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# The Political Cost of Corruption: Scandals, Campaign Finance, and Reelection in the Brazilian Chamber of Deputies

Ivan Jucá, Marcus André Melo, and Lucio Rennó

**Abstract:** While corruption is widely disapproved of, some corrupt politicians continue to win elections. We tackle this paradox by examining the effects of malfeasance scandals in politicians' behavior. In particular, we focus on their campaign finance strategies and career choices. We explore these issues empirically with an original dataset that includes all lower-house members of Congress (MCs) in Brazil from 1995 to 2010. Although tainted incumbents tend to be penalized electorally, we show that campaign spending attenuates this effect. These results are robust, controlling for a host of potential confounders and biases. Hence, we offer a first exploration of incumbents' strategies to avoid the electoral cost of their publicized wrongdoings. Above a certain threshold of funding, Brazilian members of Congress become impervious to negative exposure, regardless of the severity of their ethical and/or criminal violations. These results carry important normative consequences in terms of regulating campaign financing as a means of improving accountability.

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**Keywords:** Brazil, corruption, scandals, reelection, legislators, accountability

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## Introduction

While corruption is widely disapproved of, some corrupt politicians continue to win elections. The comparative literature does not provide clear systematic answers to this “paradox of corruption” (Kurer 2001), which also raises questions about the conditions under which politicians can dodge accusations. The extant literature has focused either on the inability of voters to sanction politicians’ misbehavior or on trade-offs in voters’ choice. We explore issues that are related to but fundamentally different from those studies. For example, how politicians react to reputational losses from their involvement in corruption scandals, and what consequences politicians’ campaign finance strategies have for dodging blame for scandals.

We argue that scandal-plagued politicians spend more to overcome the higher hurdles created by the negative advertisement of scandal involvement. Hence, we contribute to the literature by showing that campaign spending attenuates the negative effect of corruption scandals on politician’s electoral success.

The received wisdom in the traditional scholarship on campaign finance is that it is governance-enhancing; that is, it fosters competition and reduces incumbent advantage (Mayhew 1974; Abramowitz, Alexander, and Gunning 2006; Benoit and Marsh 2010). A more recent strand of this literature suggests that campaign finance can also create a pro-elite bias (Bonica 2015). In new democracies, particularly in Latin America, campaign finance is intermeshed with corruption. Hence, the relationship between campaign finance and malfeasance scandals requires more analysis.

Around the globe, there have been many instances of politicians involved in scandals continuing to have successful electoral careers. One such example in Brazil is Paulo Maluf, who has been on Interpol’s most-wanted list since 2011 for embezzling public funds and laundering millions of US dollars. Deutsche Bank has recently agreed to pay USD 20 million to settle charges of managing over USD 200 million from the scheme allegedly run by Maluf (*Reuters* 2014). Despite several convictions, the ex-mayor and ex-governor of São Paulo received the most votes for the position of federal deputy in 2006 and remains in power to this day, surviving both the courts and the ballot. In fact, there are many examples around the world of famous politicians being reelected despite judicial condemnations and serious allegations of malfeasance; examples include Suriname’s President Desiré Bouterse, Italian Prime Minister Silvio Berlusconi, and US Congressman Michael Grimm in New York.

The literature on the electoral effects of corruption scandals has focused on explaining when voters are able to punish their political agent (for example, Welch and Hibbing 1997; Basinger 2012; Ferraz and Finan 2008; Chang, Golden, and Hill 2010; Rennó 2008; Pereira, Rennó, and Samuels 2011; Pereira and Melo 2015). Some studies have sought to explain how incumbents involved in corruption scandals can avoid punishment (Winters and Weitz-Shapiro 2013; de Figueiredo, Hidalgo and Kasahara forthcoming; Rundquist, Strom, and Peters 1977; Aidt, Golden, and Tiwari 2011; Manzetti and Wilson 2007). Recent contributions have empirically explored the ability of citizens to sanction misbehavior in Latin America. Canache and Allison (2005) found a connection between citizens' views about corruption and appraisal of institutions and democracy more generally. Carlin, Love, and Martínez-Gallardo (2015) found that corruption scandals affect presidential popularity in Latin America. Memoli (2011) found similar effects for government popularity in the wake of the Mani Pulite scandal, the gargantuan kickback scandal in Italy in the early 1990s.

Using observational data from Brazil we will explore this puzzle at the elite and aggregate levels. To the best of our knowledge, the present study is the first to address the effect of campaign finance on lawmakers' reputational losses from involvement in corruption. Rennó (2008) and Castro and Nunes (2014) have examined the effect of corruption scandal on the reelection rate of federal deputies in the 2006 election. Pereira, Rennó, and Samuels (2011) have added to the literature by claiming that involvement in scandals reduces candidates' campaign finances, which indirectly affects their electoral chances in subsequent elections. We build upon prior work by testing the effect that corruption scandals have on reelection in four particular elections, and by investigating the conditional effect that campaign spending has on the reelection of Federal Deputies tainted by corruption scandal. We provide evidence that, over a certain threshold of campaign spending, incumbents involved in scandals can still win elections.

Brazil is an interesting case to study corruption scandals since an extraordinary number of federal deputies (*Deputados Federais*) were involved in several serious scandals in the period analyzed. Hence, corruption is an important concern in current Brazilian politics – all the more so since corruption is the main leitmotif behind the impeachment of Dilma Rousseff. From the 1998 to the 2010 Brazilian legislative elections, almost one in every five federal deputies was involved in some type of scandal. The nature of the scandals and the particularities of each case varied, but they general involved passive and active corruption, electoral

crimes (including vote buying), fraud, larceny, nepotism, embezzlement, and misuse of public funds, among other severe crimes and wrongdoings. This has made corruption one of the most salient issues for the electorate as several national representative samples show (Rennó 2007, 2011). The widespread nature of corruption and its saliency make the Brazilian case an interesting one to test our hypothesis. Furthermore, we discuss how electoral rules in Brazil (especially the high district magnitude) make it potentially difficult for voters to hold incumbents accountable. Therefore, the trivialization of corruption, based on its sheer frequency, and the possible opaqueness of electoral rules have made Brazil a least likely case in terms of the effect of corruption on electoral success.

We test the effect of corruption scandals using an original dataset of all members of the Chamber of Deputies (Câmara dos Deputados) from 1995 to 2010, a period that covers four electoral cycles. Our measure of scandals consists of a dummy variable coded 1 if the incumbents appears in the media outlets, following standard procedure in the literature (Basinger 2013; Chang, Golden, and Hill 2010). Our results show that most rank-and-file legislators should fear the consequences of getting caught committing serious crimes, but that some powerful and influential incumbents – such as Paulo Maluf – are able to fundraise enough to render themselves electorally immune to scandals.

We construct our argument in a few steps. First, briefly we describe the recent history of malfeasance scandals in Brazil. Then we delineate our theoretical contribution, and derive testable hypotheses. Subsequently we describe our empirical strategy and present evidence that support our main hypotheses. The last section concludes.

## Malfeasance Scandals in Brazil

Contextual elements are crucial for understanding the dynamics of political scandals. In the period under analysis, Brazil was hit by several scandals, including the Collor government scandal, the Budget Dwarves and the *mensalão* (Power and Taylor 2011; Praça and Taylor 2014). Corruption acquired unprecedented visibility – a process that culminated in the crisis of President Dilma Rousseff's second term in office.

President Collor (1990–1992) faced the dramatic consequences that scandals can cause, culminating in his resignation on the eve of the day the Brazilian Congress approved his impeachment. This set an important precedent and partially mitigated deep-seated beliefs about unchecked presidents and pervasive abuse of power in previous political experienc-

es, particularly under military rule. His impeachment and resignation were the result of mass mobilization for his resignation and also reflected the effectiveness of the newly empowered accountability institutions.

Many details of President Collor's racketeering scheme came out as a result of a parliamentary inquiry commission that was set up specially to investigate the case. The media also played a key role in uncovering connections within the presidential inner circle and denouncing malfeasance. Significantly, it was the Brazilian Press Association, along with the Bar Association, that filed the request to open impeachment procedures. Congress impeached Collor and suspended his political rights for a period of eight years, although the Supreme Court acquitted him on the charge of embezzlement due to a lack of proof. Collor, another example of a politician involved in scandals who makes a political comeback, is now a senator for the state of Alagoas.

In the wake of the impeachment, the ban on corporate funding for party financing was lifted (on the premise that it would lead to more transparency on 'inevitable' private election financing), and a legal framework was set in place allowing more transparency and oversight of campaign donations. Public party funding also increased considerably in the wake of the scandal. In addition, new laws were approved: the Law of Administrative Probity, which stipulates rules for the civil service (Law 8429); the Law on Public Bidding Procedures (Law 8666); and the law creating the Council for the Oversight of Financial Activities (COAF) (Law 9613).

The second important corruption scandal in Brazil following the return to democracy was the so-called *anões do orçamento* (the 'dwarves scandal,' after the short stature of the legislators involved). Under the military rule, the legislature had played no role in shaping the budget, and legislative oversight of the budget was practically non-existent. The fraud consisted of approving, through amendments to the budget bill, the allocation of funds to 'phantom' non-profit institutions created ad hoc for the sole purpose of malfeasance by members of the budget committees. The scandal emerged with unprecedented media coverage, following investigations by the federal police, and the efforts of a parliamentary inquiry commission.

Fernando Henrique Cardoso's term in office, which began in 1995, was also plagued by malfeasance scandals affecting several levels of government. Among them was the *precatórios* scandals, which involved fraud in the distribution of debt relief from the Federal Government to states and municipalities. Part of the money was supposedly used to benefit political campaigns, according to a parliamentary inquiry. Paulo Maluf

was one of many politicians found to have been involved in the scandal. Maluf would later run for governor of the state of São Paulo in 1998, then mayor of São Paulo in 2000, governor again in 2002, and for mayor again in 2004, losing in all races. Finally, in 2006 he was elected as federal deputy with a record number of votes and has since been reelected twice (2010 and 2014); he is still in office today despite several malfeasance scandals.

Perhaps more relevant to our purposes here was the reelection scandal. In May of 1997 a leaked audio file containing the conversation between two federal deputies revealed that they had sold their votes for a constitutional amendment that allowed the sitting president a second term in office. Each deputy supposedly received BRL 200,000 in exchange for their votes. Furthermore, they also revealed that the speaker of the house (Presidente da Câmara) was the main intermediary and negotiator of the corrupt practice.

The *mensalão* (a monthly bribe to legislators in order to secure political support in Congress) affair during Lula's first administration (early 2004 to May 2005) was the major scandal of Brazil's new democracy. It involved key members of the Lula government in an illegal scheme that channeled public and private funds to members of the Partidos dos Trabalhadores (PT; Workers' Party). In the legislature, the opposition managed to gain support for the creation of a parliamentary inquiry commission to further investigate the case. Drawing on the information produced by the commission, the federal public prosecutor, who was appointed by Lula, launched an independent criminal investigation and in March 2006, called on the Supreme Court to open criminal proceedings against 40 individuals linked to the *mensalão* affair. In August 2007, the Supreme Court unanimously accepted the report of Justice Joaquim Barbosa, who was also appointed by Lula, and approved all 40 indictments, meaning that each of the accused had to stand trial in the Supreme Court.

In late 2012, the Supreme Court criminally convicted 25 out of the 40 accused, with penalties ranging from tough fines to imprisonment. Among the convicted individuals were Lula's Chief of Staff José Dirceu, former PT President José Genoíno, and Party Treasurer Delúbio Soares, all of whom were accused of racketeering and of intent to corrupt others (*corrupção ativa*). This outcome was surprising because, as the largest party, the PT was able to control the investigating committee, including its president and *rapporteur*. However, the committee's official report concluded that the accused were guilty. In addition to Congress and the federal public prosecutor, Lula and Rousseff also had the opportunity to

appoint the majority (eight of the 11) of the justices of the Supreme Court. Nonetheless, the main political leaders of Lula's government and PT were convicted and are expected to serve time in prison.

The *mensalão* scandal led to a host of changes. Two innovations that have already been implemented are the online registry of campaign contributions and stricter penalties for off-the-books campaign finance. Prior to the *mensalão*, information on electoral financing was released several months after the elections. Online information has become available since then regarding the candidates' donors, which has enabled the public to use the information on political donations while making their electoral choices. Numerous other institutional reforms and innovations were also scandal-led. These include the elimination, by Constitutional Amendment 35 (2001), of the need for congressional consent for the Supreme Court to hear cases against politicians (which had earlier been written into the Constitution to protect politicians from censure); the abolition in 2005 of all CC5 accounts (a type of account used for sending money overseas); the creation of a code of public ethics, following two parliamentary inquiry commissions investigating conflict of interest during the Cardoso government; and the suspension of the tax-exemption status of political parties in 2007.

The *mensalão* has become a symbol of the maturity of Brazilian institutions and has set an important precedent, which has become crucial for the Petrolão scandal that occurred in 2014. It sent out the message that even highly popular politicians could face sanctions.

The so-called *sanguessugas* scandal that broke out in May of 2006, only four months before the general election, was a widespread corruption scheme that resulted in the Federal Police accusing 87 federal deputies and three senators of embezzlement. This complex operation involved the overbilling of more than a thousand ambulance cars destined for municipalities. The Courts prosecuted approximately 500 people for involvement in this considerable operation that cost the public treasury more than BRL 110 million over the course of five years.<sup>1</sup>

All of these scandals have raised the saliency of corruption in public opinion. Television networks including *Globo* broadcast the entire *mensalão* trial. In 2005, more than 90 percent of the news that appeared in *Jornal Nacional*, Brazil's most popular news program, focused on the *mensalão* (Vasconcelos 2014: 100). *TV Senado* had non-stop coverage of the hearings of the congress' investigative inquiry committee (CPI) and

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1 *Rede de Escândalos* website, online: <<http://veja.abril.com.br/infograficos/rede-escandalos/>> (7 August 2016).

remained online for as much as 17 hours at a time, reaching audiences of up to 3.5 million people.

In a *Qualibest survey* commissioned by the Estado de São Paulo in 2005, 87 percent of respondents said they were following the events about corruption. Seventy-one percent of interviewees stated they were very interested in the coverage of corruption, while only 7 percent replied that they were not interest in the affair (Vasconcelos 2014: 99).

According to survey data, corruption was consistently the fifth-most important concern of Brazilian citizens between 1998 and 2006. In 2010 it became the fourth-most important issue and in 2015 it became the most important political issue in the country in the eyes of the public.<sup>2</sup> The *mensalão* produced a shock similar to the Mani Pulite scandal in Italy. It was a watershed and we believe its impact was stronger than any other development until the Petrolão in 2014, which is not discussed in this paper.

## The Electoral Effects of Scandals

With a few exceptions, the literature on campaign expenditures and the literature on corruption scandals are not integrated. However, to answer the motivating puzzle of this paper – why some of the lawmakers involved in corruption scandals are not punished in elections – we must uncover what strategies incumbents use to attenuate the effects of scandals. Our argument is simple: incumbents involved in scandals use campaign funds to counteract negative exposure; in other words, they buy their way out of scandals. Hence, we advance another mechanism through which campaign spending affects elections: it mitigates the effect of corruption scandals.

Scandals affect citizens' trust in institutions (Bowler and Carp 2004) and in democracy more generally (Canache and Allison 2005). As argued by Parker (2004), politicians care greatly for their reputational capital, which is why legislators spend so much time and energy building it. Politicians use different strategies to avoid blame for involvement in corruption scandals – some features of scandals are more salient than others (character issues, for example; see McDermott, Schwartz, and Gallejo 2015). There are many ways to fight the effects of scandals, all of which

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2 Online: <<http://datafolha.folha.uol.com.br/opiniaopublica/2015/11/1712972-corrupcao-lidera-pela-primeira-vez-pauta-de-problemas-do-pais.shtml>> (7 August 2016).

require funds. The visible outcome of such practices is the increase in campaign spending. This is the observable we will focus.

Strategic politicians can employ a variety of tactics to deflect the harm caused by involvement in corruption scandals. Allegedly corrupt politicians try to “muddy the waters” by denouncing corruption themselves. As Kurer argued, politicians might be able to “deflect criticism by suggesting that corruption is not systemic but accidental and the regime might reform itself” (Kurer 2002: 78).

Alternatively, politicians may blame the system for generating corruption, exempting themselves individually from wrongdoing. This was the path that Brazilian President Lula da Silva followed when justifying his government’s participation in the *mensalão* scandal (2005–2012). His argument was that the Brazilian electoral system stimulated corruption by increasing the odds of gridlock and the costs of constructing a governing coalition. Similarly, other politicians have actually justified corruption by blaming the high costs of campaigns. Again, Brazil provides an interesting example. President Dilma Rousseff has argued that the high costs of campaigning in the country, with the massive participation of corporations, especially construction firms, renders the system prone to scandals such as the recent Petrobrás one.

In addition, the legitimacy of the source may be questioned in order to mitigate the effect of the scandal. Not all information is created equal or is equally reliable. Winters and Weitz-Shapiro (2013) provided experimental evidence that the credibility of information is crucial. Faced with credible information about the politicians’ true type, voters punish politicians who commit malfeasance despite their ability to get things done. The authors found evidence against the trade-off argument, according to which individuals overlook corruption when politicians deliver public goods. Even though some types of scandals, such as those based on court decisions or audit institutions’ charges, may appear more reliable than openly partisan media reports, politicians may simply claim that accusations are politically motivated and that evidence is questionable. Hence, questioning the legitimacy of the accusation may weaken the impact of scandals. Using observational data from municipal audits in Brazil, Pereira and Melo (2015) found that informed voters sanction mayors’ corrupt behavior but this effect is mitigated by municipal investments in public goods. Mayors that spend more are less likely to be sanctioned than low spending mayors. But despite these contradicting findings in support for the trade-off argument, in both cases incumbents need resources to convince voters to support them, be it through advertising a narrative to counteract negative exposure or investment in public

and private goods to voters. Therefore, whatever the actual extent of trade-off between voters and corrupt politicians, involvement in scandals require additional campaign funds to counteract the negative exposure.

Vote buying is another common tactic in many new democracies. Vote buying is an ambiguous concept (Nichter 2014) that encompasses a variety of practices, including the provision of a host of private goods (money, jobs and services) in exchange for votes. Brusco, Nazareno, and Stokes (2004) showed that buying votes in these different forms is an efficient strategy to mobilize electoral support among low-income people in Argentina. They demonstrated that this is particularly the case when parties can monitor voter action, interfere with precision in how individuals vote, and credibly threaten to punish voters who renege on patronage deals. Therefore, politicians would still have to invest additional funds to monitor and frame voter behavior.

Vicente (2014) has provided evidence that vote buying is common in Africa, where it reduces incumbent advantage and promotes more participation by injecting more money into elections, thereby increasing competitiveness. The visible face of vote buying is an overall increase in campaign spending. As we will argue below, this view is in line with the general thrust of literature on campaign finance: more money spent increases competitiveness by favoring challengers.

Because of the increasing costs of direct vote buying, the distribution of targeted club (Kitschelt and Wilkinson 2007) and private goods may override the concern for clean representatives. Thus, lawmakers may be able to exchange political support for private and club goods, thereby mitigating the effect of corruption. Lawmakers also use campaign coffers to hire *cabos eleitorais* (paid activists and community leaders) to organize rallies, shows, and musical festivities (Bezerra 1999). The implication is obvious: those involved in scandals would have to spend more on their campaign.

In addition to the individual-level strategies outlined above – blame-shifting, system-bashing, questioning source legitimacy, and vote-buying – contextual and institutional factors also matter.

An important contextual effect that conditions the impact of corruption scandals on elections is moments in which the visibility of scandals is unquestionable. In fact, “structural breaks” – understood as “a sudden significant increase in information made available by the press” (Chang, Golden, and Hill 2010: 180) – are fundamental for the pronounced effect of scandals in elections, especially in low-accountability institutional environments. Hence, a significant increase in the visibility of corruption would be key to explain the effect of corruption scandals

on electoral outcomes. Such episodes may increase the efforts that politicians make to mitigate the effect of corruption scandals. Brazil would fit this description well given the complexity of its open-list proportional system for lower-house legislative elections and the saliency of corruption scandals in the 2006 elections (Rennó 2008; Castro and Nunes 2014; Balán 2014). Because voters can vote for individual candidates on the party electoral slate, punishing or rewarding incumbents individually, lawmakers have strong incentives to cultivate their individual reputation. High electoral district magnitude – which ranges from eight to 70 – is an obstacle to be surmounted. Candidates with a higher dispersion of votes face higher costs.

We argue that, in spite of the distinct mechanisms through which politicians may avoid the detrimental impact of involvement in scandal, the end result is the same: those tarnished by corruption scandals will have to invest more in the campaign if they wish to counteract the effects of negative exposure. This is especially the case when corruption scandals become especially salient. Hence, in order to avoid the effect of scandals, incumbents must invest. Our measure of investment is money spent in the campaign; this is the observable element of the mechanisms outlined above.

These claims add a layer of complexity to the discussion about the role of money in elections. The literature on campaign expenditures concludes that the more one spends, the more likely electoral success is. This is true even among incumbents and in party-centric electoral systems, such as Great Britain's, where the national coverage of the campaign is more important than constituency campaigns (Pattie, Johnston, and Fieldhouse 1995). For challengers, apparently, spending more is the only chance of victory (Jacobson 1990). From Brazil (Samuels 2001) to Russia (Treisman 1998) to Ireland (Benoit and Marsh 2010), the US and the UK, wherever there are studies on money and elections, the conclusion is the same: money wins seats. In multiparty systems, Benoit and Marsh (2010) showed that more spending increases the odds of winning, for both incumbents and challengers.

In addition to the immediate effect on election results, however, the general tone of this literature is that more campaign expenditure is positive for society and the political system. In the US, it is generally agreed that more money in elections increases competition by making challengers a more meaningful threat to incumbents (Abramowitz 1991). Campaign finance also mobilizes voters, thereby increasing turnout (Caldeira, Patterson, and Markko 1985), and improves the quality of democracy by augmenting levels of information and knowledge as well as affect to-

wards candidates (Coleman and Manna 2000). It also has a democratizing effect, since knowledge tends to be equality distributed among advantage and disadvantaged groups as campaign finance increases (Coleman 2001). In the case of Africa, even when used to buy votes, more money in the election increases turnout and reduces incumbency advantage (Vicente 2014).

In sum, the literature agrees that more campaign expenditure leads to more salient elections and more access to information, increasing the competitiveness of races and, consequently, accountability (Mayhew 1974; Abramowitz, Alexander, and Gunning 2006). Voters should be more likely to punish incumbents for wrongdoing in such contests. Campaign finance would then spur accountability, responsiveness, turnout (where voting is not mandatory), and the overall quality of democracy.

We present an alternative view here, arguing that campaign finance increases incumbents' opportunities to dodge accusations of involvement in corruption scandals, deterring accountability. As suggested, different mechanisms can be in place, but from the politician's perspective, scandal involvement requires greater spending in order to assure reelection. The empirical implication of our theoretical argument is that incumbents involved in scandals will spend more than others who are not involved and more than they themselves spent in prior elections, and that such increases will compensate the negative exposure of the scandal, guaranteeing reelection. We can observe the effect of campaign finance on electoral outcomes, contrasting those involved in scandals and those that are not.

To summarize, we tested the following hypotheses using a unique dataset of Brazilian legislative elections and incumbent federal deputies performance in office.

H1: Corruption scandals will have a negative effect on the probability of reelection.

H2: Campaign spending will moderate the effect of corruption scandals.

H3: Incumbents involved in scandals will spend more than their counterparts and will spend more than they did before being involved in a scandal.

## Data and Empirical Strategy

In order to test our hypothesis, we wished to rule out confounding hypotheses and isolate the effect of malfeasance scandals, as well as its interaction with campaign spending. We start by describing our variables and then explain our research strategy. We ran three regression models to test our hypothesis and ruled out confounding explanations. Because scandals may affect the decision to run for reelection, we modeled the choice to run for reelection and then used a Heckman probit model (Van de Ven and Van Praag 1981) to control for selection bias. Furthermore, given that our hypotheses suggest an interaction between scandals and campaign spending, we also ran an additional model that controlled for that effect. Finally, we used a difference-in-differences test to explore the effect of scandals in campaign spending. We will describe the models in more detail below, starting with model specification.

Our dataset includes all incumbent federal deputies who held office between the 50<sup>th</sup> and 53<sup>rd</sup> Legislatures in the Brazilian Chamber of Deputies (Lower House of Congress). This period covers the elections of 1998, 2002, 2006, and 2010 and contains 2,027 observations from 1,174 different politicians who occupied a seat in the Brazilian Chamber of Deputies.

The dependent variable in our econometric models is reelection success (ELECTED). This dummy variable was coded as one (1) if the member of Congress was reelected and zero (0) otherwise. During the past four elections, 76 percent of incumbents ran for reelection, and 51 percent of these incumbents succeeded in being reelected. The 2006 election had the lowest percentage of success in reelection (45 percent) and 2010 had the highest score (approximately 55 percent).

In order to rule out selection bias, we also had to analyze the selection process into the sample; that is, the choice to run for reelection. Some MCs retired strategically, anticipating defeat because of malfeasance scandals; therefore, we would have produced biased coefficients if we had not taken the selection bias into account when testing for Hypothesis 1, as classically argued by Heckman (1979). In order to do this, we first ran a separate model using career choice as a dependent variable, which enables us to calculate the effect of malfeasance scandals on career choice. We then used a Heckman Probit model to control for selection bias, as discussed in the next section.

We produced a dummy variable termed *CAREER*, which took the value of 1 if the incumbent federal deputy ran for reelection and 0 otherwise. During the four previous elections (held in 2010, 2006, 2002 and 1998), 74 percent of MCs ran for reelection, 14 percent retired, and the

reminder ran for other offices, such as senator. The highest retirement rate was in 2006, when 19 percent of incumbents retired, at least some of whom did so because of malfeasance scandals. This sharply contrasts with the 2010 elections when only 10 percent withdrew from the contest, suggesting different dynamics across elections.

The independent variables include a dichotomous variable termed *Malfeasance Scandals* to describe charges of malfeasance against members of the Câmara dos Deputados published in the country's most important printed media outlets during the time they held office. Coding of this variable essentially followed three criteria. First, the charge of malfeasance had to be followed by action from relevant authorities, as we will explain in more detail below. As a consequence, we did not count scandals exposed by investigative journalism, unless the scandal was followed up by an official investigation and/or prosecution. Second, we only counted malfeasance charges published in printed news outlets of wide circulation. Furthermore, we computed only severe crimes and wrongdoings, following the strategy adopted by Chang, Golden, and Hill (2010). Specifically, we did not compute defamation, slander, and other minor charges that may arise from campaigning or contentious disagreements between MCs during parliamentary debates. Purely technical infractions were not counted. Furthermore, sex-related scandals that did not result in official investigation or criminal charges were also excluded. Prior research has found that extramarital affairs had smaller electoral effects than scandals of political or financial nature (Basinger 2012). Readers should note that this operationalization is broader than the standard definition of corruption, focused on private gain, and is narrower in scope than political scandals, which may include ethical violations that do not constitute an illegality.

We defend our coding strategy on two grounds: empirical and conceptual. In terms of the former, our strategy builds on previous research on the impact of malfeasance and corruption scandals, as we demonstrate below. More fundamentally, our operationalization is valid given the underlying construct we aim to measure and our broader theoretical framework.

Our measurement strategy is closely coherent with the theoretical framework that conceptualizes accountability as a principal–agent relation (Przeworski, Stokes, and Manin 1999). Our variable measures the occurrence of malfeasance that breaches the relationship of trust essential to delegation. Despite inherent asymmetries of information and monitoring costs, the existence of malfeasance scandals functions as an informational cue by which voters can evaluate incumbents (Popkin

1994; Lupia 1994; Lupia and McCubbins 1998). This information allows for simple retrospective evaluation regarding the ability and willingness of the agent to provide for the best interest of the principal (Fiorina 1981). The general theme of this literature is that competitive elections serve as a mechanism to mete out rewards and punishment for an incumbent's performance. Therefore, we opted for a broad operationalization centered in malfeasance scandals, instead of a narrow definition of political corruption centered on rent-seeking behavior.

Political corruption is usually defined as “the misuse of public office for private financial gain by an elected official” (Kunicová and Rose-Ackerman 2005: 577). This definition is problematic because it does not explain exactly what behavior constitutes a “misuse” and, furthermore, because of the emphasis on private gain (for a discussion see Philip 1997). In terms of the standard of exactly which behaviors constitute a “misuse”, we have followed Nye (1967) and others (Rundquist, Strom, and Peters 1997) who centered their definition of misuse based on legal norms. While this strategy yields problems for comparative analysis of corruption because different countries have different legal standards, it is unproblematic for our analysis since it focuses on a single country. Furthermore, because of the emphasis on rent seeking and private gain, we must abandon the concept of corruption in its most rigorous sense to instead focus on malfeasance charges. We do this because many severe crimes and wrongdoings committed by the MCs did not result in a direct private gain or may be unrelated to the direct exercise of public office, and yet are relevant for understanding accountability. As Philip (1997) argued, if we limit our definition of corruption to rent seeking, we miss many instances of institutional corruption (Thompson 1995), where the gain is political and not personal. Furthermore, the principal-agent framework emphasizes that even if a politician is serving his principal's interests, as opposed to his own, he or she is corrupt if he or she knowingly violates the law in doing so, in what Banfield (1975) terms “official corruption”.

In following this framework, we also counted crimes unrelated to the direct exercise of public office. As we argued, this information offers a clue about an incumbent's true type, his probability of engaging in further corruption practices, and the likelihood that he or she will serve the best interest of their principal. This is why we opt to use the term malfeasance rather than corruption to describe our main independent variable, given that the emphasis on rent seeking is usually attached to the latter. In sum, our broad operationalization centering on malfeasance scandals fits squarely with our theoretical framework.

Readers should note that we have been very cautious in terms of the accuracy of our definitions, precisely because of the high level of confusion in the empirical literature between malfeasance, scandals, and corruption. For example, Gibbons (1993) and Reed (1996) defined corruption as “any behavior that, if it were to become public knowledge, would lead to a scandal” (Reed 1996: 359). Welch and Hibbing used the term corruption charges to refer to several “misbehaviors”, “not only instances of misuse of powers of office in exchange for personal gain, but also instances of alleged scandals involving morals or crimes not linked to office” (Welch and Hibbing 1997: 229). We use the term malfeasance in order to preserve conceptual clarity.

Naturally, our operationalization has certain shortcomings. Given the broad scope of our definition, we have put several different charges of malfeasance within the same bracket. For example, some MCs were investigated or prosecuted for charges of corruption, vote buying, embezzlement, crimes against the environment, tax evasion, and even manslaughter. Most of these scandals concern corruption allegations, bribery, embezzlement, and graft. While these scandals vary in terms of severity and can therefore have different electoral implications, our objective in this paper is not to distinguish between the effects of different types of scandals. Furthermore, previous research in the US context has already explored this dynamic (Basinger 2012; Peters and Welch 1980). Others have noted the empirical challenges of testing for the differential effects of particular scandals (for example Pereira, Rennó, and Samuels 2011: 93). Future research should investigate the differential effects of different types of scandals in the Brazilian context as well.

The second criterion for our coding procedure is that the charge of malfeasance should be supported by a credible official institution of the state. It is common for politicians to try to “muddy the waters” by themselves accusing their political opponents (Kurer 2001). Moreover, past research has shown that the credibility of the information is important for explaining the effect of scandals (Winters and Weitz-Shapiro 2013). Most official institutions responsible for investigating and prosecuting politicians must have a reasonable degree of certainty regarding the veracity of an accusation in order to initiate an official investigation or to prosecute. Therefore, we have followed Klasnja (2011) and others in reasoning that charges of malfeasance backed by official state institutions contain a reasonable degree of plausibility so that we can distinguish malfeasance from partisan accusation and false information. Furthermore, prior research has shown that charges of malfeasance without the involvement of the courts yielded no substantial electoral punishment

(Costas-Pérez, Solé-Ollé, and Sorribas-Navarro 2012: 471). Specifically, we coded malfeasance scandals that were followed up by investigation or prosecution carried out by official institutions of control (both internal and external), such as the *Ministério Público*, *Polícia Federal*, *Controladoria Geral da União*, *Comissão Parlamentar de Inquérito*, *Tribunal de Contas* and all branches of the judiciary, such as the Supreme Court (STF) and the *Superior Tribunal de Justiça*.

The third criterion for the coding procedure is that the charge of malfeasance has been reported by a printed news outlets with wide circulation. The outlets considered include *Folha de São Paulo*, *Veja*, *Estadão*, and *O Globo*. Of course, if the malfeasance is not amply publicized it will not reach the minimal definition of political scandal. Using media exposés as a source does not constitute a problem because we have not used them as indicators of actual malfeasance, but to estimate the effect of public information on incumbents' reelection strategies and performance.

Furthermore, we are also aware that the rates of newspaper reading are relatively small in Brazil. Nevertheless, the mechanism that links information and electoral punishment is not necessarily a direct one. What our variable captures is that the information about corruption is available to voters. There are several indirect ways by which information can reach voters. One of them is that "opinion leaders" read the newspapers and then spread the information to colleagues and friends, thereby influencing their vote, as suggested by Baker, Ames, and Rennó (2006) and tested in an experimental fashion by Druckman, Levendusky, and McLain (2015, forthcoming).

Another possibility is that information first published in newspapers and magazines resonates in other media outlets, such as television and the Internet. Since our hypotheses are more concerned with the incumbent legislators' responses to scandals than with the responses of the voters, this coding strategy is appropriate. Regardless of the mechanism by which information reaches or does not reach voters, the important aspect of this variable is that it captures the availability of the information. Given that the scandal is public information, and not secret, incumbent federal deputies should anticipate the consequences and behave accordingly; for example, by retiring or shoring up their campaign coffers in order to overcome the negative publicity.

Given our coding strategy, we are also unable to account for the intensity of coverage in each scandal. The more salient a scandal is, the more likely it is to have electoral repercussions. Pereira and Melo (2015) found statistically significant effects of the intensity of information about

mayor's wrongdoing on their reelection chances. The authors use official charges of corruption from different sources rather than media coverage. However, the "cost" of creating a variable that measures intensity of exposure would inevitably outweigh its benefits. For example, a search of Paulo Maluf's name related to corruption and malfeasance from 2002 to 2006 revealed more than 3,000 newspaper articles. In order to account for the intensity of a scandal, we would have to read every single newspaper to determine if Maluf was directly involved in malfeasance or if his name appears in the report for some other unrelated reasons, which is very common. Furthermore, some incumbents are involved in multiple scandals with varying degrees of intensity, which further complicates attempts to create such a variable. Given that there are more than 2000 cases to investigate, it would be unwise to account for scandals' intensity because the payoff for doing so would appear to be minimal. It stands to reason that scandals with higher coverage and intensity should have a more pronounced effect. It is not the purpose of this paper to address this intensity hypothesis. Moreover, although the binary coding strategy does deprive us of some information and is a blunt proxy, it serves the purposes of this study and is a common procedure in the literature (Klasnja 2011; Chang, Golden, and Hill 2010).

In empirical terms, our coding strategy follows and builds on prior research. We have already noted that follow-up investigation gives more credibility to malfeasance charges and increases its electoral effect (Klasnja 2011; Costas-Pérez, Solé-Ollé, and Sorribas-Navarro 2012). Moreover, most operationalization of corruption or malfeasance is either based on information from the courts or other institutions of control (Chang, Golden, and Hill 2010) or based on newspaper reports (Peters and Welch 1997; Welch and Hibbing 1997; Nyblade and Reed 2008); or, as in our case, both (for a recent review of operationalization strategies see Basinger 2012). Our operationalization is essentially equivalent to that of Klasnja (2011).

On average, 18 percent of all MCs were involved in some type of malfeasance scandal during the period investigated. This number is consistent with statistics about MCs from other sources. For example, according to the NGO *Transparência Brasil*, 32 percent of lower-house MCs faced charges in judicial system in 2008, including past convictions for serious wrongdoing. We also observed that the number of negatively exposed MCs increased over time, reaching a peak before the 2006 elections. This is also consistent with other studies that have shown a media priming effect resulting from the "dramatic increase of media exposés in Brazil" since the transition to democracy (Porto 2011). Specifically, the

number of “dirty slate” MCs represented 5 percent of the total before the 1998 elections, increasing to 9 percent during the 2002 election, then increasing sharply to 34 percent in 2006, and decreasing slightly to 25 percent in the 2010 election. This increase in the availability of information is explained by several factors, one of which could certainly be the growing independence of auditing institutions and the “strengthening of journalistic professionalization” (Porto 2011).<sup>3</sup>

Our data shows that, in the 1998 and 2006 elections, federal deputies accused of corruption faced a substantive electoral disadvantage. In 2006, only 29 percent of those charged with corruption managed to get reelected. During the 2010 elections, by contrast, 64 percent of the deputies involved in corruption managed to get reelected. This pattern is similar in 2002, when 58 percent of the congressional representatives involved in corruption scandals also managed to win back their place in Congress. In the 1998 election, on the other hand, the electoral disadvantage of exposed politicians was similar to 2006; only 48 percent of them were reelected. By contrast, considering the entire sample, 51 percent of federal deputies won reelection and 53 percent of those who were not involved in malfeasance scandals remained in office. Apparently, involvement in corruption scandals mattered more sometimes (1998 and 2006), but not others (2002 and 2010). Rennó (2007) showed that, in 2002, the visibility of corruption was very low, and in 2006 it was extremely high, which may explain the variation. Why the other elections presented the results they did still requires explanation. We will focus on this question in our discussion.

Our second important independent variable is campaign spending. We measure this as the real value in BRL spent by incumbent in each election. On average across the entire population, each MC declared having spent the equivalent of USD 250,000 on average, which is one-fifth of the value of the campaign funds spent by members of the US House of Representatives (Boas, Hidalgo, and Richardson 2014). We expect this variable to have a direct and indirect effect on electoral success. It should increase the chances of victory of all deputies (Samuels 2001; 2003), but particularly of those involved in corruption scandals. Hence, we interacted campaign spending with involvement in corruption scandals to better test the conditional hypothesis H2.

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3 In 2008, 31 percent of senators, 37 percent of federal deputies and 34 percent of state legislators faced charges in criminal courts and audit courts. In 2011, one-fifth of Brazilian MCs were defendants in criminal cases in the Supreme Court. There were 136 legislators (including their deputies) involved in 293 criminal cases.

Following Chang, Golden, and Hill (2010), Rennó (2007), and Pereira, Rennó, and Samuels (2011), we controlled for variables that affect reelection chances, including political capital (votes lagged), pork barrel politics (ratio of paid budgetary amendments for the four-year period<sup>4</sup>), legislative success (number of approved sponsored bills that became law) and a dummy variable coded as one if the federal deputy is in the president's party and zero otherwise.

In order to test our first two hypotheses concerning scandals and campaign finance, we proceeded to rule out competing claims and avoid potential biases. Our first hypothesis concerns the mean effect of scandals on reelection odds. The first potential bias is selection bias because politicians self-select into the sample. Furthermore, because scandals affect the strategic choice to run for reelection not, we would generate biased coefficients in the main equation as demonstrated by Heckman (1979). Therefore, we ran a separate model to estimate the effect of scandals on the choice to run for reelection. We then used a probit model with sample selection (Van de Ven and Van Praag 1981), which is an adaptation of Heckman's (1979) method, to correct for potential bias in the estimation of the effect of scandals on reelection odds. Moreover, few of the main studies concerning this question have tried to address this bias.

We also used a random effects probit model with the dependent variable indicating whether the incumbent was reelected or not. We included dummy variables for both the States and the elections years to account for unobserved variation. We also instrument our campaign spending measure, using the lagged term of this variable, to control for the indirect effect of scandals on reelection through campaign fundraising and spending, following Pereira, Rennó, and Samuels (2011). Finally, we used a difference-in-difference test to measure the effect of corruption on campaign spending across incumbents and over time.

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4 Each federal deputy can propose amendments to the annual federal budget in order to fund programs or project of their interest. But since the budget is not binding the executive branch can allocate resources at its discretion. The pork barrel variable expresses the ratio between the total value of amendments approved in the budget and what was actually implemented by the executive branch.

## Results

Our regression results confirm Hypotheses 1 and 2. Overall, incumbents involved in malfeasance scandals are more likely not to run and, if they do, they are more likely to lose office. This renders further confirmation to prior studies on Brazil (Rennó 2008; Pereira, Rennó, and Samuels 2011; Castro and Nunes 2014). Based on our estimates, involvement in corruption scandals implies an 18 percent decrease in the probability of reelection, *ceteris paribus*. In order to avoid such a fate, federal deputies involved in scandals must spend more than others, an estimated 1.4 standard deviations above the mean. The interaction term shows that some tarnished incumbents invest more money in the campaign, thereby compensating the scandals' negative effect, although only a minority of them are actually capable of such. As expected, campaign spending moderates the negative effect of scandals on reelection for those who are able to fundraise. Recall that Pereira, Rennó, and Samuels (2011) showed that involvement in scandals reduces the ability to raise money.

However, we show here that raising money is vital to avoid the dilatory effects of scandals; only a few are able to do so. The interaction term is statistically significant at conventional levels. This implies that corrupt incumbents who can fundraise beyond a certain threshold ignore the reputational costs of corruption scandals, thus accounting for the paradox of corruption in Brazil.<sup>5</sup> These results are robust across different specifications and controlling for potential biases. Models 3 and 4 on Table 1 show the results of a Heckman Probit model with a selection term included as an independent variable; the results confirm our main hypothesis. Finally, in models 5 and 6 we instrument campaign finance using the lagged term of that variable and the result remains robust.

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5 To test for robustness, we ran a separate model with votes as the dependent variable instead of the reelection dummy variable and the results remain robust. We have not shown this model here, but it is available from the authors upon request.

**Table 1. Random Effects Probit Model with Reelection as Dependent Variable (1998–2010)**

	1	2	3
VARIABLES			
Corruption Scandal	-0.187* (0.103)	-0.594*** (0.153)	-0.127 (0.113)
Campaign Spending (in BRL 10,000)	0.00539*** (0.000882)	0.00388*** (0.000932)	0.00529*** (0.000980)
Scandal * Campaign Spending		0.00688*** (0.00196)	
Lagged Votes /10000	0.0902*** (0.0123)	0.0911*** (0.0122)	0.0966*** (0.0133)
Sponsored Legislation	0.0414 (0.0357)	0.0458 (0.0353)	0.0200 (0.0409)
President’s Party	0.0473 (0.0983)	0.0338 (0.0974)	0.00891 (0.108)
Pork Barrel	-0.0739 (0.206)	-0.0876 (0.204)	-0.287 (0.258)
Heckman Selection Term			-0.756 (0.525)
Campaign Spending Instrumented			
Scandal * Spending (Instrumented)			
Constant	0.534 (0.375)	0.673* (0.378)	0.997* (0.576)
Observations	1,543	1,543	1,543
Number of Incumbents	929	929	929

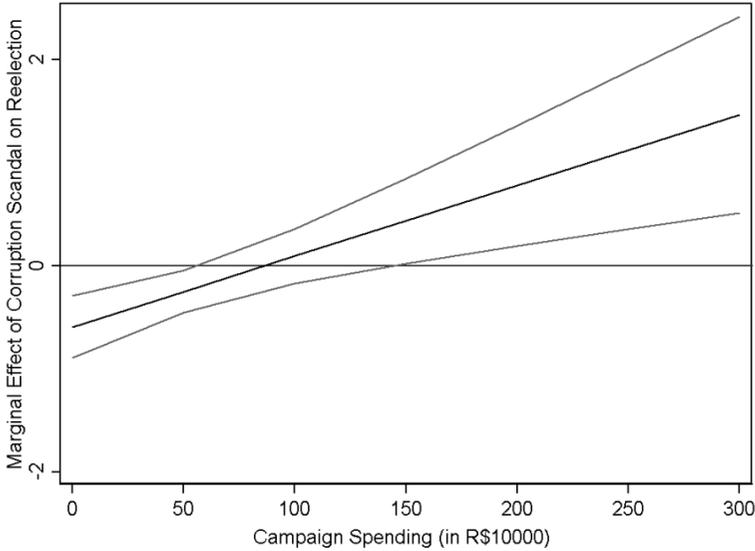
VARIABLES	4	5	6
Corruption Scandal	-0.535*** (0.178)	-0.191* (0.105)	-0.578*** (0.219)
Campaign Spending (in BRL 10,000)	0.00377*** (0.00102)		
Scandal * Campaign Spending	0.00692*** (0.00239)		
Lagged Votes /10000	0.0977*** (0.0134)	0.107*** (0.0145)	0.107*** (0.0145)
Sponsored Legislation	0.0239 (0.0399)	0.0236 (0.0423)	0.0253 (0.0415)
President's Party	-0.00499 (0.109)	0.0747 (0.107)	0.0632 (0.107)
Pork Barrel	-0.306 (0.257)	0.0234 (0.223)	0.0221 (0.221)
Heckman Selection Term	-0.777 (0.522)		
Campaign Spending Instrumented		0.00171 (0.00152)	0.000195 (0.00172)
Scandal * Spending (Instrumented)			0.00558** (0.00281)
Constant	1.149** (0.558)	0.450 (0.627)	0.560 (0.607)
Observations	1,543	1,439	1,439
Number of Incumbents	929	877	877

Note: Random effects standard errors in parenthesis \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Standard errors of models 3 through 6 were bootstrapped to ensure efficiency given the inclusion of both the selection term and the instrument in each of the two models. We also included State level and election year dummy variables as controls, these were suppressed from the result.

Figure 1 shows the marginal effect of scandals on reelection odds at different values of campaign spending, graphically illustrating the relationship. The figure shows how the negative effect of scandals is mitigated as the campaign funds increase and that after a certain threshold (roughly above BRL 1,500,000, which equates to approximately USD 500,000) the marginal effect ceases to be statistically significant. Most rank-and-file incumbent legislators are incapable of fundraising such a

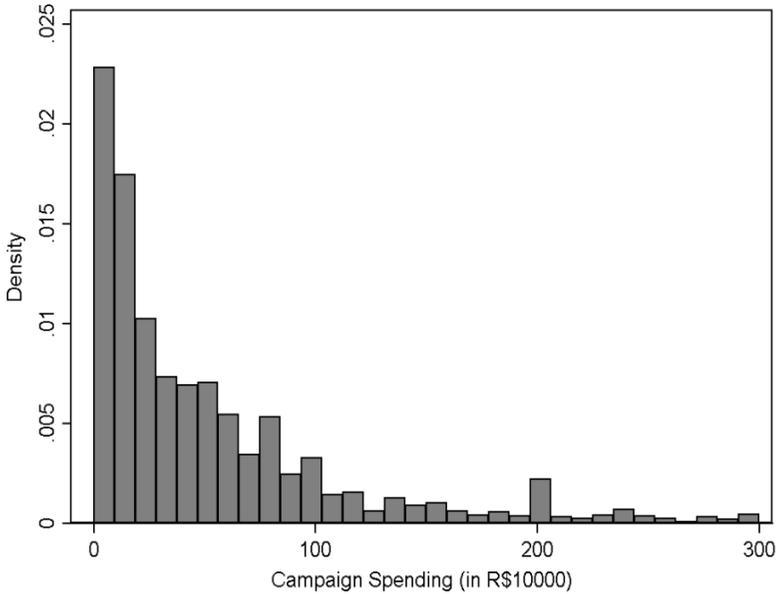
large amount of resources. As can be seen in Figure 2, most incumbents (approximately 90 percent of the sample) fall below this threshold.

Figure 1. Marginal Effect of Corruption Scandals on Reelection at Different Values of Campaign Spending



But, how much more do incumbents need to spend if they are involved in corruption scandals? The mean amount a federal deputy involved in scandals spent on campaigns over the entire period, in values corrected for inflation, was BRL 838,483.40 (USD 325,031.38, based on the exchange rate of BRL 2.58 as of 12 April 2014). Incumbents who were not involved in scandals spent BRL 564,532.40 (USD 218,836.47). The difference in means of BRL 273,951.00 (USD 106,194.91) is statistically significant in a two-tailed test. Hence, campaigns simply cost 48 percent more for those involved in scandals. However, these figures do not take into consideration the outcome of the election. To win re-election, incumbents involved in corruption scandals spend BRL 1,055,888.00 (USD 409,306.54) on average, over the entire period. That amount is BRL 444,347.60 (USD 172,247.79) greater than that of incumbents who are not involved in corruption scandals (BRL 611,540.40); the difference is statistically significant in a two-tailed test and represents a 72 percent increase.

Figure 2. Histogram of Campaign Spending (in BRL 10,000 units)



A second important element here is the comparison within the group involved in scandals. We test whether the mean campaign expenditure before and after a scandal increases. Another simple difference in means test provides the answer. The mean value for incumbents involved in scandals before the event is BRL 459,156.50. After the scandal, the mean campaign cost for the same group is BRL 852,791.70. The difference is of BRL 393,635.30; this value is statistically significant, indicating a substantive increase of 86 percent. The difference is even greater for those who are re-elected. After scandal involvement, the mean cost is BRL 913,604.90, an increase of BRL 434,441.20 compared to before the scandal, or a 91 percent increase; there is no doubt that corruption scandals are costly.

Finally, we regress expenditures on scandal, controlling for several other variables, and perform a difference-in-differences test using scandal exposure as a treatment variable to verify its effect in a before/after, two-group experimental design. Table 2 presents the results, including only those federal deputies who have competed in more than one election, with variation in scandal exposure and campaign finance amounts.

**Table 2. Fixed-effects (within) Regression for Campaign Expenditures, Including only Federal Deputies Competing in Subsequent Elections: Brazil 2002 to 2010**

VARIABLES	(1) Expenditures – Real Values	(2) Expenditures – Real Values
Lag Expenditure (real values)	0.24*** (0.084)	
Scandal (Treatment)	133,755.85* (70,304.980)	428,399.86*** (107,385.259)
Lag Vote	46,006.01*** (10,532.470)	
Projects Approved	333,199.33*** (76,622.370)	
Mean Budgetary Amendments	-485,148.70** (199,568.061)	
Dummy for 2006		-34,224.77 (64,002.299)
Interaction Dummy 2006 and Scandal		-348,528.92** (154,640.042)
Constant	197,844.27* (100,679.616)	626,494.87*** (32,463.014)
Observations	732	731
R-squared	0.261	0.066
Number of Incumbent MC's	463	463

Note: Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

Results indicate that being exposed to a scandal increases the amount spent on the election by approximately BRL 133,000, controlling for several other factors. Hence, scandals matter in affecting campaign spending, even when controlling for several other factors.

Regarding the difference-in-differences test, estimated with interaction terms on Model 2 of Table 2, for the 2006 elections in particular, the setup is as follows:

$$y = a + b \cdot D(\text{treatment}) + c \cdot D(\text{time}) + d \cdot D(\text{treatment}) \cdot D(\text{time}) + e,$$

where:

$$\begin{aligned}
 E[y | \text{treatment, time}] &= a+b+c+d; \\
 E[y | \text{treatment, time-1}] &= a+b; \\
 E[y | \text{control, time}] &= a+c; \\
 E[y | \text{control, time-1}] &= a; \\
 DID &= \{E[y | \text{treatment, time}] - E[y | \text{treatment, time-1}]\} - \\
 &\quad \{E[y | \text{control, time}] - E[y | \text{control, time-1}]\}; \\
 &= \{a+b+c+d - (a+b)\} - \{a+c - a\}; \\
 &= d;
 \end{aligned}$$

where  $d$  is the treatment effect.

Results presented in Model 2 of Table 2 show that scandals effect was approximately (excluding cents) BRL 243,742 in the 2006 elections. These elections represent an interesting episode of a structural shock, in which information about scandals affecting federal deputies was abundantly available. It is in this election that we more clearly notice the effect of scandals on campaign finance. Hence, we can conclude that involvement on scandals hurts incumbents' pockets, which has a significant effect on campaign spending.

## Conclusions

In this paper we have explored the effects of corruption scandals on the electoral fate of incumbent federal deputies in Brazil and how campaign spending attenuates the electoral influence of scandals. Our results show that scandals decrease the probability of reelection. To compensate for the reputational loss, those involved in scandals must spend much more than those who are not, and more than they spent prior to the scandal. These findings are consistent across several robustness checks. Using various statistical techniques – votes as an alternative dependent variable, a Heckman selection correction, instrumenting for corruption spending, and taking into account the moderating effect of campaign spending – the findings remain robust and substantively significant. Furthermore, both regression analysis as well as difference-in-differences tests show that scandals increase campaign spending.

However, not all federal deputies are able to increase their campaign fundraising enough to mitigate the negative effect of corruption scandals. In fact, most of the rank-and-file incumbent legislators involved in corruption scandals are unable to get reelected. Legislative elections in Brazil

are extremely competitive (Samuels 2002); involvement in corruption scandals can be the decisive element that determines success or failure.

In this paper we have highlighted a new implication for the role of money in elections: it can attenuate the negative impact scandals carry. In this way, we propose an answer to the unresolved paradox of corruption: allegedly corrupt incumbents must invest more than others in order to increase the likelihood of winning reelection. The cost of corruption is clearly felt on incumbents' wallets: they can get reelected, but they must fundraise 72 percent more, on average, than their counterparts who are not facing such allegations, and 91 percent more than what they spent prior to the scandal.

The implications of our findings are extremely relevant for discussions of political reform in Brazil. Imposing restrictions on how much money can be spent and setting ceilings on donations could promote accountability by limiting the ability of corrupt incumbents to remain in office.

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### **Os Custos Políticos da Corrupção: Escândalos, Financiamento de Campanha e Reeleição na Câmara dos Deputados Brasileira**

**Resumo:** Políticos notoriamente envolvidos em escândalos de corrupção logram reeleger-se apesar da opinião pública em geral condenar a corrupção. Nesse artigo nos debruçamos sobre esse paradoxo examinando o efeito de escândalos de corrupção no comportamento de membros da Câmara dos Deputados. Em particular, focamos em suas estratégias de financiamento de campanha e escolhas de carreira. Para explorar esses

temas utilizamos um banco de dados original que contém informações sobre todos os deputados e deputadas federais de 1995 a 2010. Embora muitos parlamentares acusados de corrupção sejam penalizados nas urnas, mostramos que gastos de campanha elevados atenuam o efeito negativo de escândalos. Nossos resultados são robustos para várias especificações e controlando por explicações alternativas. Este artigo apresenta uma discussão original das estratégias utilizadas por políticos corruptos para se manterem no poder. Mostramos que se tornam imunes às consequências eleitorais de escândalos se gastarem acima de patamares específicos. Esses achados são muito relevantes para discussões normativas em termos de reforma política que visam fortalecer *accountability* eleitoral no Brasil.

**Palavras-chave:** Brasil, corrupção, escândalos, reeleição, deputados federais e *accountability*