Title: Veto Players and Corruption in the EU

Authors: Anastasios Zafeiropoulos¹ and Spyros Blavoukos²

¹ Researcher, Athens University of Economics and Business
² Lecturer, Department of International and European Economic Studies, Athens University of Economics and Business

Abstract: The Veto Players’ theoretical framework has been introduced the latest years as a proposed methodology for the analysis and comparison of political systems regarding their ability to produce and promote policy reforms. In this paper, focus is given on shedding some light on the correlation among the number and the characteristics of veto players and the levels of corruption. The study is targeted at the European Union countries, while specific analysis is provided for Greece due to the high levels of corruption and the recent fiscal crisis. A theoretical framework is presented where several hypotheses are formulated, while their validity is examined through an empirical analysis based on a wide set of data from various international data sources. According to the analysis results, it can be claimed that the veto players’ characteristics play a significant role towards the fight against corruption.
Introduction

The concept of veto players has been used the last decade in order to explain several features of the policy making and implementation process in different political systems. The theoretical framework was initially introduced by Tsebelis (Tsebelis, 1995) as a proposed methodology for the analysis and comparison of political systems regarding their ability to produce and promote policy reforms. Based on the proposed framework, it is feasible the formation of advanced estimates of the effect of a decision making process. Key variable in the description of the theoretical framework is the capacity to perform changes and reforms, the absence of which is defined as policy stability (Tsebelis, 1995).

In the current study, focus is given on the correlation between the veto players and the capability for tackling phenomena of corruption. The motivation for the study was given by the need to better explain the causes of corruption given the significant impact it has on indicators of economic development and proper functioning of a state, as well as by the fact that already published studies are ending up with controversial conclusions (Andrews & Montinola, 2004; Brown, 2011; Pellegrini & Gerlagh, 2008; Yadav, 2011). Towards this direction, we tried to take advantage of the existence of several databases nowadays that allow the realization of more detailed and reliable studies (Treisman, 2007). Focus is given on the European Union (EU) taking into account individual enlargements and Croatia as a candidate country, while a special section is devoted to Greece given the recent fiscal crisis combined with pronounced signs of corruption.

The results lead to useful conclusions on the basis that there exist significant interactions between the examined variables. It can be argued that the number of veto players, in conjunction with their exact siting, impact significantly on indicators addressing corruption phenomena.

Veto Players and Corruption in the EU

Theoretical Model

The study is based on the description of a theoretical model that aims to analyse the relationships among the veto players, phenomena of corruption and economic growth indicators. The effects due to the economic situation of a country are not addressed in this study, however, are part of the general theoretical model for future investigation. The general correlations among political institutions, corruption and economic growth are depicted in Figure 1. The relationship among these concepts seems to be complex and in some cases leads to 'cyclical' effects.

The theoretical framework is based on the description of the following hypotheses:

**Hypothesis 1**: Increasing the number of veto players leads to reduced corruption: the existence of multiple veto players permits the advanced control among each other and makes more difficult the achievement of consensus in the decision-making process.

**Hypothesis 2**: Given the number of veto players, less ideological distance between them leads to an increase in corruption: the existence of large ideological distance may lead to better control of the government by the opposition parties and, thus, to reduction of corruption.

**Hypothesis 3**: The increase in corruption leads to further increase of the policy stability and reduction of the political stability: increasing corruption introduces further restrictions on the decision-making process as specific interests have to be served, and therefore reduces the potentiality for reforms and increase the policy stability. This stability, in turn, may lead to political instability and ultimately to an increase in corruption (cyclical effects) since the government officials are trying to secure short-term benefits.
**Hypothesis 4:** Political systems based on parliamentary democracy exhibit less corruption to presidential political systems: in parliamentary systems, the power is usually more concentrated compared to presidential systems that in conjunction with the control exerted among existing veto players may lead to better and more effective governance including the fight against corruption. On the other hand, supporters of presidential systems claim that through the presence of an increased number of interest groups, they lead to a fragmented political system with dispersed decision-making capabilities among multiple actors, making more likely the avoidance of corruption since many players have to cooperate (Gerring & Thacker, 2004).

**Hypothesis 5:** Systems with many veto players have a greater chance of having an independent judiciary, which in turn reduces the phenomena of corruption: the existence of many veto players requires an independent judiciary that will not defend the interests of certain players. In case that the judiciary has veto power, it is counted as a veto player leading to reduction in the phenomena of corruption.

**Figure 1.** Political institutions, corruption and economic growth

**Empirical Study**

The analysis focuses on the evolution of corruption indicators in EU countries from 1995 to 2011, taking into account individual enlargements and Croatia as a candidate country. The dataset created is based on integration of data used in international and widely used databases. Specifically, veto players data is collected from the “Database of Political Institutions (DPI)” and “Parties, Institutions and Preferences (PIP)” databases, while corruption data is based on the “Corruption Perception Index (CPI)” published by Transparency International and annual reports from the “International Country Risk Guide – ICRG”. Governance indicators are based on the “World Governance Indicators – WGI” published by the World Bank and data for judiciary is based on the “Political Constraints Index (POLCON)” database. To enhance the reliability of the study and the conclusions reached, the examined cases are analysed based on multiple data sets created from different databases. Regarding the variation of the CPI index and the number of veto players among the EU countries, the average values of these variables for the period 1995-2010 are presented in Figure 2, where significant differences are noticed.
The results of the multiple regression analysis, having as dependent variable the indicators of corruption and as independent variables various veto player characteristics, are presented in Table 1. All the results are statistically significant (p-value less than 0.05), while between the examined variables there are no collinearity phenomena.

**Quantitative and Qualitative Analysis**

Based on the analysis results, it can be claimed that the basic hypotheses of the theoretical model are confirmed. The results of the models 1-4, as shown in Table 1, confirm the hypotheses 1, 2 and 4, according to which increasing the number of veto players as well as their polarization leads to reduction of corruption, while anti-corruption indicators improve as we shift from presidential to parliamentary systems. It is important to note that the Adjusted-$R^2$ value is improving significantly through the addition of the polarization variable in the analysis model 2 (Adjusted-$R^2$=0,201) as well as the political system variable in model 4 (Adjusted-$R^2$=0,297). This increase is translated into better capacity...
for prediction of the perception of corruption through the knowledge of the independent variables in a specific country. It can be therefore argued that the structure of the political system, the decision-making process and the parties that are taking part on it, have a major influence on the level of corruption. Based on the results, it can be also assumed that parliamentary systems with many veto players is a promising combination towards the fight against corruption, since they allow the existence of advanced control mechanisms combined with a greater concentration of power within the government, strengthening in this way the development or maintenance of good quality governance features.

Having examined the correlations among the indicators for tackling corruption and the characteristics of veto players, the analysis focuses on further governance features. Based on the results of model 7, it appears that increased political stability results in improved indicators for tackling corruption (Adjusted-$R^2$=0,364) that is in agreement with the theoretical framework (hypothesis 3).

![Figure 3. Existence of independent judiciary](image)

Regarding the impact on corruption due to the existence of an independent judiciary, it is shown that in the absence of it, the mean number of veto players is 2,8 while in the opposite case 4,2 (Figure 3). The results are in agreement with what is supported in the hypothesis 5 of the theoretical model.

Considering the initial conclusions of the study, we are trying to further explain the phenomena of corruption taking into account the accession time of countries into the EU. The trigger for considering this variable is that - based on existing bibliography (Pellegrini & Gerlagh, 2008; Gerring & Thacker, 2004) - there is a significant positive correlation between the years of existence of a well-functioning democracy and indicators for tackling corruption. Thus, we separate countries into two groups: those that were Member States of the EU of 15 and those that joined the EU later, considering that in the first case exists longer well-functioning democracy.

Based on the regression analysis results (model 5), the above-mentioned assumption is confirmed while there is an important improvement in the predictability level (Adjusted-$R^2$=0,540) that can be probably explained by taking into account the great influence on corruption of the uptime of democracy in a country, as well as the positive influence from the EU membership and the alignment of the legislation of each country with the EU guidelines. Regarding the CPI index (Figure 4), there is a significant difference in the average value between the two groups (7,53 for the countries of the EU-15 and 4,56 for the rest). By
adding in the regression analysis the polarization as an independent variable (model 6), there is a minor improvement in the predictability level (Adjusted-$R_{square}=0.568$).

Figure 4. Correlation between CPI and number of Veto Players (1: countries in the EU of 15, 2: countries that joined later)

What about Greece?

Given the results of the empirical study on the EU countries, focus is given on analyzing veto players and their effects on temporal phenomena of corruption in Greece. These phenomena are very strong the latest years, which are reflected in the country’s ranking in the annual reports of Transparency International (94th place among 180 countries in 2012).

But whether corruption is linked to the structure of the political system in the country? In Greece, the executive power seems to be much more robust and outperforms the other two powers, given the existence of one-party governments with complete agenda-setting power and control of the parliamentary group of the ruling party. Furthermore, the long stay or the continuous rotation of certain parties in power, combined with the creation and continuous feedback of a clientelist state strengthens the ties with the existing stakeholders, allowing the cultivation of phenomena of corruption. Regarding the judiciary, the Council of State can be considered as a veto player. However, the power that the government has on the definition of the Presidents of the Supreme Courts, combined with the complexity of the legal framework that often allows alternative interpretations of the law, reduce its veto power.

Particular interest presents the current situation in Greece with the participation of three parties in government and the great influence in decision-making by the International Monetary Fund, the European Central Bank and the EU. It can be claimed that there exist four veto players (the three parties of the coalition government and troika as a regulator of the implementation of many policies). Decisions concerning the three veto players involved in the coalition are taken based on a majority agreement that requires at least two veto players. Decision-making by consensus is not always feasible, making necessary reciprocal or unilateral concessions to promote reforms. It can be argued that the increase in the number of veto players has resulted in improving the control of the governors as a whole as well as in reduction at the phenomena of corruption.

Taking into account the above-mentioned data, it is a rather common acceptance that major changes are required in order to combat corruption. The clear separation of powers by introducing institutional counterweights that will increase the number of veto players and in parallel will facilitate the deployment of advanced control mechanisms is necessary through the upcoming constitutional review. Furthermore, the role of the parliament has to be upgraded, which must be transformed into a real legislative body. The electoral law must
allow proportional representation of the parties in the Greek parliament while increasing the likelihood of having more veto players. Additionally, the immunity of the members of the parliament has to be reduced by limiting the possibility of phenomena of arbitrariness, by strengthening their independence and the possibility of deviation from the "strict" party line. Finally, the legislation has to be simplified in order not to allow different interpretations.

Conclusions and Open Issues

Summarizing the conclusions drawn from the empirical study, it appears that the characteristics of veto players can explain partially the capacity to fight corruption. These characteristics affect the overall decision-making process and the possibility of creating strong bonds between certain players that ultimately may lead to greater corruption. Increasing the number of veto players and their polarization level has positive effects on the fight against corruption. Furthermore, parliamentary political systems seem to present better anti-corruption capacity in comparison with presidential ones. However, these features make sense to study given the establishment of democracy, as the years of normal operation play a key role in the ability to cope with corruption phenomena. This finding is confirmed by the results obtained by the separation of the EU members into two groups according to their time of accession in the EU.

For the analysis part that is focused on Greece, it can be argued that the existing structure of the political system favours the cultivation of corruption, mainly due to the great power of the executive and its control upon the legislature and the judiciary. The introduction of further veto players in the political system is required that will act as institutional counterweights in the battle to combat corruption.

Regarding the extension of the study, the integration of indicators related to the economic status of each country, as well as of further veto player characteristics (e.g. agenda-setting power, party discipline), will facilitate the extraction of safer conclusions and the better explanation of the presented interactions in the theoretical framework.

Bibliography


