THE RULE OF LAW, GOVERNANCE AND POLITICAL CORRUPTION

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The purpose of this paper is to compare and contrast the relationship between the World Bank's Rule of Law Index (RoLI), its World Governance Index (WGI), and the concept of Corruption as reported in the Association of Certified Fraud Examiners *Report to the Nations*. Social scientists have extensively used the rule of law (ROL) and WGI to examine the effect of the rule of law and governance on economic growth. RoL is a centuries-old ideal defined as the subordination of the arbitrary use of power to well-defined and established laws. Building the RoL effects the flow of billions of dollars from entities and individuals concerned with the positive benefits that accrue to societies characterized by the RoL. The World Justice Project notes that a weak RoL negatively impacts foreign investment in any country. The Word Bank (WB) posits that the viability of investment and long-run economic growth depends on good governance and the quality of legal and political institutions. These factors caused the WB to start measuring the RoL in the 1990s.

The WB considers the RoL a contributing factor in its measure of governance. The WB states that governance consists of the traditions and institutions exercised by a country's authorities, including the process of selecting, monitoring and replacing governments; the ability of government to successfully articulate and execute comprehensive policies; and the deference of the governed to the conventions that regulate a society's economic and social interactions.

Transparency International defines political corruption as a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth. The greater the political corruption experienced by a nation, the weaker that nation's RoL and governance processes.

We use Transparency International's Corruption Perception Index (CPI) as a proxy for political corruption. The data for the RoLI and the WGI come from the World Bank. Compustat is the source for any additional data. We use regression and time series to investigate how corruption is related to RoLI and WGI. We compare the results to determine if one of these indexes is a better predictor of corruption. We posit that countries with higher scores on the ROLI and WGI have lower CPI metrics.