

# Who will guard the guards from corruption?

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Corruption is common in political and economic processes. Auditing is one of the options to fight it. Another option is the Judiciary Branch, supported by the Constitution and laws approved by the Legislative Branch. However, these auditors depend on a higher-level auditor as they can also be corrupt. Ethics in public administration evolves over time and is part of society's culture, which may include tolerances to high corruption in a given period. Since the 1950s, the theory of competitive markets has been adapted to explain the competition between political agents running for public office. In this view, high competition is equivalent to a democratic political process. An essential element is the free access to information about the acts of politicians in their offices. In the long run, political competition reduces politicians' personal gains, including legal and illegal income, because of informed voter choices. Models of monopolies or firms with few competitors in markets are equivalent to authoritarian regimes under the control of the Executive Branch, which combines restrictions on critical information and barriers to entry for competitors. Also, in the long run, the political monopoly seeks to at least restrict information about its acts of corruption, preserving personal gains, but attracting competitors. Due to weak contestation, achieving citizens' preferences for political ethics takes a lengthier and more turbulent period of adjustment under a monopoly. In any case, the voter will be the auditors' auditor and will be more effective in a competitive political situation.

**Key words:** corruption, political competition, free information

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## Quem fiscaliza os fiscais na luta contra a corrupção?

A corrupção é usual nos processos político e econômico. Auditoria é uma das opções para combatê-la. Outra opção é o Poder Judiciário, escorado na Constituição e nas leis aprovadas pelo Poder Legislativo. Contudo, esses fiscais dependem de um fiscal de nível maior, pois eles também podem ser corruptos. A ética na administração pública evolui com o tempo e representa a cultura da sociedade, que num dado período pode embutir tolerância a muita corrupção. Desde os anos 1950, a teoria dos mercados concorrenciais tem sido adaptada para entender a concorrência entre agentes políticos candidatos a administradores públicos. Nessa visão, a alta concorrência equivale ao processo político democrático. Um elemento essencial é o livre acesso à informação sobre os atos dos políticos no exercício de seus cargos. No longo prazo, a concorrência política diminui os ganhos pessoais dos políticos, incluindo rendas legais e ilegais, por conta das escolhas de eleitores bem informados. Os modelos de monopólio ou de poucos concorrentes em mercados equivalem aos regimes autoritários, sob controle do Poder Executivo, que combinam restrições à informação crítica e à entrada de concorrentes. Também no longo prazo, o monopólio político busca pelo menos restringir informações sobre seus atos de corrupção, preservando ganhos pessoais, mas atraindo concorrentes. O atendimento das preferências dos cidadãos quanto à ética política tem, nesse caso, um período de ajuste mais longo e tumultuado pela dificuldade de contestação por concorrentes. Em qualquer caso, o fiscal dos fiscais será o eleitor, porém mais efetivo no ambiente político concorrencial.

**Palavras-chave:** corrupção, concorrência política, livre informação

## ¿Quién fiscaliza a los fiscales en la lucha contra la corrupción?

La corrupción es común en los procesos políticos y económicos. La auditoría es una de las opciones para combatirlo. Otra opción es el Poder Judicial, apoyado en la Constitución y las leyes aprobadas por el Poder Legislativo. Sin embargo, estos inspectores dependen de un auditor de nivel superior, ya que también pueden ser corruptos. La ética en la administración pública evoluciona con el tiempo y representa la cultura de la sociedad que en un período determinado puede generar tolerancia a mucha corrupción. Desde la década de 1950, la teoría de los mercados competitivos se ha adaptado para comprender la competencia entre agentes políticos candidatos a administradores públicos. Desde este punto de vista, la alta competencia equivale al proceso político democrático. Un elemento fundamental es el libre acceso a la información sobre la actuación de los políticos en el ejercicio de sus cargos. A largo plazo, la competencia política disminuye las ganancias personales de los políticos, incluidos los ingresos legales e ilegales, debido a las elecciones de los votantes bien informados. Modelos de monopolio o pocos competidores en los mercados equivalen a regímenes autoritarios, bajo el control del Poder Ejecutivo, que combinan restricciones a la información crítica y al ingreso de competidores. También a largo plazo, el monopolio político busca al menos restringir la información sobre sus actos de corrupción, preservando las ganancias personales, pero atrayendo competidores. Satisfacer las preferencias de la ciudadanía en materia de ética política tiene, en este caso, un período de ajuste más largo, que es tumultuoso por la dificultad de impugnarlo por parte de los competidores. En cualquier caso, el fiscal de los fiscales será el votante, pero más eficaz en el entorno político competitivo.

**Palabras clave:** corrupción, competencia política, información libre.

## Introduction

The main objective of this article is to examine some forms of corruption auditing from a long-term point of view, defined in decades, in which the economic development of a society is visible. Political competition is viewed as one of the social auditing instruments based on the results of economic theory. The circulation of information, as in goods markets, supports competition, while the pursuit of political monopoly is tantamount to seeking a monopoly in the goods markets.

This article seeks a concise synthesis of the literature derived from the theory of political competition beginning in the first half of the twentieth century, adjusted as a way of treating corruption. Besides, it cites only the publications that represent substantial changes in the evolution of the theory, with some recent reviews and developments of the subject, so that it distinguishes itself from a survey of the literature.

Jorge Vianna Monteiro is the author honored in this issue of this journal. With regard to modeling the theory of political competition, Monteiro (1987 and 2007) can be highlighted through his several books. However, the main focus of his work is the theory of constitutional rules and their implementation, especially for Brazil. This theory focuses on the functioning rules of the political process, whose application, of course, has an impact on how political competition operates. He has also published a large number of articles on corruption and rent-seeking in journals, newsletters, and newspapers.

Corruption takes many forms, but the most common is the purposeful misuse of public resources. This is a frequent problem in all societies, democratic or authoritarian. There are examples of these practices since the onset of historical records in more complex societies (JAIN, 2001). Politicians are accused of enriching themselves with diverted public resources, judges and public auditors participate in gangs specialized in public embezzlement or other illegal activities, police are linked to activities they initially fought against, and entrepreneurs and other private interests corrupt the public administration.

In societies that organize the production of goods and services by way of a market economy, the public sector has a relatively smaller share of total production. The public sector, for its own maintenance and its complementary activities to the private sector, depends on the collection of taxes on the same private sector. Furthermore, there are public services committed to combating corruption, which also occurs in interactions between private sector agents. The two types of corruption have similar

effects on society's economic performance as both affect public and private decisions about productive investments, thereby delaying economic development.

If the creators, the guardians, and the law enforcers are corrupt, the question arises: What can be done to keep this under control, or at the very least make a country converge to the situation of countries known to be honest in public dealings?

A regularly suggested solution is simply to improve auditing systems, which raises the issue of the auditor's auditor.<sup>1</sup> For example, the police officer inspects the citizen, the internal affairs department inspects the police officer, and the members of the internal affairs department are supervised by someone else. Will the process stop at someone higher up?

The concept of corruption and its consequences on economic development are seen next. The following section addresses the logical difficulty that appears in defining what an auditors' auditor is. After that, as means for controlling corruption, ethics in politics, public administration itself, political competition, freedom of information, and political monopoly are discussed.

## Corruption

The term corruption is hard to describe, but most people have a reasonable idea of what it is. A useful definition here is to say that corruption occurs when individuals acting alone or in a group get private benefits at the expense of public funds or other individuals by means prohibited by law. However, it can be understood as forms of private benefit unacceptable by the beliefs shared by a given society, often not capitulated in legislation. It's a kind of predatory activity.<sup>2</sup>

As a result of such acts, there is a redistribution of income, most often to minorities already well-endowed with the wealth of society. In addition, an inadequate environment for the social division of labor is installed. There are delays in investment decisions and a decline in their profitability due to the required bribes in cash or material

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1 "Quis custodiet ipsos custodes?" is a statement ascribed to the Ancient Roman poet Juvenal. The title of this article is one of many that have been inspired by it, though the focus here is on auditors, a sort of white-collar guard.

2 Buitter (2000), p. 604, n. 2, lists some activities, as well as corruption, considered criminal: "theft, the involuntary and unrequited transfer of property rights, through the use of inside information and through intimidation, extortion, threats and actual violence against property or persons."

benefits. It leads to inadequate allocation of resources between different economic sectors and economic inefficiency due to a localized increase in costs that do not reflect opportunity costs. Both delay economic development.<sup>3</sup>

Corrupt officials often create difficulties in selling facilities. This is independent of whether it is a market economy or a centralized economy, as in the era of Soviet socialism. Because of this, it has even been found that, once these difficulties generate bribes, corruption is a way of streamlining processes and, thus, obtaining more agility in investment decisions, contributing to economic development in such a corrupt institutional environment. Executives who deal with corrupt public officials themselves not only spend more time in their government-relations activities, but also make inefficient decisions due to the regulation of these same corrupt officials (LEFF, 1964). Furthermore, once low-level bribes begin, they tend to rise in value, reaching higher-ranking officials. In some countries, this can reach the highest echelon of each power. In the long run, however, the result tends to be negative for the economic development of society as it affects the pace of investments in capital goods (JAIN, 2001). The effect on economic development is that the country lags behind less corrupt countries.

Corruption is a phenomenon that involves private organizations' internal operations and their relationships with others. There are examples of officials who divert company resources for personal gain, executives who spend too much for their own comfort, or owners who divert resources and then leave the company bankrupt, harming other people involved both employees and suppliers. However, the difference between the public sector and the private sector is that, in environments of high competition, private organizations have their survival compromised in the long run. They tend to have higher costs and slower responses to technological changes, slower launches of new products, and increasing competition from other companies that offer cheaper and more effective products.

The public sector, by nature, tends to monopolize power in the services it provides to society. In the absence of alternative social mechanisms to auditing, which gives a lifeline to these problems, the question of who the auditor of the public sector's top echelons will be remains unaddressed.

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<sup>3</sup> Chief among Susan Rose-Ackerman's many works on the relationship between corruption and economic development is Rose-Ackerman (2016), whose first edition dates back to 1999. The work discusses both theory and empirical studies of this relationship, as well as lists more perennial solutions to minimize corruption and its consequences, which involve changing a country's ethical culture. Aidt (2016) discusses the integration of research on corruption and rent-seeking.

## Elephants and Turtles

The auditor's auditor predicament evokes the anecdote about a person who had a cosmological vision that contradicted modern Astronomy. In this view, planet Earth is a large disk supported by four large elephants. In some drawings, the Earth appears as an overturned tureen. When asked what supports the elephants, the person claims that it is a giant turtle, which is supported by another turtle, and so on, in an endless pile. After an indeterminate number of turtles, the regression ends with an "I don't know" in some versions of the anecdote. The Earth drifting across space without any physical support is unfathomable to this person.<sup>4</sup>

The idea of the Earth floating in space highlights a key epistemological principle: infinite regression. It occurs when a previous result is repeated in a demonstration, such as the immeasurable number of elephants implied by the statement "endless pile." In logic, some self-evident outcomes are assumed to formally demonstrate any result, avoiding infinite regression.

Unlike the concept of turtles going all the way down, a vast number of feasible institutional levels of auditors is used in the case of the auditor's auditor, now from the bottom up in a pile of instances, adding new instances as societies become more complex and the division of labor in public administration evolves.

Another option that was popular in previous centuries and still exists today is the function of the 'supreme auditor,' which has evolved into the notion of gods and even a god of gods – the divine, highest-level auditor. Interpreters of traditions and religious writings affiliated with deities translate the will of this auditor. The divine words are translated into memorized or written representation by their interpreters, making them untouchable for an unlimited period that is dependent on the religion's long-term success. As a result, the morality embodied in these words has the potential to endure for a long time. Due to long-term social changes, only its interpretation can change to a limited extent.<sup>5</sup>

Through laws, especially higher laws in the Constitution, democratic countries secularize the function of a divine supervisor. The evolution of judicial activities in the

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<sup>4</sup> The anecdote is retold by Hawking (1988), ch. 1.

<sup>5</sup> Dennett (2006), p.187, addresses the sacralization of words, which occurs in a variety of cultural contexts, but particularly in religions through sacred books. Examples of hallowed words in politics are Democracy, Freedom, and Equality.

form of a separate Judiciary Branch and Legislative Branch, both independent of the Executive Branch, has resulted in the increased division of labor in the administrative structure of the public sector in recent centuries.

The Judiciary Branch is in charge of ensuring that laws are followed based on the Constitution. However, there is sufficient historical evidence that even the Constitution is susceptible to changes that benefit groups with greater leverage over collective decisions in society. The Legislative is more agile in advancing these changes in authoritarian situations. Even in democracies, nevertheless, the Legislative Branch can quickly amend parts of the Constitution to the benefit of the branches' members themselves. As a result, the Judiciary Branch, with its constitutionally protected Supreme Court, is not fit for the auditor's auditor duty over a longer time period.

## **Ethics in Political Culture**

The ethical culture of a society is a critical component in the fight against corruption. Ethics established in institutions and shared by all aid in reducing corruption, but it is vital to investigate how society internalizes such ideals in its culture. In general, institutions have evolved over time with incentive mechanisms in place to encourage the adoption of such principles, including short-term gains and setbacks.

The dissemination of more assertive ethical honesty within the institutional infrastructure is part of the social control of corruption, which does not have to be tied to religions. This is especially true when it comes to politics. Furthermore, the professionalization of public administration entails anti-corruption behavior.

One of the difficulties with ethics being the highest-level social auditor is that it changes over time. The notion of what is ethically right and wrong changes swiftly in the short term, such as in a political situation. What is considered wrong at one time may be considered acceptable at another, and society's values can shift swiftly. The judge who convicts a corrupt individual today may be the socially vilified individual tomorrow. Changing values is an element of the evolution of ethics in the long run. Primitive attitudes about using animals as a source of human food, for example, are being questioned, both out of compassion and out of concern about their environmental impact.

## Public Administration

Public administration is one of society's instruments for implementing its decisions. It supports general public activities, including the fight against corruption.

Practical solutions that include fighting corruption in the public sector and other problems of political nature have been adopted throughout the evolution of societies. One such solution is the division of public sector administration into branches, with a division of labor between Executive, Legislative, and Judiciary branches, as in many cases. These branches are relatively independent. But the Executive is formally accountable to the Legislature, leaving the auditing courts, almost a branch in practice, the responsibility of checking if current legislation is being fulfilled within the budget implementation. The Judiciary applies the law, and this works as an inspection, including of itself. The top of the Judiciary is chosen by the Executive, but the members of the Executive and Legislative branches are chosen, and thus auditable, by the voters.

Due to historical origins, formerly independent political units formed federations with various levels. In federal systems, the division of powers and the election of members of the Executive and Legislative branches is the rule. In some countries, however, even local Judiciary members are elected. Thus, public administration becomes very complex, with different levels of auditing.

When a country's average income increases, so does the capacity for higher per capita spending to improve the efficacy of public administration, not only in terms of the number of employees but, above all, in terms of educational qualification supported by automation. This also includes the possibility of more expenditures spent on auditing and better monitoring of these same auditors, as they can also be corrupted. Furthermore, just a well-above-average wage policy for equivalent functions in the private sector is insufficient to guarantee the honesty of employees and auditors as it will always be profitable for some people to accept bribes due to the high amounts involved in many of their decisions.

This negative correlation between a country's average income and level of corruption does not necessarily mean that only a higher average income decreases corruption. There is the possibility that less corruption will help increase the average income in the long run. One variable reinforces the other, and both are influenced by others. Under the control of the government branches, however, the public administration cannot fulfill the role of auditors' auditor on its own although it includes the internal



auditors of public activity. If society invests in the quality of public administration, it will certainly help reduce corruption. However, this depends on political decisions, especially by the Legislative Branch.

## Political Competition

In an environment of high political competition and unrestricted access to information, the political process is such that the preferences of the majority of voters are met, including their sensitivity to corruption. In turn, the presence of many political parties and government decentralization at local levels can meet the preferences of minorities and local demands. A social structure with a reasonable degree of political competition is what is meant by democracy, yet many political factions misuse the term to define what constitutes true democracy.

Interpreting democracy as a competitive process is an extension of the arguments introduced by Adam Smith in 1776, regarding the role of competition between companies in meeting the demand for goods through the private sector (SMITH, 1963).

In the market process, not only do entrepreneurs meet consumer preferences, but competition among entrepreneurs also reduces the financial result of investments to a level that compensates for the production and financial risks of the activity, compared to the best return alternatives available in the application of these resources. This motivates entrepreneurs to seek new business opportunities that are still explored very little to improve the return on their investments. They can do this by lowering production costs. Other ways to achieve extraordinary returns exist by modifying existing products or creating new products to meet the needs of buyers that are still underexplored by competing companies. Thus, the market process, often described as market dynamism, involves frequent changes in the use of resources and the list of available goods and services. The end result tends to be an increase in the country's average income.

In the political process, competition among its professionals occurs by grouping politicians into parties, in a way similar to grouping people for productive purposes in companies. Politicians sell representation services to their voters to decide on the provision of services by the public sector. The equivalent of companies, therefore, is

political parties.<sup>6</sup>

In the highly competitive political market, the entry and formation of new political parties is free. Who decides on the survival of each party is the voter, in the ballot box. Politicians and their parties indirectly sell their services. They offer service packages provided by the public sector while simultaneously defining the tax structure, most often implicitly, that distributes the costs of these services among citizens. When voting, voters choose politicians, who are defined primarily by their combination of spending and taxes. In the long run, this political process also takes care of voter preferences in a trial-and-error process.<sup>7</sup>

The high competition among politicians diminishes the income resulting from political activity. What is this income? Aside from salary, an important non-financial component is the exercise of power itself, which includes deference and material comforts in everyday life that would be out of reach for a significant portion of these people. Added to this, part of the income comes from corruption, the result of which also finances political campaigns. This form of financing is considered, in countries with a culture that is tolerant of corruption, a normal part of political activity. Possible complaints based on exaggerations of condemned practice and collective voter reactions will only have a temporary effect without a significant and permanent change in this culture, even if it is through repeating this reaction that corruption will decrease in the long run.

Once elected, politicians act as institutional entrepreneurs and seek innovations or legal changes that change the way society is regulated and functions. Many of these changes are harmful, as are failed market innovations, but others do well in generating long-term benefits for citizens. One assumption of this theory is that parties that sponsor long-term beneficial institutional changes tend to have an advantage at the ballot box. In economic and social crises, these institutional entrepreneurs manage to

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6 On the theory of political competition, seen from the perspective of economic theory, a pioneer study is Schumpeter (1950), especially ch. 22, which emphasizes the long-run effects of electoral competition between political parties, although in the short-term results are more subject to the hazards of the quest for leadership, both personally and by the parties. The first edition was published in 1942 and reflected the political climate of the period, with the influence of leaders associated with authoritarian governments and democratic participants involved in the twentieth-century world wars.

7 Downs (1957), a significant change in the literature, develops a model of party competition based on voter, politician, and public sector employee preferences. A criticism of this neoclassical approach, from the point of view of Austrian economics, is Wohlgenuth (1995). Miller (1997) provides a survey of the Downsian economic literature's influence on political science.

approve proposals for changes so that, through trial and error, society can eventually get its economic development right. They also tend to copy successful models from other countries, thus creating a kind of international institutional competition. Economic and even military wars also test the adequacy of institutions in each country.

Through voting, voters can change politicians and their parties at each election although this occurs only partially. To the extent of the number of voters who highly consider honesty in their preferences, within the tax and spending packages proposed by their candidates for public office, the percentage of honest politicians in parliaments may increase. In the short term, this percentage may even decrease, but, given the benefits for economic development in the long run perceived by voters, it tends to increase. The increase in each election does not have to be significant, but the greater it is, the faster society will evolve towards a more honest political and administrative culture.<sup>8</sup>

Political competition can turn the act of voting into an auditor's auditor. Political rivals are motivated by competition to expose deviations in representational and even judicial actions. The Legislature and the Judiciary eventually apply the loss of positions to their own peers, and the Judiciary sets the penalty in cases where there is criminal proof. If this is important in their electoral preferences, voters can say no to corrupt politicians in future elections.

The strength of electoral supervision of politicians seems quite weak since people only periodically say yes or no to each candidate. Although a single vote has negligible influence, the sum of all votes has tremendous strength. The cumulative effect of cynical views in a society, such as accepting corruption as a part of political activity, can be minimized over decades as long as voters' electoral preferences adapt to place a greater priority on less corruption in political affairs. This may happen to the extent that corruption conflicts with other values included in these preferences, such as the search for better health and education services.

## Information and Ideology

In addition to unrestricted candidacy for political offices, high political

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<sup>8</sup> There is econometric evidence in Pereira e Melo (2015), for example, that denouncing corruption reduces the probability of mayors being re-elected. A fortunate period of greater public spending that benefits the electorate, on the other hand, can counteract the negative impact of corruption on re-election.

competition necessitates the widespread dissemination of information about the actions of politicians controlling the public administration over a specific period. Interested parties are free to reveal acts of corruption, but the controllers of the state monopoly on violence are not allowed to use it to avoid competition.

Even if government power does not impose limits, information is by itself imperfect since it involves costs for the collection and dissemination of data as well as how it is disseminated. The search for information in the market occurs at least about the prices and attributes of goods. Due to the limits imposed by communication technology, competition between vendors and buyers promotes the demand and supply of information services about goods.

Because getting information requires time and money, voters' decisions are more costly as a result of incomplete information. Voters, like customers of private goods, can utilize indirect signs to assess the intents of politicians. These, in turn, form political parties and operate as service providers, representing voters' interests in public choices. They associate imagery with their leaders or parties, similar to how businesses associate brands to their products. In parliamentary choices, parties associate themselves with recognizable patterns of acting. During election campaigns, these behaviors are promoted as political platforms. In representative democracies, politicians reduce the cost of information for voters in this way. Competing politicians can exploit this knowledge as well as their positions taken in parliaments.

The media, in consolidated democracies, has a unique status. Even so, the distribution of information is a business activity like any other and therefore satisfies Adam Smith's arguments about market competition. Market concentration, which limits access to competing information enterprises, can, however, become a concentration of political power if a large press company restricts the circulation of information for the convenience of party support. Technological improvements in the media, on the other hand, create new routes for informational competition, lessening the influence of previously powerful media groups. The internet, like radio and film during the twentieth century, is an example of informational innovation, competing with media that was then concentrated in a few large companies.<sup>9</sup>

The work of lobbyists, who are an integral element of the competitive political

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<sup>9</sup> Svensson (2005) estimates a negative correlation between the degree of corruption and per capita income in a sample of countries. Besides that, given per capita income, the study shows that there is a negative correlation between degrees of corruption and press freedom, which is considered equivalent to political competition.

process and in situations of little or no political competition, is one form of disseminating information among politicians.<sup>10</sup> A lobbyist's goal is to represent the interests of specific groups, particularly in the defense of government regulation of activities and the allocation of resources that benefits those groups directly. Social groups with more resources to devote to political activity can elect their own representatives. Long-term economic development can be aided by public decisions based on this influence, as in cases where they encourage technological innovation and increased productive investment. They may, on the other hand, seek regulations that simply redistribute income through tax deductions or subsidies, with little or no impact on investment levels. Rent-seeking is the term for this type of action, which may lead to inefficiency in the economy. In the short term, with inadequate regulation or even prohibition, lobbying could become another channel for distributing bribes to politicians and public sector officials. Moreover, lobbyists compete to find benefits for their sponsors and compete for the ones that pay the most.

Political platforms and recognizable patterns of action in parliamentary decisions are associated with ideologies, which can be seen as a communication technique to convince society of the benefits of leadership by the group that propagates it, in many cases with biased information.<sup>11</sup> Beyond party political propaganda, an ideology tries to assimilate itself into the culture of the majority of people who make up society. Ideological information can combine social science knowledge with values and alleged facts that are convenient for a political group, often with distortions that go beyond available scientific knowledge, despite the fact that science purifies its results over time through its working method. Ideologies, like party platforms, face competition from alternative ideologies and may eventually lose their hold on people's minds in the long run.

Ideologies can to influence society for long periods of time, resulting in unpredictable and often self-destructive consequences for society's development. The ability to disseminate information is critical for those working to spread the ideology of

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10 An alternate view of political competition, perhaps more appropriate to discuss lobbying, is between interest groups, pressure groups, or social class segments. A pioneer discussion of competition between interest groups appears in Bentley (1908). Becker (1983) develops a model of competition between pressure groups. Antonio Gramsci advanced, in the 1930s, a theory of political competition among social class segments, in which the winning group leads the long-term political process by embedding its ideology in citizens' culture. A summary of Gramsci's theory appears in ch. 4 of Jessop (1982).

11 Downs (1957) examines information on the competitive political process as measured by the voter's cost of participation. North (2005) compiles a list of works that link individual psychology to competing cultures and ideologies in societies.

a particular group in search of political leadership. Many of these individuals promote their ideologies while engaging in a variety of professional activities.

Thus, the free flow of information about the actions of politicians and government officials strengthens political competition. Free information goes hand in hand with competitive political activity, both of which, in such a context, support the voter's role as the auditor's true auditor.

## Information and Ideology

The concentration of political power is a limitation on the democratic process's ability to function, although, in extreme circumstances such as a war, a democratic society can delegate extra powers to its leaders. A well-known example is that of the British People and Winston Churchill. This politician was granted emergency powers by a delegation from Parliament in 1940, during the war against Nazi Germany. Despite making major military and economic mistakes in prior years, he proved to be the right leader for the British people. But once the war ended, voters in his district did not reelect him. The parliamentary system with district voting allowed for this result without alarm. Under an authoritarian administration, this would only happen in the event of a coup, natural death, or unlikely resignation.

Microeconomic theory states that when there is little or no competition, returns on investments in any activity are higher than returns under high competition. In commodity markets, a monopoly is a one-seller situation. In the total absence of competition, this seller can choose the most convenient price, respecting the maximum prices per unit that buyers are willing to pay for each possible quantity offered; the seller does not have the power to charge a price above the limit buyers are willing to pay. The monopolist's advantage is the possibility of picking both the price and the quantity at the same time, whereas in a high-competition environment, the seller has no such option and is essentially limited to the quantity to sell, resulting in a smaller profit than that of the monopolist. Over time, the above-market profit attracts new investors who can compete with the monopolist by producing lower-cost, higher-quality substitute items. If it is a legal monopoly, these competitors may invest in supporting legislative changes, in some cases through political corruption.

When there are few sellers and no new entrants, marketplaces experience limited

competition.<sup>12</sup> In a duopoly, there are two sellers and many buyers. Sellers can cooperate with each other and set a common price as if they were one seller, which amounts to a monopoly. Cooperation between sellers would be viable as long as mutual expectations regarding compliance with the agreement were consistent. One difficulty with this cooperation between sellers is that at least one of them will make a greater profit if it fails to comply with the agreement, charging a lower price and getting a larger share of the market, as long as the other member of the duopoly fulfills the previously agreed upon agreement. It would be an unstable situation. This could return competition to the market despite subsequent claims of predatory competition, which is a matter of point of view as it would be a positive outcome for buyers.

A few politicians seek monopoly in their roles as representatives of voters in public sector decisions, just as sellers do in goods markets. Even if they manage to influence electoral laws to restrict competition and hide personal advantages, these politicians must nevertheless be responsive to the interests of citizens. For most voters, there is a tolerance limit for the lack of freedom of political choice and disproportionate personal gain by the ruling group. Although the media is smothered or put at the service of politicians in government, a lot of information still passes through other means. Personal gains in terms of power, social status, and income of various kinds will attract competitors intending to hold office. In this environment, where the political monopolist sets the law, there is little room for competition across political platforms. Thus, competition occurs through violence, betrayals, coups, and frequent murders.

A small group of people taking turns exercising authoritarian rule is a similar alternative to market oligopoly, cooperating in the appointment of the main leader at any given time. Cooperation among politicians in this scenario could lead to internal divisions and conflicts, similar to how an economic oligopoly might have periods of stability and economic battles.<sup>13</sup>

While also power grabs are frequently done in the name of fighting corruption,

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12 The literature on models of political competition between political parties begins with Hotelling (1929), which develops a case of economic duopoly along a street and applies it as a model of bipartisan competition. The main conclusion is that the two parties would initiate extreme ideological positions and, by competition, converge to similar positions, depending on the distribution of electoral preferences by voters as to packages of spending and taxation. With no barriers to entry, a new entrant chooses a position that is differentiated from the others, perhaps to an extreme ideological viewpoint, and then repeats the process of approximation of the others' political ideas over the elections.

13 Using game theory, Chaffee (1984) tests a model of alternation between democracy and authoritarian government. The evidence is from Latin American political history.

authoritarian administrations are not immune to corruption. In fact, controlling the media makes it easier for this form of government to conceal its actions. Further, there is a potential that, under authoritarian governments, corruption in the interaction between the public and private sectors is easier because fewer politicians are involved in obtaining favorable rules. Lobbyists can have a less expensive job and less competition in seeking advantages for their sponsors.

In one form or another, competitive adjustment in the political process occurs over time. This adjustment is significantly slower than in a democratic society, and it is subject to high levels of instability. Because it often involves the use of violence, entry costs into this political market are higher. On some occasions, defeats in international conflicts result in a political monopoly ensuing from political competition. It is an effort by society to reduce the incidence of errors of judgment in the public sector administration that are concentrated on a few people.

## Conclusion

What is the best way to fight corruption? There are several methods practiced in known societies. One option is to implement auditors' work more vigorously. This is primarily to be used by government agencies. It is a solution that works in societies with a specific ethical culture. It also pertains to private-sector activity and, more importantly, to the connection between the public and private sectors.

Audit services and other public administration activities serve as guards against corruption. They are more effective the more, on average, society spends per person on these services although this strategy relies on the country's *per capita* income. It is to be expected that a wealthier country will have a higher average spending level and more efficient service. However, there remains the issue of who will audit the auditors. How many layers of supervision will be required? How can the infinite regression argument be avoided?

In the long run, an ethical culture would be a candidate for an auditor of last resort. Ethics, though, is endogenous and changes over time as societies evolve. Tolerance for rising political corruption may become ingrained in society's culture.

Political competition, like competitive markets for goods, has the consequence of reduced profits - personal or to interest groups - from political influence due to the



possible contestation by competing parties or groups. Corruption is reduced as a result of falling political profits. The more information about the actions of individuals who manage a society's public administration is freely circulated, the more effective this competition will be.

A deviation from the competitive political process occurs when some political groups strive to perpetuate themselves in society's leadership. Political monopoly, or perhaps more accurately, oligopoly, is obtained by erecting barriers to entry for new rivals and limiting the flow of political information. Despite this, successful political monopolists still depend on voter support to discourage opposing groups from actively challenging their position. To such an extent that monopolist politicians in charge lose popularity, they tend to use force to keep their positions, with an equal response, sooner or later, from contestants.

Finally, the voter has the ultimate say, regardless of how much or how little political competition exists. The time needed to adjust policies to voter preferences varies depending on the situation, with monopolies taking more time. Thus, according to the theory of political competition, the voter serves as the auditors' auditor, avoiding the argument of infinite regression. Voters' preference for less corrupt leaders is contingent on the ideals of honesty becoming gradually embedded in society's culture over time.

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