Political Risk, Information and Corruption Cycles:

Evidence from Russian Regions

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**Abstract**

Political budget cycles are a well-established phenomenon in which opportunistic

politicians systematically adjust public policies prior to elections

in order to attract a higher number of votes. We show that corrupt

behavior of politicians also follows certain patterns which are driven by

electoral cycles. Based on Business Environment and Enterprise Performance

Survey data, exploiting variation in the dates of surveys and

in length and starting date of Russian regional governors’ terms, we

find that corruption levels, as perceived by firms operating in different

regions of Russia, increases closer to the expected expiration date of a

regional governor’s term. We argue that the Russian political system

allows governors to accumulate private information about their likelihood

of remaining in office for another term. Therefore they will know

well in advance of elections if they continue in the office for the next

term. We suggest that the accumulation of such information may serve

as an explanation for the observed pattern of perceived corruption: if

a governor gradually learns that he is leaving office once the current

term has expired he has increasing incentives to engage in corrupt activities

in order to accumulate wealth before he is out of the game. We

formalize this idea with a simple theoretical model and test it. We find

that in regions where incumbent governors are less likely to remain in

office for the next term, corruption increases over their terms, while in

regions where governors are more likely to remain in office, perceived

corruption follows a decreasing trend.

*Keywords:* corruption, political budget cycle, Russia

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