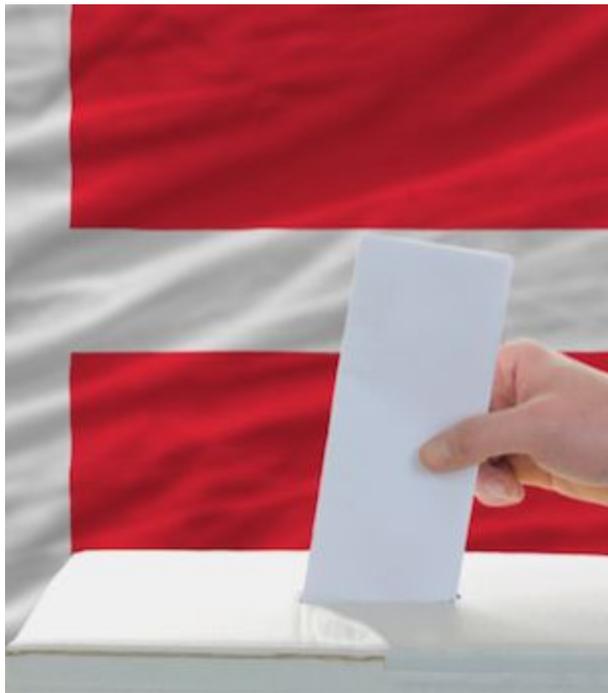


# The FCPA Blog

News and commentary about white-collar crime, enforcement, and compliance

## Morten Bennedsen: Denmark may be bribe free, but power pays off for local pols

By [Morten Bennedsen](#) | Wednesday, January 13, 2016 at 9:28AM



For three years in a row, Denmark has **ranked best** on Transparency International's Corruption Perceptions Index. If any country is free from preferential dealings between public servants and private enterprise, one would expect it to be Denmark.

But this is apparently not the case.

My research into the finances of office-holders in the Danish municipal government (a collaboration with Mario Daniele Amore of Bocconi University and Kasper Meisner Nielsen of HKUST) shows that even in environments where outright bribery and kickbacks are rare to non-existent, power still pays dividends for local-level politicians,

their families, and firms linked to them.

We took advantage of Denmark's 2005 administrative reform, in which 239 municipalities were summarily merged into 69 larger municipalities, leaving 32 unchanged. Politicians re-elected in 2005 to the leadership of a merged municipality would have experienced a considerable increase in power -- measured in terms of budget and size of their constituency -- virtually overnight. Meanwhile, politicians re-elected to an unmerged municipality stayed at the same power level as before the reform, making them an ideal control group.

We completed the picture by plugging in comprehensive data provided by the Danish tax authority for the politicians and their families from the period 1997-2009. Our analysis (detailed in [the working paper](#) "Return to Political Power in a Low-Corruption

Environment”) found that the average re-elected politician in a merged municipality enjoyed an increase of around 3.8 percent in total personal income, compared to his or her peers from non-merged municipalities. This figure excludes pay rises and other easily explicable proceeds from office-holding.

The average increase may be economically small, but it is statistically significant. It is especially so considering the modest clout of many of these politicians, even by the standards of intra-Danish politics. If political power is seen to pay off for local party members in the country with the least perceived corruption (population: 5.6 million), how much larger would the potential gains be in other more corrupt and bigger countries?

Moreover, higher-status pols received larger income bumps. We found an 8.5 percent increase for party leaders, 12.7 percent for coalition party leaders, and finally, 17.2 percent for mayors.

Our data did not include exact information on where the extra money came from, but one contributing factor appears to be corporate board appointments. We saw that merged-municipality politicians held appreciably more corporate directorships than the control group, a discrepancy that couldn't be explained by individual characteristics such as age. For politicians with above-median votes in the municipality and for party leaders, the directorships gap was especially wide.

Maybe the most remarkable pattern apparent here is that the income boost from power isn't limited to the politician alone; his or her close family members -- adult children in particular -- also get a taste. In fact, the power-income connection was twice as strong on average for the offspring than for the politician. The effect was strongest for children who resided in the same municipality as their parents.

To be clear, our findings are not meant to challenge Denmark's squeaky-clean reputation. Nothing we have seen suggests illegality of the sort that is rampant in high-corruption environments.

Unlike many of their counterparts in corrupt countries, the subjects of our research have not amassed anything like great wealth. There is every reason to assume that legitimate business opportunities (such as corporate board appointments) and subtle deference to power are at play in Denmark, rather than systemic abuses of authority.

However, there are two commonly noted aspects of corruption -- an attempt to circumvent existing rules, and a tendency to favour certain firms for no good reason -- that do seem to

be reflected in our evidence. We are led to conclude that even in the world's least corrupt country, a certain amount of legal "corruption" exists.

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A version of this post first appeared [in \*Insead Knowledge\*](#) and appears here with permission.

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