, a lower E/L ratio in a given state seems to not only fail to avert higher than average levels of corruption, it seems to positively correlate with it. An E/L ratio in a given state that is below the national average seems to contribute more to the risk of the same state experiencing a higher than average corruption rate amongst its state officials. Comparable to other states, a state with an E/L ratio below the mean is twice as likely to have a corruption rate that is higher than the national mean.

Last, the method by which states set their legislative compensation has a significant impact on the rate of political corruption in that state. This finding is proven by the above data set, and it suggests that states whose method of legislative compensation is by state Constitution on average have much less risk with regard to the state experiencing higher than mean corruption rates. Thus, a legislative salary set by statute in a given state produces significantly more corruption. This is true to the extent that comparable to the national average, a state with a statutory method of determining legislative compensation is twice as likely to have a corruption rate that is higher than the national average.

These findings do not support absolute causation of any of the factors, but more of an increase in the risk of a state experiencing higher than average

corruption rates. States that have a legislative salary set below the national average, a below average E/L ratio, and a state statute that determines their legislative pay are at an increased risk for above average political corruption. The combination of the above factors play a role in determining the relative levels of corruption in the US States with regard to these factors as a function of the corruption rate (%) in any given state.

Appendix 1a: Salaries for individual legislators in given states and salaries of chief executives (Governors) of given states in 2007.

State	Legislative Salary (2007)	Executive Salary (2007)
Alabama	$ 10,200.00	$ 112,895.00
Alaska	$ 33,615.00	$ 125,000.00
Arizona	$ 26,525.00	$ 95,000.00
Arkansas	$ 25,165.00	$ 80,848.00
California	$ 146,470.00	$ 206,500.00
Colorado	$ 38,514.00	$ 90,000.00
Connecticut	$ 28,000.00	$ 150,000.00
Delaware	$ 42,000.00	$ 132,500.00
Florida	$ 37,170.00	$ 132,932.00
Georgia	$ 27,895.00	$ 135,281.00
Hawaii	$ 40,970.00	$ 112,000.00
Idaho	$ 23,383.00	$ 105,560.00
Illinois	$ 90,244.00	$ 155,600.00
Indiana	$ 22,697.00	$ 95,000.00
Iowa	$ 32,743.00	$ 130,000.00
Kansas	$ 19,115.00	$ 105,889.00
Kentucky	$ 16,787.00	$ 137,506.00
Louisiana	$ 22,872.00	$ 95,000.00
Maine	$ 22,443.00	$ 70,000.00
Maryland	$ 53,862.00	$ 150,000.00
Massachusetts	$ 72,592.00	$ 140,535.00
Michigan	$ 91,650.00	$ 177,000.00
Minnesota	$ 39,357.00	$ 120,203.00
Mississippi	$ 19,737.00	$ 122,160.00
Missouri	$ 39,508.00	$ 120,087.00
Montana	$ 14,876.00	$ 96,462.00
Nebraska	$ 19,107.00	$ 105,000.00
Nevada	$ 11,445.00	$ 141,000.00
New Hampshire	$ 100.00	$ 108,990.00

New Jersey	$ 49,000.00	$ 175,000.00
New Mexico	$ 6,390.00	$ 110,000.00
New York	$ 79,500.00	$ 179,000.00
North Carolina	$ 31,119.00	$ 130,629.00
North Dakota	$ 13,175.00	$ 92,483.00
Ohio	$ 58,933.00	$ 144,830.00
Oklahoma	$ 48,526.00	$ 140,000.00
Oregon	$ 30,387.00	$ 93,600.00
Pennsylvania	$ 107,282.00	$ 164,396.00
Rhode Island	$ 13,089.00	$ 117,817.00
South Carolina	$ 23,609.00	$ 106,078.00
South Dakota	$ 12,050.00	$ 105,544.00
Tennessee	$ 35,412.00	$ 85,000.00
Texas	$ 21,100.00	$ 115,345.00
Utah	$ 9,316.00	$ 104,100.00
Vermont	$ 23,064.00	$ 143,957.00
Virginia	$ 22,495.00	$ 175,000.00
Washington	$ 43,061.00	$ 150,995.00
West Virginia	$ 24,200.00	$ 95,000.00
Wisconsin	$ 70,381.00	$ 137,092.00
Wyoming	$ 9,165.00	$ 105,000.00
Average	**$ 36,005.92**	**$ 124,396.28**

Appendix 1b: Executive to Legislative Salary Ratio (E/L Ratio) calculated using data from Appendix 1a. Corruption rate is based on the number of individual corruption cases prosecuted at the federal level from 1997-2006 in a given state set against its 2007 population.

State	E/L Ratio[1]	Corruption Rate (Per 100,000)[2]
Alabama	11.068	4.76
Alaska	3.718	5.82
Arizona	3.581	1.88
Arkansas	3.212	2.74
California	1.409	2.07
Colorado	2.336	1.56
Connecticut	5.357	2.8
Delaware	3.154	4.7
Florida	3.576	4.47
Georgia	4.849	2.13
Hawaii	2.733	4.21
Idaho	4.514	2.73
Illinois	1.724	4.68
Indiana	4.185	1.85
Iowa	3.97	0.91
Kansas	5.539	1.41
Kentucky	8.192	5.18
Louisiana	4.153	7.67
Maine	3.119	1.89
Maryland	2.784	2.31
Massachusetts	1.935	2.66
Michigan	1.931	2.14
Minnesota	3.056	1.24
Mississippi	6.189	6.66
Missouri	3.039	2.79
Montana	6.484	6.38
Nebraska	5.495	0.73
Nevada	12.319	1.72
New Hampshire	0	1.06

New Jersey	3.571	4.32
New Mexico	17.214	1.38
New York	2.251	3.95
North Carolina	4.197	1.96
North Dakota	7.019	8.25
Ohio	2.457	4.69
Oklahoma	2.885	2.96
Oregon	3.08	0.68
Pennsylvania	1.532	4.55
Rhode Island	9.001	2.54
South Carolina	4.493	1.74
South Dakota	8.758	5.64
Tennessee	2.4	3.68
Texas	5.466	2.44
Utah	11.174	1.41
Vermont	6.241	1.935
Virginia	7.779	3.64
Washington	3.506	1.52
West Virginia	3.925	4.14
Wisconsin	1.947	2.09
Wyoming	11.456	3.13
Average	**4.87946**	**3.1559**

[1] Calculated using data from Appendix 1a.

[2] Rates are calculated based on the number of corruption cases per 100,000 residents in a given state.

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All data synthesized in Appendix 1a/b.