# DARK MONEY ECONOMICS

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**Abstract**

Corruption and crony-capitalism are rightly considered bulwarks to economic growth, innovation, and equality. *Citizens United v. FEC,* the controversial Supreme Court case, is often critiqued over its perceived role in opening the flood gates to big-money interests and their potential for corruption in the United States. This paper is an observational analysis on the relationship between *Citizens United v. FEC*, money in politics, corruption, and economic health. The analysis of the relationship between political expenditures and governance utilizes data from the Center for Responsive Politics to measure the former and the World Bank's six World Governance Indicators to measure public-sector corruption and decay. To analyze the relationship between political expenditures and the economy this paper utilizes the Bureau of Economic Analysis' data on Gross Domestic Product and Gross Private Domestic Investment. This paper's analysis from 2000-2019 finds a significant observed negative correlation between political expenditures and the World Governance Indicators and no such correlation between expenditures and Gross Domestic Product or Gross Private Domestic Investment.

KEYWORDS: (Corruption, Governance, Citizens United v. FEC, Political Expenditures)
JEL CODES: (D73, H11, N42)

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ON MY HONOR, I HAVE NEITHER GIVEN NOR RECEIVED UNAUTHORIZED AID ON THIS THESIS

Sean G

Signature

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## INTRODUCTION

*Citizens United v. FEC*, the notorious case was decided on January 21, 2010. There are certainly a myriad of legal arguments made in defense of or opposition to this case's decision. However, this paper directs its analysis not towards the legality of the decision but its effect on the United States' political system and economy. To do this, an explanation of the case is necessary. What was *Citizens United v. FEC*? Citizens was about a movie, yet, free speech was the real contention of the case. The question at hand was specifically whether the Bipartisan Campaign Reform Act infringed on freedom of speech through its application to protected political speech. The Act in question limited political contributions from corporations and other such groups from funding electioneering communications via their vast coffers. The court ruled that corporations have the same right to exercise the first amendment through political speech as any one individual does (Oyez, 2011). Thus, as monetary donations are considered a form of speech, corporations and other such entities cannot be limited in their contributions to political organizations. (Oyez, 2011).

The logical follow-up, of course, is why does it matter? In terms of economics, it matters because it massively increased the amount of money influencing public elections (Krumholz, 2013). This begs the question of whether *Citizens United v. FEC* and the resulting outsized influence of the wealthiest individuals and corporations on our political system increased corruption? Secondly, if the answer is it did, did this result in effects on economic growth? Logically, it seems an easy line to draw from increased donations to the latter two.

Furthermore, public corruption would, of course, create corrupt policy, which would result in an unfair and, thus, inefficient market. Herein lies the importance of addressing this issue. Suppose a correlation is drawn between increased political spending and increased corruption. In that case, ideally, public pressure will mount on the judicial branch to examine the outcomes of their decision and potentially re-examine the decision itself when challenged. If this correlation exists, and if it is addressed, an efficient market that is more conducive to growth can be achieved.

However, this study must first draw the correlation between money in politics and corruption to achieve such a lofty goal. To do this, an understanding of what corruption is and how this paper quantifies it is in order. Corruption is defined as "the abuse of public power for private benefit" (Tanzi, 1998, p. 8). This is a broad definition and is not entirely sufficient to describe what this paper aims to analyze. A second concept closely related to corruption is cronyism or crony capitalism. Crony capitalism is defined as "an economy in which success in business depends on close relationships between business people and government officials. It may be exhibited by favoritism in the distribution of legal permits, government grants, special tax breaks, or other forms of state interventionism" (Rubin, 2016, p. 105). Thus, through its obstruction of the free market, crony capitalism directly impacts economic growth and, therefore, should be mitigated as much as possible.

The subjective nature of corruption and cronyism creates a significant problem for research. Due to the subjectivity, there are numerous ways to define and quantify both. For example, corruption can be measured by looking at arrest rates for corruption itself or indirectly by analyzing trust in government and the perception of corruption (Tanzi, 1998). Furthermore, the opaque nature of the crime and the complexities of investigating it creates severe problems for any research on the subject.

Various sources compile corruption data with different methodologies, strengths, and weaknesses (Tanzi, 1998). After an arduous research process, it was determined that this paper would use the World Bank's Control of Corruption indicator.

In large part, this was decided due to Hamilton and Hammer's 2018 study, where the most in-depth analysis of corruption indicators was composed. Hamilton and Hammer's research analyzed the efficacy of the various ways in which corruption is measured. The study compared the following indicators of corruption, Corruption Perceptions Index (CPI); Control of Corruption Governance Metric (CC); the Government Effectiveness Governance Metric (GE); the Global Corruption Barometer; the UN Survey of Crime Trends; and "evidence on the propensity of diplomats from different countries to break the law (hereafter 'Tickets')." (Hamilton & Hammer, 2018, p. 2) After a thorough analysis of each, "Using an extensive literature review, correlations, and factor analysis, this paper has shown that while both objective and subjective indicators of corruption meet these criteria, the most appropriate indicators are the composite subjective indicators: the CPI and the CC." (Hamilton & Hammer, 2018, p. 27) Furthermore, Hammer and Hamilton concluded that of those two the Control of Corruption Metric is preferred for analyses over more extended periods whereas, "comparisons over long time periods are not advised" for the CPI. (Hamilton & Hammer, 2018, p. 10)

This paper analyzes the changes in total dollars contributed to federal elections in the nine years post-*Citizens United* with the United States' Control of Corruption and other World Governance Indicators over that same period and the respective values over the nine preceding years.

Thus, given the extended time frame (19 years) over which the analysis is made, the Control of Corruption data was determined to be the best choice of the indicators mentioned above. There are two questions to be addressed in this paper. They are, Did the increase in money in elections post-*Citizens United* correlate with an increase in corruption? and, if so, Does this increase in corruption correlate with a restriction of growth in the economy or a change in the investment rate? The last few pages gave context to the first question and analyzed it in this paper. Therefore, the following paragraphs will attempt to provide context to the latter question.

The relationship between growth and corruption is a fascinating one. To start, economics is in part based on the assumption of an efficient market. The idea that consumers and firms will make consumption and savings decisions based on what offers the most utility either now or in the future. However, in order to utilize the best goods and services, an efficient marketplace is essential in order to create competition that allows said goods and services to rise, deservedly, to the top. This is where cronyism becomes a problem.

To create that efficient marketplace that fosters a competitive environment where the best rises to the top, there needs to be an even playing field. That is not to say that individual firms will not have inherent advantages. The problem is when that advantage is artificially created. Say a firm bribes the government for an edge over their competition; obviously, this would result in an unearned and unfair advantage in the market for that firm. This advantage, presumably, leads to more profit for that firm and less for their competition. However, the money that they unfairly received was not due to market forces but rather non-market forces (government intervention on their behalf), and thus, the market suffers.

As more money flows to the firm that has not offered any added value to the consumer, not only does the consumer suffer by receiving a lesser product, but the impact is compounded by unfair market forces driving deserving firms out of the market. This only serves to solidify the advantage the crony firm has over its competitors and lobbying power over the government to continue its corrupt business practices. This is, of course, hypothetical, but it serves to explain in a real-world sense how cronyism and corrupt practices not only erode the conscience and actions of our elected officials but the sanctity of the market that our society relies on for innovation and advancement.

This paper is organized into four options explained in chronological order. The above introduction serves to introduce the reader to the topic and explain its importance. The review of relevant literature serves to overview and analyze the body of research on corruption and its effect on growth as well as *Citizens United v. FEC* and its respective impact on corruption data. Following this, the data from the World Bank's report on the World Governance Indicators is introduced as well as the methodology for performing the analysis. Finally, the paper will conclude with a discussion of the results, their limitations, and the respective conclusions drawn from them.

## Literature Review

Put simply; corruption has the effect of tilting the market's playing field towards particular "players." However, as previous research depicts, this appears in the data in a myriad of ways. One way in which this happens is through the misallocation of capital (Krueger, 2002). In her paper, Krueger analyzes "SOE's" or state-owned enterprises as a stand-in for crony companies. She does so because, like "COE's" or "crony-operated establishments", SOE's, "owe their existence not to their performance in a competitive market but to the nonmarket criteria by which they were established and are run." (Krueger, 2002, p. 3) In her paper, Krueger tells a story similar to that of the previous introductory hypothetical. She explains how the Korean access to preferred credit rates was dominated in the 20th century by SOE's which was not a problem in the '60s as the economy was rapidly expanding from a previous state of relative poverty. However, as growth slowed, the real rate of return on domestic credit plummeted because

> the firms that had been so favored in the 1960s had become large relative to the Korean economy, and owners of those firms were important sources of financing for political leaders. In addition, their enterprises accounted for a sizable share of GDP and employment; their favored access to credit had enabled them to expand, and credit rationing skewed toward these firms had apparently constituted a significant barrier to entry or to expansion of small firms. (Krueger, 2002, p. 19-20)

Concluding powerfully with regard to cronyism's effects on growth, Krueger stated, "favoring the (cronies) in Korea resulted in a slowing growth rate." (Krueger, 2002, p. 21) Put simply, cronyist policies concerning initial access to capital allowed non-market forces to determine who grew and at what rate. This led to an environment in which industry leaders had attained their standing as such due to cronyism and not competence, leading to lower rates of return due to their incompetence.

In his famed paper, Mauro (1995) gave a similar and potentially more compelling case for the damaging impact corruption has on growth. In the "first systematic cross-country empirical analysis that relates indicators of bureaucratic honesty and efficiency to economic growth," Mauro found that "there is a negative and significant association between corruption and the investment rate" (Mauro, 1995, p. 695). Furthermore, Mauro unequivocally rejected previous claims that corruption could benefit the economy in some instances. (Mauro, 1995) However, it is essential to note that though the investment rate is a significant causal factor in economic growth, it is not the same as growth itself (Levine & Renelt, 1992). With that said, Mauro did not find the same significance in the relationship between growth and corruption as he did with the investment rate, "The null hypothesis of no relationship between investment and corruption can be rejected at a level of significance higher than the null hypothesis of no relationship between growth and corruption can" (Mauro, 1995, p. 701). However, that is not to say that it does not affect growth, only that the relationship is not as robust between growth and corruption as between investment and corruption. Mauro solidifies this sentiment in his conclusion by stating, "The negative association between corruption and investment, as well as growth, is significant in both a statistical and an economic sense" (Mauro, 1995, p. 705).

Further, solidifying the relationship between corruption and growth is supported by Papaconstantinou and Tsagkanos (2013). They conclude that there is a positive causal impact of corruption (measured as CPI) on GDP in Greece (2013). This study was significant in my research as well for multiple reasons besides its conclusion. Firstly, it focused on a particular country, thus giving me a model to follow as I look specifically at the United States. Secondly, it used GDP in their analysis, the measurement of growth that I will use. Finally, the paper used the CPI as their determinant of corruption, which, although not the same, is extremely similar to the Control of Corruption variable, which I will use in this paper.

A fascinating addition to the literature which supported traditional "political economy theory" yet differs from basic logic came from Ahmad's 2012 paper, which determined that "the growth- maximizing level of corruption is not necessarily equal to zero" (2012, p. 296). Specifically, Ahmad showed that corruption itself is not the only "channel(s)...through which corruption hinders economic development" (2012, p. 297).

Tanzi (1998) analyzes corruption in a holistic, all-encompassing way that is also a welcome addition to the literature. Specifically, Tanzi addresses the qualitative as well as the quantitative effects that corruption has on growth, which is different from the more quantitative papers previously cited. Firstly, Tanzi states, "Corruption distorts markets and the allocation of resources for the following reasons, and is therefore likely to reduce economic efficiency and growth" (Tanzi, 1998, p. 583). The "following reasons" are,

> It reduces the ability of the government to impose necessary regulatory controls and inspection. to correct for market failures... It distorts incentives. As already mentioned, in a corrupt environment, able individuals allocate their energies to rent-seeking and to corrupt practices and not to productive activities. In some cases, the resulting activities have a negative value-added. It acts as an arbitrary tax (with high welfare costs)

> Corruption's random nature creates high excess burdens because the cost of searching for those to whom the bribe must be paid must be added to the cost of negotiating and paying the bribe. It reduces or distorts the fundamental role of the government in such areas as enforcement of contracts and protection of property rights. It reduces the legitimacy of the market economy and perhaps also of democracy. In fact, the criticisms voiced in many countries, especially in transition economies, against democracy and the market economy are motivated by the existence of corruption. Thus, corruption may slow down or even block the movement toward democracy and a market economy. Finally, corruption is likely to increase poverty because it reduces the income-earning potential of the poor. (Tanzi, 1998, p. 583)

Tanzi focuses on the "arbitrary tax" effect of corruption which, especially in the examples given of Ukraine, Russia, and Indonesia in which it functions as a form of perpetual extortion carried out by the government, is especially insidious. However, the effect that was most interesting for me and was the reason I initially decided to research cronyism for this paper, was "reducing the legitimacy of the market economy" (Tanzi, 1998, p. 583). I found this to be especially true in a modern-day in which anti-market political ideologies, specifically socialism, are quickly becoming the new vogue, especially on insulated college campuses. The grand irony, which is what I hope to show in this paper, is that it is not the market that is failing those who wish to abandon it but rather an increasingly cronyist political system that is dominated by massive corporations and special interest groups. In other words, I hope to show those who wish to turn to the government rather than the market as a savior, that it is actually the failure (and arguably greed) of politicians and the public sector that caused the problem they turn to those same institutions to solve. It is worth noting as well that Tanzi addresses the quantitative effects of corruption as well, including its negative impact on investment and, as a result, growth (citing Mauro (1995) in the process) (Tanzi, 1998).

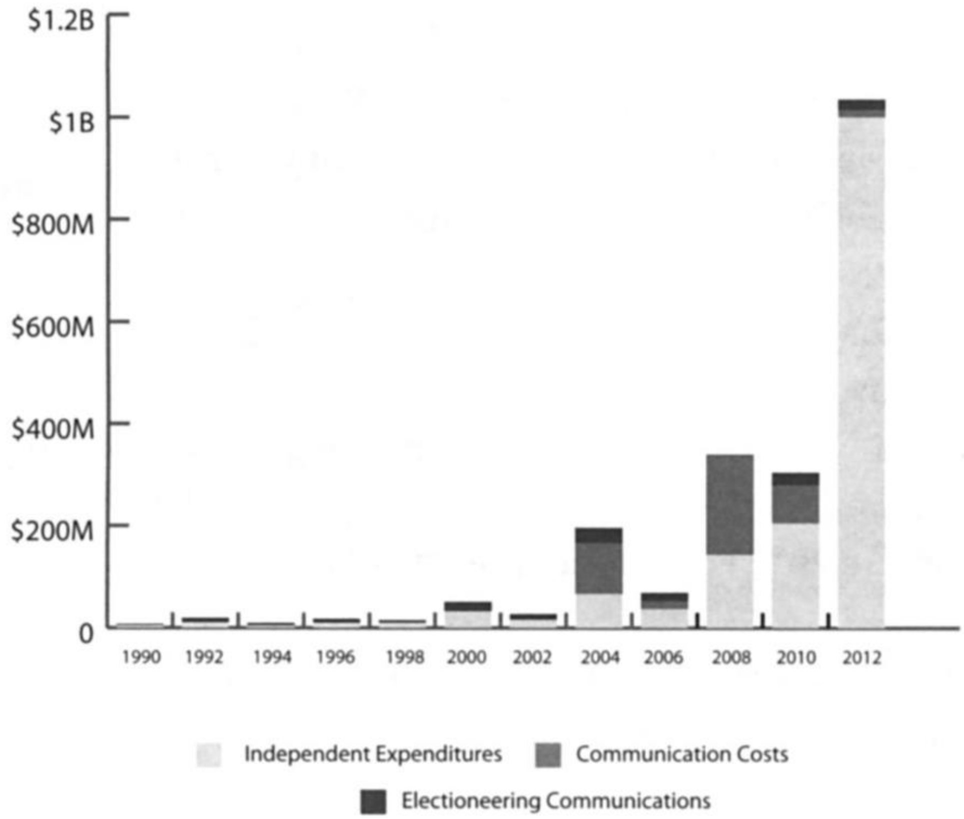
The preceding pages thoroughly layout, examine and address the qualitative and quantitative arguments for the effects of corruption on growth. Thus, given this paper's purpose is not merely to prove a connection between corruption and growth, but also to address the source of corruption itself, the following pages will focus on the latter of the two. To start, I want to return to Tanzi (1998) where he addresses the causes of corruption in the public sector. In general, Tanzi points to complexity and lack of oversight as the two leading causes of corruption (1998). Specifically, he points to excessive and overcomplicated regulations as well as taxation as "direct causes" of corruption (Tanzi, 1998). He also points to discretionary public spending as an example of the lack of oversight problem. Tanzi claims that discretionary public spending projects open the door to high-level officials making decisions based on "commissions." Thus, both reducing the productivity of those public dollars and propping up investments that otherwise "would not have been justified on objective criteria of investment selection such as cost-benefit analysis" (Tanzi, 1998, p. 568). However, the final statement he makes in this portion of the paper is essential for our topic of *Citizens United*. Tanzi states, "In all these areas, lack of transparency and of effective institutional controls are the main factors leading to corruption" (1998, p. 569). This returns to the original concept of lack of oversight but is even more relevant to the current state of affairs in the

American political system in which dark money dominates election cycles with virtually no accountability or transparency about who or where it comes from.

After addressing two more direct causes that amount to more examples of lack of oversight concerning discretionary decisions, Tanzi points to this paper's focus as his final direct cause of corruption. That cause? Financing of Parties. Pointing to this as one of if not the biggest downfalls of democracy, he addresses the fact that election cycles create "enormous pressures" on politicians to raise massive amounts of money to maintain their positions of power (Tanzi, 1998, p. 571).  Of course, this is superior to a system in which politicians do not have to worry about raising money as they do not answer to the people they do in a system of democracy. However, like all things, some negatives come with positives. The reliance of politicians on the wealthiest few to finance their campaigns to maintain power is a massive motivator for corruption on both sides. During or leading up to a campaign, politicians are at their most vulnerable as they stare down defeat and irrelevance. Furthermore, private citizens and firms are fully aware of this dynamic and it is only logical that those maximizing self-interest, even at the expense of breaking the law, may use this vulnerability to their advantage by engaging in "quid pro quo" and outright corruption or other subversive actions.

The direness of our "lack of oversight" (Tanzi, 1998) problem comes fully into focus in Krumholz (2013). This addresses the profound changes in federal election spending post-*Citizens United* (up to 2012, it has continuously increased since) with the following graph:

**Figure 1**: *Types of Outside Spending and Changes in Spending 1990-2012*




Source: Krumholz, 2013

Although the graphic does speak for itself to a certain extent, the specific numbers are staggering. The already colossal sum of $127mm spent on Independent Expenditures in 2010 was dwarfed by the 2012 sum of $1bn. However, spending alone is not the entirety of the problem. Transparency is the problem. Krumholz (2013) encapsulates this by stating that in 2012, "30 percent (of outside spending) was not disclosed at all, (40% was totally disclosed), and the rest had 'incomplete' disclosure, where the donor was listed but was a nonprofit shell company, so the original source(s) of their funds were unknown" (2013, p. 1129). Put simply, huge increases in dollars spent on our elections and very little oversight or transparency as to where they come from. Krumholz goes on to say, "(voters) had one hand tied behind their back because the lack of disclosure meant they couldn't consider the source about the messengers and ulterior motives that drove them to sponsor political ads" (2013, p. 1129). Krumholz (2013) also addresses the same problem Tanzi cited stating,

> there is also the issue of corruption of the legislators. They have to depend upon the kindness of strangers, and there's a price to pay for that, in terms of how ambitious they can be, what they can realistically achieve. And there's a cost in terms of how they spend their day, how minimized their utility to govern becomes, because they're sometimes too busy 'dialing for dollars' to even read the bills they're voting on. (p. 1133)

In Tanzi's (1998) conclusion, he listed four ways in which we must take action to end corruption. In the fourth statement, he perfectly encapsulated the problem that political finance is as well as the exasperation of this paper in attempting to address it when he stated, "somehow solving the problem of the financing of political parties" (Tanzi, 1998, p. 591). We may not know how to do that in its entirety, but of one thing we can be sure, transparency is where we start, and a return to transparency starts with a return to *Citizens United v. FEC.* This paper will attempt to do just that by increasing transparency and understanding of corruption, what causes it, and what other effects it may have on our economy. How this is done will be explained in the following section.

## Methodology

This research is an exploratory study using comparisons across time to analyze the effect that *Citizens United v. FEC* and the subsequent increase in election spending had on corruption and the economy in the United States of America. In this study, 2010 will be used as the benchmark due to the levied ruling in that year. The study will span 16 years, from 2001-2009 beforehand and from 2011-2019 after. In this study, I will be analyzing the World Bank's World Governance Indicators as they relate to the dollars spent in US federal elections, gross domestic product, and the investment rate.

First, I will analyze the World Governance Indicators and both Congressional and Presidential Election cycles to see if increases or decreases in money spent in each respective cycle correlate with consistent changes in the WGI's. I will do so by looking at percent changes in the indicators compared to the percent change in election spending in the relevant cycle. Hypothesis 1) There will be an observed negative correlation between dollars spent in federal election cycles and the World Governance Indicator values across the same period. Secondly, I will analyze whether there is a general correlation between increased money in politics and the WGI's over the entire period from 2000-2019. Hypothesis 2) There will be a significant observed negative correlation between increased election spending and the WGI's from 2000-2019. Next, I will split the data from 2000-2009 and 2011-2019 to have eight years of data on either side of the ruling to analyze. I will then look at the average of each WGI in the two listed periods to determine whether there are any observable shifts after the verdict in 2010. Hypothesis 3) There will be a significant observable negative shift in average WGI values post-*Citizens United v. FEC*. I will then analyze the GDP values before and post-*Citizens United v.*

*FEC* using the same periods to determine whether there is an observable shift in growth after the ruling. Hypothesis 4) There will be an observable negative shift in growth after 2010. Finally, I will analyze the average private domestic investment rate before and after the ruling to follow up on the literature's finding that the investment rate is most affected by corruption. Hypothesis 5) There will be a significant negative shift in the private domestic investment rate post-2010.

The rest of the World Bank's World Governance indicators, along with Control of Corruption, that I will use are Political Stability and Violence, Government Effectiveness, Regulatory Quality, Voice and Accountability, and Rule of Law. Given the preeminent importance of the indicators in this study, an explanation of what they measure in terms of governance, what the individual indicators represent, and how they are determined is in order.

The World Governance Indicators range in value from -2.5 at the worst extreme to 2.5 representing idyllic governance. (Kaufmann, Kray, Mastruzzi, 2010) Thus, it is essential to note that decreases in the values depict perceived increases in the problem the individual indicator aims to represent and vice versa.

The WGI "are based on several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, non-governmental organizations, commercial business information providers, and public sector organizations worldwide." (Kaufmann, Kray, Mastruzzi, 2010, p. 2) The WGI uses data from numerous sources on perceived governance and then organizes the data into six "clusters" which are represented by the six World Governance Indicators; Political Stability and Violence, Government Effectiveness, Regulatory Quality, Voice and

Accountability, Rule of Law, and Control of Corruption. (Kaufmann, Kray, Mastruzzi, 2010, p. 2) The indicators are created using a "statistical methodology known as an Unobserved Components Model to (i) standardize the data from these very diverse sources into comparable units, (ii) construct an aggregate indicator of governance as a weighted average of the underlying source variables, and (iii) construct margins of error that reflect the unavoidable imprecision in measuring governance." (Kaufmann, Kray, Mastruzzi, 2010, p. 2). Of course, when measuring something as subjective as "governance" it is essential to define it in a standard and understandable way. The WGI does this by defining governance as "the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them." (Kaufmann, Kray, Mastruzzi, 2010, p. 4)

Each set of two indicators correspond to one of the above aspects of governance. For example, "(a) The process by which governments are selected, monitored, and replaced" is measured by Voice and Accountability and Political Stability and Absence of Violence/Terrorism. Voice and Accountability is defined as "capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media." (Kaufmann, Kray, Mastruzzi, 2010, p. 4) Political Stability and Absence of Violence/Terrorism is defined as "capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism." (Kaufmann, Kray, Mastruzzi, 2010, p. 4)

Government Effectiveness and Regulatory Quality correspond to "(b) the capacity of the government to effectively formulate and implement sound policies." (Kaufmann, Kray, Mastruzzi, 2010, p. 4) Regulatory Quality is defined as "capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development." (Kaufmann, Kray, Mastruzzi, 2010, p. 4) Government Effectiveness is defined as "capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies." (Kaufmann, Kray, Mastruzzi, 2010, p. 4)

The "(c)" aspect of governance is defined as "The respect of citizens and the state for the institutions that govern economic and social interactions among them." (Kaufmann, Kray, Mastruzzi, 2010, p. 4) Corresponding with this aspect are the Rule of Law and Control of Corruption indicators, respectively. These indicators attempt to "captur(e) perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence" in the case of Rule of Law. (Kaufmann, Kray, Mastruzzi, 2010, p. 4) Whereas, Control of Corruption's purpose is to "capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests." (Kaufmann, Kray, Mastruzzi, 2010, p. 4)

Now that it is clear what the World Bank's definition of governance is, what the individual indicators attempt to measure, and the model the World Bank utilizes to measure them, it is crucial to understand where the data that comprises them comes from. Numerous sources are utilized to determine the values of each of the WGI indicators.

These include surveys like the World Economic Forum's Global Competitiveness Report, the Institute for Management Development's World Competitiveness Yearbook, the World Bank / EBRD's Business Environment and Enterprise Performance surveys, the Gallup World Poll, Latinobarometro, Afrobarometro, and the AmericasBarometer. (Kaufmann, Kray, Mastruzzi, 2010, p. 6) The WGI also utilizes what they call "Public Sector Data Providers," including "expert assessments provided by the United States Department of State and France's Ministry of Finance, Industry and Employment." (Kaufmann, Kray, Mastruzzi, 2010, p. 6) Also included are "the views of country analysts at the major multilateral development agencies (the European Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the World Bank)" (Kaufmann, Kray, Mastruzzi, 2010, p. 6) The WGI also utilizes data from "nongovernmental organizations" such as Reporters Without Borders, Freedom House, and the Bertelsmann Foundation and finally, the WGI uses data from "commercial business information providers" such as the Economist Intelligence Unit, Global Insight, and Political Risk Services. (Kaufmann, Kray, Mastruzzi, 2010, p. 7)

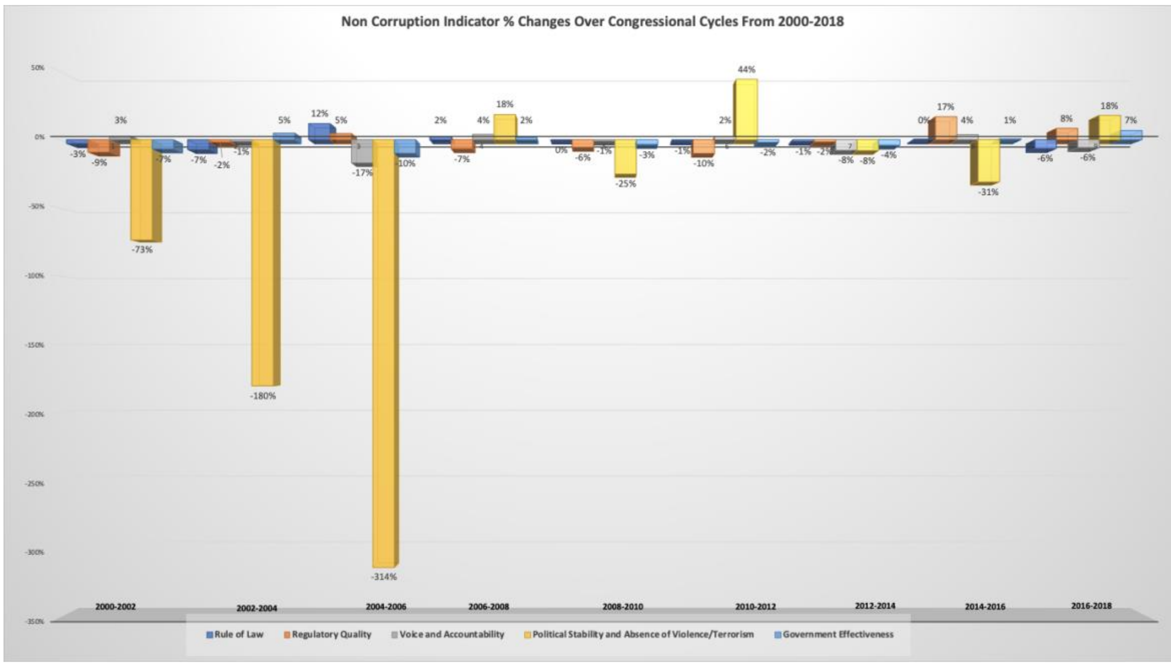
There are a few limitations of this study, namely that *Citizens United* is a relatively recent event. Thus, this study will be unable to analyze its effects over significantly longer time horizons where its impact or lack thereof may come more into focus. A second is the lack of data from the year 2001. The lack of this data may throw the accuracy of the pre-and post-comparisons off to a degree. A third limitation is the huge number of inputs which affect the macroeconomic indicators of GDP and the Investment Rate. As a result, it is extremely hard to point to any one change, such as increased political spending, as a cause for changes in either GDP or the Investment Rate. Finally, a challenge is that the WGI have varying standard errors, which means that our analysis of changes in their values may not always be entirely accurate.

## Data Analysis and Results

As laid out above, the first step to analyze the data was to investigate any immediately obvious correlation between election spending and corruption. Using the Control of Corruption variable for corruption and Open Secrets Data from the FEC on Election Spending, a clear pattern emerges, although not in the direction I would have expected. To compare the variables across a common value, I took the percent changes in election spending from each federal congressional election cycle from 2000-2018 and compared it to the percent change in control of corruption from 2000-2018 as well (except 2001 as the data was not computed that year). To start, from 2000-2002 there is a significant increase in spending at 31% change. To coincide with this, the control of corruption value increased 16%. This change does not support this study's first hypothesis, although a two-year period, of course, is far too small a period to prove a pattern. From 2002-2004 the Control of Corruption variable decreased by 5%, with election spending only increasing by 3% over the same period. Given the marginal changes in each variable over this period, there is not much that can be ascertained. The 2004-2006 period is where the data becomes intriguing, at least according to my expectations. The CC value decreased by a whopping 26%, while election spending increased by an almost identically inverse 28%. From 2006-2008 the first hypothesis is supported as election spending decreases by 13% as the corruption indicator rises by 7%. From 2008-2010 election spending increased by 46%, while corruption decreased by 12%. The pattern continues with the 2016-2018 topping off with a 3% decrease in corruption as election spending increased by 39%. Thus, at first glance, there does not appear to be a clear correlation between corruption and congressional election spending.

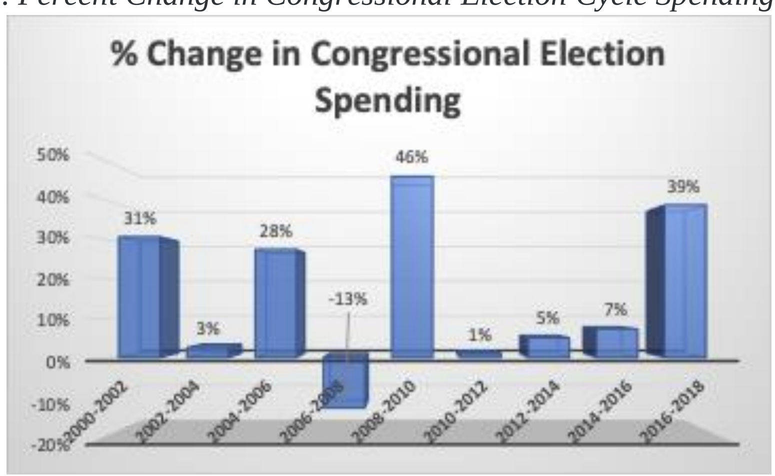
What relationship does election spending have with the other indicators of governance and corruption? The charts below depict the percent changes in the mentioned indicators and the corresponding percent changes in congressional expenditures.

**Figure 2**: *Non-Control of Corruption Indicator Percent Changes Over Congressional Election Cycles 2000-2018*




Source: World Bank, 2019

**Figure 3**: *Percent Change in Congressional Election Cycle Spending 2000-2018*



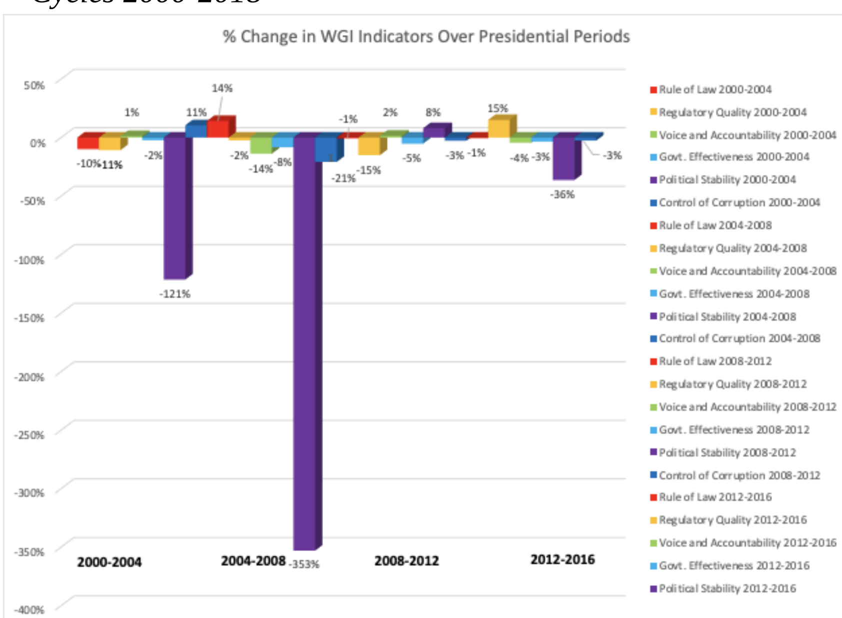

Source: Center for Responsive Politics, 2020

As you can see, there is very little correlation between money spent and these indicators. There are some cases when they correlate; for example, in the first cycle from 2000-2002, we see a large increase of 31% in money spent. The indicators all reacted negatively over the same period except Voice and Accountability, which barely increased. Another example is from 2006-2008, when there is a 13% decrease in election spending, each of the indicators responds positively except Regulatory Quality. From 2016-18 there is a large increase in expenditure, which resulted in relatively positive results other than from Rule of Law and Voice and Accountability. It is worth noting that the Political Stability and Absence of Violence/Terrorism variable seems to track with election spending most consistently except 2016-18. However, given that the last twenty years in the US have been in many ways defined by an endless War on Terror, it seems unlikely that this variable is reacting to increases or decreases in election spending instead of rhetoric around terrorism. That said, election spending is generally used for negative campaign ads. Thus, it is reasonable to assume that the public being bombarded with character concerns about their elected representatives would cause increased distrust in our political system's stability.

The next question is, does corruption correlate with presidential election spending? The answer is yes and no. From 2000-2004 an 11% increase in corruption coincided with a 35% increase in presidential election spending. However, from 2004-2008, a 21% decrease in corruption does not coincide with a 47% increase in spending. The next two cycles from 2008-2016 generally supported the first hypothesis with identical 3% decreases in corruption as expenditures decreased by 6% and 9%, respectively.

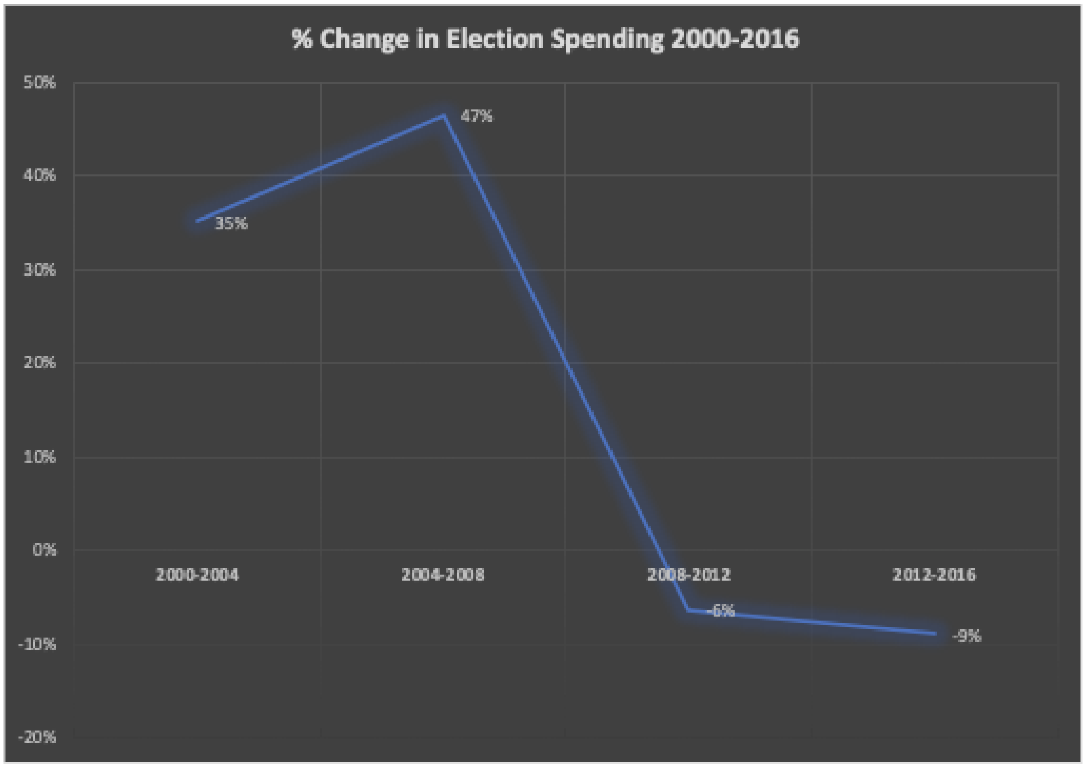
Over Presidential Election cycles the data appears to be equally inconclusive. Again, from 2000-2008 we see general congruence between increases in spending and decreases in the governance indicators. However, from 2008-2016 despite decreases in spending we continue to see decreases in the indicators (whose values are on an inverse scale, from 2.5 to -2.5 with 2.5 being best and -2.5 being worst). That is not to say that decreases in spending lead to poor governance and corruption. For example, with such huge increases in spending originally, (35% and 47%) the small decreases (-6% and -9%) may not be enough to stem the tide of negative effects on governance that such huge increases in money in politics have over an extended period of time. After all, it is important to note although the spending and indicator relationship may not be proportional in terms of percent increases over election cycles, each and every indicator cited decreased from 2000-2019 (many significantly) as election spending exploded in the United States.

**Figure 4**: *Percent Change in all World Governance Indicators over Presidential Election Cycles 2000-2018*




Source: World Bank, 2019

**Figure 5**: *Percent Change in Presidential Election Cycle Spending 2000-2016*

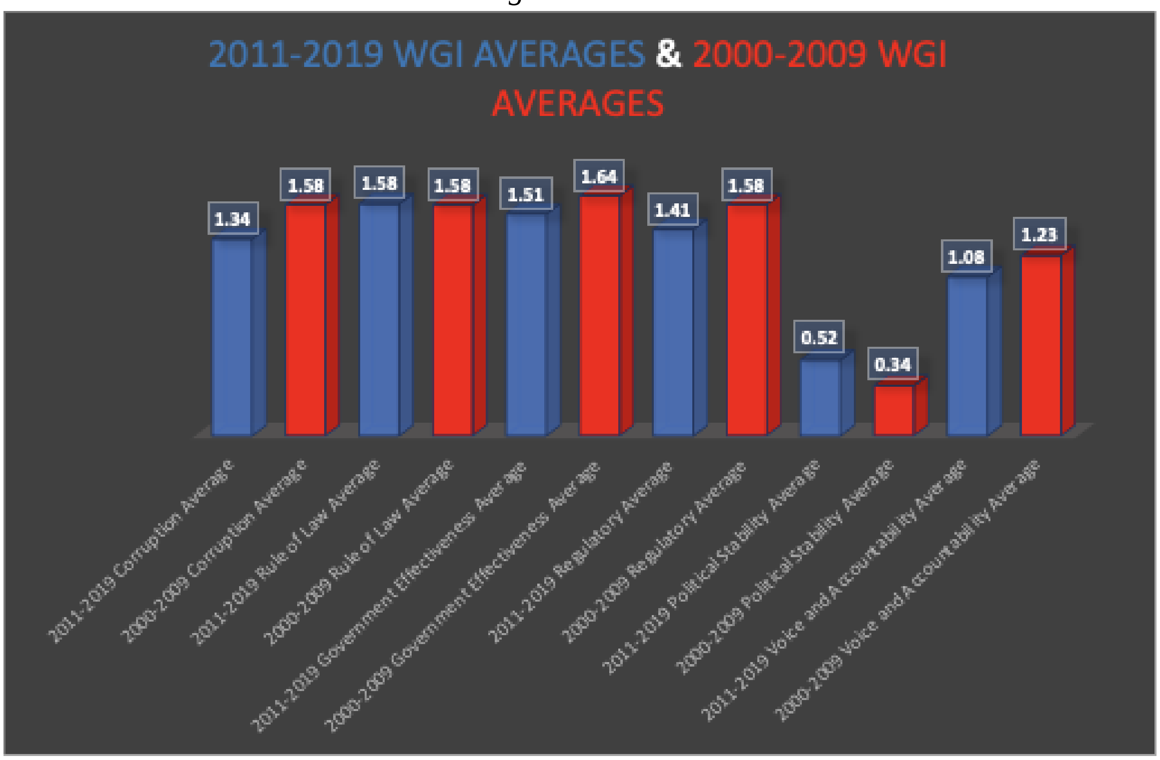



Source: Center for Responsive Politics, 2020

It is also important to note which of these indicators dropped significantly. Leading the way is Political Stability and Violence with a 264% drop from 1.08 in 2000 to .30 in 2019. As previously discussed, it is fair to assume that increased money in politics could absolutely cause a decrease in political stability however the violence and terrorism element of this indicator makes it hard to make any assumptions that such a drastic change was caused by political spending. An interesting development was that Control of Corruption was the second biggest loser dropping from a 2000 value of 1.66 to 1.22 in 2019; a 36% decrease. Of course, there are a myriad of things that could be causing this change. However, an interesting addition to the data is that the Voice and Accountability variable mirrored Corruption dropping 36% from 1.31 to .97 over the 2000-2019 time span. This variable, along with corruption, is the most tied to money in politics because it measures how much "citizens have a voice in selecting their government" while corruption measures "capture of the state by elites and private interests". In other words, the exact things that are feared when big money special-interests are allowed into politics with no oversight.

That said, this study is not merely about measuring the effect that increased money in politics had on governance but also about how *Citizens United v. FEC* contributed to this. With this in mind it is important to look at whether there are any significant changes in the data post-2010 when compared to the years prior.

**Figure 6**: *World Governance Indicator Averages Pre-Citizens United v. FEC Compared to Post-Citizens United v. FEC Averages*




Source: World Bank, 2019

The above chart, measures the average of each indicator in the 8 years of data prior to *Citizens United v. FEC*, from 2000-2009 (2001 Data Unavailable) and the data after from 2011-2019. Given the significant changes in the averages; clearly a sizable shift took place in perceived governance in the United States. Again, Control of Corruption and Voice and Accountability stand out as the most changed which is important, given they track the effects of money in politics most closely due to their inputs. Corruption had a 16% average decrease from the years prior to the case with Voice following with a 14% decrease. Regulatory comes in third with an 11% change which is also significant given that regulation is one of the areas Tanzi pointed to as ripe for corruption due to the unilateral authority the government has in this regard as well as the market incentives to sway regulators behavior (Tanzi, 1998).

Finally, did any of this have an effect economically? From a GDP perspective, the answer appears to be no. The average GDP from 2000-2009 in the US was 1.92 with the 2011-2019 average coming in at 2.66. However, with a variable like GDP it is extremely hard to consider it in a vacuum and even harder to determine it was swayed by any one change. That said, we can say that the increase in money in politics and decrease in perceived quality governance did not seem to have an effect on gross domestic product in the United States. The variable that Mauro (1995) pointed to, however, as most effected by corruption was the Investment Rate. This variable over the same period tells an even more lopsided story. The average Gross Private Domestic Investment in the US from 2000-2009 was -.83 from 2011-2019 it was 5.06. Yet again, using vast macro-economic indicators as variables for specific policy changes is extremely hard to do and this study clearly shows that.

Like any research on such complex topics, this study has its success and failures with regard to its hypotheses. Before discussing each hypothesis's result, it is crucial to note that a robust statistical analysis is necessary to determine a causal impact on any of these variables.

That said, Hypothesis 1 is not supported. There is no significant observable correlation between election spending and the World Governance Indicators over federal election cycles, both congressional and presidential. There was scattered data across each federal election cycle that did not point clearly in any one direction. Hypothesis 2, however, is supported. There is a significant observable negative correlation between election spending and the World Governance Indicators over the study's length from 2000-2019. Over time every WGI responded negatively as election spending skyrocketed.

Furthermore, the indicators that responded most negatively tended to be those most closely measuring perceptions of corruption and unequal representation (Control of Corruption, Voice and Accountability, and Political Stability). Hypothesis 3 is also supported. There does seem to be a significant negative shift in the average of the WGI's post-*Citizens United v. FEC.* Specifically, the average of every indicator but two responded negatively after the aforementioned 2010 Supreme Court ruling (Rule of Law did not change and Political Stability and Violence increased). It is important to note concerning the one increase that Political Stability was so awful (.34 average 2000-2009) that a shift up in a powerful and generally stable developed democratic country like the United States was almost inevitable. Despite this, it remained disturbingly low with a .52 average. Again, the indicators that responded the most were Corruption and Voice, and Accountability. This represents the beginning of a pattern in terms of not only a response to increased political spending but also amongst the two most relevant variables. Finally, Hypotheses 4 and 5 were not supported. There was absolutely no negative response from the gross domestic product or the private domestic investment rate after *Citizens United v. FEC*; in fact, there was a marked positive shift post-2010 from both of these macroeconomic indicators.

There are a few important takeaways from all of this. In descending list of importance, the first is there is a clear negative response, on average, from the World Governance Indicators post-*Citizens United v. FEC*. The second is that the indicators that responded the most aggressively to this increase were the indicators (Control of Corruption and Voice and Accountability) pointed to as the most relevant to the adverse effects of *Citizens United v. FEC*; corruption and unequal representation. Finally, there is a clear negative correlation over the study's length between increased money in politics and the World Governance Indicators.

## Conclusion

This paper aimed to determine any significant observable correlations between political expenditures, corruption, and governance, as well as the economy. To do this, it utilized data from the Center for Responsive Politics, the World Bank, and the Bureau of Economic Analysis. This study had multiple significant findings by employing an observational analysis of the data from 2000-2019. First, this paper found an observed negative correlation between the increase in political expenditures post-*Citizens United v. FEC* and the World Governance Indicators. All of the World Governance Indicators in the United States, except two, decreased significantly in the 2011-2019 time frame relative to their 2000-2009 values. Specifically, Control of Corruption decreased by 15%, Voice and Accountability decreased by 12%, Regulatory Quality decreased by 11%, Government Effectiveness decreased by 8%, Rule of Law did not change, and Political Stability and Absence of Violence/Terrorism increased by 51%. Given the context of the 2000's War on Terror and the fear it wrought on the country, the final value can be significantly discounted as a huge outlier. That said, four indicators of governance decreasing, and significantly, post-*Citizens United* (9% at the lowest) is a noteworthy finding. Secondly, the indicators that responded most aggressively, Control of Corruption and Voice and Accountability, are those that best measure the ramifications of *Citizens United v. FEC* (Corruption and Unequal Voice in Government). Finally, there is a clear negative correlation between the World Governance Indicators over the length of the study, which corresponds with the vast increases in spending over the same time. Specifically, from 2002-2018 congressional election expenditures increased by 243%, as presidential election expenditures from 2000-2016 increased by 69%. The WGI's exhibited coinciding decreases to match these increases. Specifically, from 2000-2019 Control of Corruption decreased by 36%, Voice and Accountability by 36%, Regulatory Quality by 31%, Government Effectiveness by 21%, Rule of Law by 9%, and, to top it off, Political Stability and Absence of Violence/Terrorism decreased by a whopping 264%. Thus, the negative relationship between election expenditures and governance is clear and unmistakable.

Though the two hypotheses explained above were supported, it is crucial to note that multiple of the paper's hypotheses were not supported. Specifically, the first hypothesis that the WGI's would negatively correlate with expenditures over specific election cycles and that gross domestic product and gross private domestic investment would negatively correlate with political expenditures. None of the three hypotheses were supported by the data in any way.

In terms of this paper's contribution to the literature, a few things are noteworthy. First, this is the first paper that analyzed the relationship between election expenditure and its impact on effective governance in a country. Second, this paper clearly showed that there appears to be a significant negative association between the two. This relationship alone deserves to be analyzed in more depth to determine why this is, to precisely what extent increased political spending inhibits government, and what other institutions it might decay. Second, the study added to the literature on contributors to corruption. Clearly, given the significant relationship between political expenditures and governance, it can be surmised that increased monetary access to politics may contribute to corruption and government decay. Thus, this should be considered when analyzing corruption and governance in the future.

In a practical sense, this paper serves to alert those who read it to the severe governmental ramifications of allowing absurd amounts of money into our political system. Hopefully, with a continued effort to study this relationship and an increase in public awareness on the subject, public policy can be enacted to quell the deluge of money into our political system. Finally, and ideally, court cases like *Citizens United v. FEC* will face increasing scrutiny and legal challenges. In sum, this paper serves to prove the negative relationship between increased political expenditures and governance, create awareness around the subject, and force scrutiny on those who ignore these problems and the legal precedents that have enabled them.

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