

# Regulations on conflict of interest for higher civil servants and public officials

Enhancing a state's legitimacy or just a pretty illusion?

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# Abstract

OECD and other organizations argues in favor of the implementation of regulations on conflict of interest for higher civil servants and public officials, often including quarantine time for these employees when changing jobs. They do this with the argument that it will increase the population's confidence in their governments, which again is claimed to be a cornerstone of the functioning of the states.

The goal of this study is to investigate the connection between regulations on conflict of interest and state legitimacy. It is done so through a quantitative study on the OECD-countries, where it is almost even divided between the countries that have and do not have these regulations.

The result of the quantitative study implies that regulations on conflict of interest do not have an impact on state legitimacy. Different explanations are presented, varying from the actual need of the regulation as a whole to the need of formalizing a normative concept.

*Key words:* State legitimacy, regulations on conflict of interest, legitimacy, political quarantine, legality, normative validation, OECD

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# 1 Introduction

## 1.1 What is the puzzle in regulations on conflict of interest?

Regulations on conflict of interest has in some countries received great media attention, in connection with higher public officials changing to a job in a related field in private sector. An example that can be mentioned is when the former Swedish Prime Minister Göran Persson, shortly after losing the election in 2006, took a job in the PR-sector. Many were skeptical to this change and with this the possibility to misuse information and contacts that are not public knowledge (SVT, 2007).

A puzzle in regulations on conflict of interest is whether or not they have the desired effects when being implemented. This thesis will focus on state legitimacy, as this is an effect spoken of from several actors. Regulations on conflict of interest and state legitimacy will be further defined in chapter 3, Definitions and delimitations.

An interesting aspect of these types of regulations is how they are spoken for from organizations like Organization for Economic Co-operation and Development (OECD) and Group of States against Corruption (GRECO) (Bertók & Organisation for Economic Co-operation and Development, 2003; GRECO, 2013). They are consistently using the argument that regulations on conflict of interest are increasing and strengthening to the public's trust in their national government, which is also the main argument that can be identified in specific existing governments regulations on conflict of interest (Lindström & Bruun, 2012; Moderniseringsdepartementet, 2005).

In several reports from OECD, the need of regulations on conflict of interest for higher civil servant and public officials is promoted and encouraged toward all member countries. The reports are unanimous on their advice in recommending to implement these types of regulations. The motive for the regulations is by OECD presented to increase the peoples trust in the government, which is assumed to be a crucial part of a state's functioning. These statements are made without references to any actual studies on the field (Bertók & Organisation for Economic Co-operation and Development, 2003, 2010; OECD iLibrary & Organisation for Economic Co-operation and Development, 2013).

Other organizations like GRECO and ESO have also published reports where the argument for these regulations is that they will lead to increased trust in the government. This again will be beneficial for the state's legitimacy, a trail of thought that is easily identified in the reports (GRECO, 2013; Lindström & Bruun, 2012).

The lack of research on the field of regulations on conflict of interest is noteworthy. Not even OECD refers to any concrete research on the effect of these regulations and more specific their effect on state legitimacy. This leaves us wondering whether or not their policy recommendations actually fulfill the purpose intended. It awakens a curiosity on what effects they might have and if the arguments of big organizations like OECD and GRECO actual have support for their statements.

Another part of regulations on conflict of interests that awakens interest, is the fact that countries quite similar, differs in whether or not they have these types of regulations. For example, in contrast to the other Scandinavian countries, Sweden does not have any regulations on conflict of interest (Lindström & Bruun, 2012). Other similar countries, like Portugal and Greece, also differ when it comes to these regulations (Bertók & Organisation for Economic Co-operation and Development, 2010). This raises a curiosity on the need and effect of these regulations, and if similar countries do differ because of these regulations.

As will be argued further on in the thesis, legitimacy is desirable in every state. After the financial crisis of 2007, keeping and increasing government's legitimacy has again come into great focus with papers writing about "legitimacy crisis" being a factor of the slow recovery of the economy(La Guardia, 2013). Statements that legitimacy is a crucial factor when rebuilding the economy, based on the trustworthiness of the state is presented in media. The knowledge of what increases state legitimacy is therefore an actual and important research question.

The purpose of this thesis is to investigate the impact that conflict of interest regulations have on a state's legitimacy. This leads to the question of issue:

*What is the impact of regulations on conflict of interest on a state's legitimacy?*

To answer this, a quantitative study will be presented. The thesis will first present previous research and theories on the subject, before reaching definitions on state legitimacy and regulations on conflict of interest. Moving on to the empirical part, I will test if regulations on conflict of interest have an effect on state legitimacy using regressions and test for possible errors in the model. In the study these results will be used in an analysis with the theoretical background in mind.

## 2 Theoretical background

Regulations on conflict of interest is a field where not many studies have been made. Studies on bureaucracy and professionals within the state is a broad area within the field of political science, but regulations on conflict of interest is a quite new and narrow area, where policy seem to have come before research (Bertók & Organisation for Economic Co-operation and Development, 2010; Garsten, Rothstein, & Svallfors, 2015, p. 7–ff).

The positive effects are mainly argued to be increasing legitimacy and trust in the government. The arguments against these types of regulations is based on the increased difficulty in recruiting qualified employees to the government, and the uneconomic side of carrying through quarantine time. This is also the arguments performed in Sweden, when the parliament voted down a law proposal on regulations on conflict of interest (Lindström & Bruun, 2012; Shekarabi, 2013).

State legitimacy on the other hand, is often studied, but seldom quantitatively. The majority of studies and literature on state legitimacy are theoretical discussions, pointing out the desired way of reaching high levels of legitimacy (Gilley, 2006b, p. 500). Different studies point out different main variables that affect legitimacy, but not too many of these variables have been tested quantitatively. One reason is the difficulty to measure certain variables, but also the challenging aspect of finding an adequate operationalization of the concept of state legitimacy (Gilley, 2006b, pp. 499–501).

Even so, operationalization of legitimacy and what measures that affects it, has been done. To generalize, it is possible to categorize these main variables in two groups - socioeconomic and political variables. Merriam argues that security, welfare, freedom and justice is the principal factors that would give higher state legitimacy (Merriam, 1945, pp. 30–32). Lipset uses government quality and effectiveness as ground variables when measuring, weighting the people's expectations to their governments in the operationalization (Lipset, 1959, p. 86).

The literature on legitimacy has mainly focused on how improvements in social and economic situations possibly leading to citizens acceptance of the government (Gilley, 2006a, pp. 48–52). Within this, welfare (including factors like education, health, inequality and level of consumption) is seen as an important variable, alongside with democratic variables and well-functioning governments. This correlates with Merriam's and Lipset's main factors affecting state legitimacy, giving wide support for the importance of justice, welfare, government quality and freedom as contributions to high levels of state legitimacy.



Demography is also a mentioned variable in the literature, such as regional effects and western culture (Gilley, 2006a, pp. 49–51; Huntington, 2011). This will not be further considered in the thesis, see 3.3 Theoretical scope.

The research on state legitimacy is, as mentioned, heavily based on theoretical discussions. There are of course also done quantitatively research, like Gilley presented in here in this thesis, but studies testing concrete variables like regulation on conflict of interest on state legitimacy is rather limited. A study testing one possible variable on state legitimacy will therefore give an interesting look on state legitimacy and what factor that influence it.

In the research field of legitimacy, there seem to be a consensus on legitimacy being a cornerstone of the modern state (Gilley, 2006b, p. 499). What affects this concept and why, still seem to be a big discussion between researchers.

In an attempt to encapsulate the existing literature on state legitimacy, one could say that the concept of legitimacy is divided in three key components. These three components could be categorized as legality, normative validity and consent, where it differs what weight of importance the different components are given and what is included in each component when being operationalized (Beetham, 2013, pp. 3–37; Gilley, 2009, pp. 2–16).

*Legality* could in short terms be described as the state exercising their power in accordance with current laws, established rules and customs (Beetham, 2013, pp. 16–17). The important part of legality is that the rules are general and predictable, that again will contribute in creating legitimacy (Gilley, 2006b, p. 502).

*Normative validation* is where power is accepted in terms of shared principles and values (Gilley, 2006a, pp. 502–503). Shared beliefs on what is “the rightful source of authority” and how they should possess this power is a dominating part of this component (Beetham, 2013, pp. 17–18).

*Consent* is explained as the people’s active contribution providing consent, which again is interpreted as legitimacy for the state. This component requires action from the citizens that implies their support or acceptance for the government/state (Beetham, 2013, p. 17–ff).

What variables that contributes to these components is not agreed upon in the literature. In example, rule of law and low levels of corruption is argued for within the component of *legality*. Some argue that high levels of welfare creates *consent*, others that democratic rights will have an effect on *normative validation*. Researchers focus differently as well. In example, Gilley weights normative validation heavier than the two other components in his research, while Weber focuses mainly on legality (Beetham, 2013, pp. 15–25; Gilley, 2009, p. 29–ff; Rawls & Freeman, 1999, pp. 529–564; Weber, Gerth, & Mills, 1948).

In the next chapter I will be using the key concepts from the theoretical background to define state legitimacy and regulations on conflict of interest. The

key components from the theoretical part will be used to create a measurable definition of state legitimacy and concrete regulations on conflict of interest.

## 3 Definitions and delimitations

### 3.1 Definition of state legitimacy

The definition of legitimacy in this paper will also work as the paper's limitation. How to define legitimacy, as presented above, is complex. Different definitions will be presented and discussed before reaching what will be the working definition in this thesis.

With the broad literature on state legitimacy follows a just as wide range of definitions. All definitions have their limitations and disadvantages. The goal is to have a short, measurable definition that include as much as possible. Choosing a measurable definition is almost always choosing away as much as including, which makes it a difficult process.

In his book, Gilley uses the definition; "a state, meaning the institutions and ideologies of a political system, is more legitimate the more that it holds and exercises political power with legality, justification, and consent from the standpoint of all citizens"(Gilley, 2009, p. 11). This definition includes all the three key components of legitimacy, and is therefore also a broad definition. Beetham uses a similar definition, including all three aspects (Beetham, 2013, pp. 3–41). The problem with these definitions is the lack of possibilities to conceptualize state legitimacy, leaving the concept to a theoretical discussion rather than a measurable variable. Even so, the importance of the citizen's attitudes or "standpoint" is fundamental in these definition.

A operationalized definition from Gilley is "a state is more legitimate the more that it is treated by its citizens as rightfully holding and exercising political power" (Gilley, 2006a, p. 48). This definition is what he calls a "simple consensus definition" and a definition with no controversy that most researchers would agree on (Gilley, 2009, p. 3). Why the definition can be called a consensus definition may be an indication of the definition to be too broad or unspecific. Even so, Gilley uses this definition and turns it into an operationalized and measurable variable, showing that the definition in fact is a useful definition on state legitimacy.

Max Weber proceeds from a definition based on the state to be recognized as legal by its population and the citizen's willingness to follow a certain "system of rule" (Gilley, 2009, p. 3). Max Weber's base definition on legitimacy is well formulated by Beetham as "the belief in legitimacy" (Beetham, 2013, p. 6). This way of defining state legitimacy is supported by Schaar, strengthening the role of the citizen's confidence toward their own governments as state legitimacy (Green, Levinson, & Schaar, 1970).

When researchers operationalizes state legitimacy, the frequent way observed is to simplify the definition from what is desired to use. This to make it measurable. An example of this is Gilley, who, as shown, advocate a quite complex definition of state legitimacy in his book. Even so, in the actual operationalization made, state legitimacy is stripped down to the citizen's attitude toward their states, as the closest to a measurable variable of state legitimacy.

Weber and Schaar uses from the beginning more narrow definitions consisting of legitimacy being the people's belief in legitimacy (Beetham, 2013, pp. 8–9). Their definitions are in themselves easier to operationalize, even if they only proceeds theoretical discussions. These definitions is also on the same path as the thesis will define legitimacy as.

In line with Gilley's uncontroversial definition of legitimacy, Weber and Schaar, this thesis will define state legitimacy as:

*State legitimacy is the citizen's perception of their own government as legitimate.*

With this, state legitimacy is based on the population's attitude toward their own state. Not to be misunderstood as the elected government and the citizen's misbelief in the government in power (in example that some citizens consider the "wrong" party to be in power). With government, I refer to the government as a whole. A further discussion on this will be carried out in 6. Analysis.

This definition and assumption do have weak points. That it is including all aspects of the three components of legitimacy, lined up as legality, normative validation and consent can be difficult to argue in favor for. Beetham criticizes the single use of citizen's attitudes, based mainly on what he distinguish as belief and "justified in terms of belief" (Beetham, 2013, p. 11). Even so, the definitions of legitimacy is often on the bottom based on the citizen's attitudes and beliefs, giving the definition used in this thesis steady feet to stand on.

## 3.2 Definition of regulations on conflict of interest

As the key element of this thesis, conflict of interest will be defined in accordance with OECD's use of the term. What is meant by conflicts of interest will in the thesis be defined as OECD writes: *“Conflict between the public duty and private interests of public officials, in which public officials have private-capacity interests which could improperly influence the performance of their official duties and responsibilities”* (Bertók & Organisation for Economic Co-operation and Development, 2003, p. 15).

Defining only conflict of interest, a definition of regulations is needed as well. By regulations the thesis will mean laws or regulations which are effectual without the possibility for self-determination or exceptions not specified in the regulations.

Regulations on conflict of interest will therefore be laws or regulations that regulate conflicts between the public duty and private interest. A common part included in these regulations is quarantine time after leaving a position, which is the part of these regulations that have received most media attention (Bertók & Organisation for Economic Co-operation and Development, 2010; OECD iLibrary & Organisation for Economic Co-operation and Development, 2013).

Further, to clarify; by public officials this text will refer to higher civil servants, ministers, undersecretaries of state and others with similar positions within the state. Regulations on conflict of interest does not normally include national politicians in the parliament.

## 3.3 How can regulations on conflict of interest have an effect on state legitimacy?

Why regulations on conflict of interest would have an effect on state legitimacy might not seem all clear. The idea is that the presence of regulations on conflict of interest will regulate and oversee that public officials behave accordingly to the population's expectations.

Higher civil servants and public officials are the public face of the state, reflecting how well the government is run. It would seem problematic if a minister shortly after leaving the minister post takes a job in a company that could have greatly

benefitted from a change made by this minister. The reflection of the state in this situation could be that the state is illegitimate. Another example is public officials changing to lobbyism, being able to use information and contact which is not public knowledge. Regulations on conflict of interest will therefore work as an assurance that these problems are dealt with. The presence of conflicts of interest might reflect on the government making it less legitimate, which potentially can be avoided with regulations on the field.

Assuming that the population expects that the government is run with the absence of conflicts of interest, implementing such regulations could be considered moving from being a concept within *normative validation* to *legality* (see 2. Theoretical background). Turning the shared beliefs into concrete laws makes regulations on conflict of interest a part of both components. If the government share the same principals and follow the laws on the matter, the idea is that the state's legitimacy will increase.

### 3.4 Theoretical scope

The research of this paper uses only data on the member countries of OECD. This gives the advantage of similar countries, eliminating legitimacy issues that differs between countries that are highly different in many fundamental factors. All countries in the dataset are democracies, giving the same perquisites for achieving legitimacy for their population, based on for example the need of reelections. The cultural and regional differences that can be difficult to measure will also be minimized in choosing only OECD countries.

One of the disadvantages to be mentioned is the possible decrease in level of generalization of the results. Even so, the result would possibly be applicable to other democracies not in the data, in example younger democracies or emerging democracies. A further discussion on this will be carried out in 6. Analysis.

### 3.5 Hypothesis

The chapters until now leads to this concrete hypothesis in the thesis:

*The presence of regulations on conflict of interest leads to an increase in state legitimacy.*

## 4 Method and material

The method of this paper will consist of investigating if there is a connection between regulations on conflicts of interests and legitimacy. The way planned to do this is through using linear regressions to see if there is a statistical significance between countries with these regulations and higher levels of legitimacy. The choice of multiple regression is based on the many potential variables that might have an effect on legitimacy. Performing multiple regression is an attempt to isolate and see if the independent variable (here: regulations on conflict of interest) have a significant effect or not on the dependent variable (here: confidence in national government) (Teorell & Svensson, 2007, pp. 80–83).

Control variables will be presented, added and explained further down in this section. Control variables is necessary when testing a variable like this for many reasons, but the main reason is the many possible explanations on the effects on state legitimacy.

The independent variables tested in this thesis is a specific and narrow variable. This is an advantage in comparison to the control variables, which all are broad variables, where finding and using exact measures is more difficult. The use of the results when having a narrow variables, also makes the concrete answer more clear. Using the research on narrow variables is easier when turning them into actual measures in the society, compared to broad variables without a concrete measure. Operationalize variables that are broad is also challenging, because of the high probability that a control variable will measure to broad or to narrow compared to the wanted variable. The more specific the variable, the easier it is to operationalize and measure what is desired to measure, a great advantage with the independent variable (regulations on conflict of interest) in this thesis.

The data chosen is cross-sectional, and the year of the chosen data is 2010 (with exceptions, where available data is from 2009). The data for the dependent variable is from 2012 (Gallup World Poll, 2012; Teorell et al., 2015). The two (three) year gap between the variables is not an optimal gap. The variables could possibly have changed in these year. Even so, considering they are all years after the financial crisis and that many of the variables are variables with quite stable numbers within the OECD countries, they most likely do not experience large changes over short periods of time, so this will not be considered a problem further in the thesis.

Using cross sectional data has its delimitations. By choosing cross sectional data, proving a causal relationship is difficult. Time series data would in that way give more information and strength to the results. Also combining data with qualitative information would increase the explanation degree (Teorell & Svensson, 2007, pp. 80–81). Even so, cross sectional data was chosen in this thesis, based on the subject chosen, available data and the limits of the study, giving the possibility to test the data in a greater extent.

## 4.1 Operationalization of variables

### 4.1.1 Dependent variable: Confidence in National Government

The dependent variable, state legitimacy, in this study operationalized as “Confidence in National Government”. My choice of dependent variable is based on the definition made in 3.1 Definition of state legitimacy. This again is based on the people’s beliefs or attitudes towards their government. ”Confidence in National Government” is therefore an operationalization made for capturing the measurement wished for in the study.

The variable is a result of a poll where 1000 citizens from each country answered the question: *“In this country, do you have confidence in each of the following, or not? How about national government?”*. The result is reported as the percentage that answered yes. Given that the result is in percentage, the scale of the variable goes from 0-100, where 100 is total confidence in national government, while 0 is equal to no confidence at all (Gallup World Poll, 2012). The dependent variable, and the question leading to the data has as any variable, its weakness’ which will be further discussed in 6. Analysis.

### 4.1.2 Independent variable: Regulations on Conflict of Interest

To be able to carry out the method in this paper, a variable on regulations on conflict of interest is needed. This variable does not need to give more information than if the country have or do not have these regulations. The information on which countries that do have these regulations is collected from OECD, and the variable is created based on this information (Bertók & Organisation for Economic Co-operation and Development, 2010). Countries without regulations was gives the value 0 and the countries with regulation was



given the value 1. The variable is then a dichotomy variable. Information on Estonia and Israel is missing, and is therefore not a part of the dataset.

### 4.1.3 Control variables

The choice of control variables is based on previous research on legitimacy (see 2. Theoretical background). Included in this study is the variables that according to the literature presented earlier have had the largest impact on legitimacy. All control variables is collected from the OECD dataset of Quality of Government (Teorell et al., 2015).

The control variables intended to be included in the regression is divided in three groups, in an effort to make the choices of variables more understandable and structured.

#### *Governance:*

The aim is to encapsulate general governance within the countries. As this is an important area within explaining legitimacy, several variables will be included. Functioning of government, economical & political institutional quality, political stability, government effectiveness and level of corruption will be used as control variables, all presented as possible contributors to state legitimacy (Beetham, 2013, p. 37–ff; Gilley, 2006a, pp. 49–55; Merriam, 1945, pp. 31–35). Merriam also presented security as an individual variable (Merriam, 1945, pp. 30–32). Based on the choice of OECD-countries and the low differentiation on the variable, security will not be included in the model (Teorell et al., 2015).

#### *Rights:*

Within the area of rights, many factors is possible to include. In an attempt to include the most important ones, the variables of rule of law, gender equality and democratic rights are included. Rule of law is the variable most likely to explain the part of legality within the theory of state legitimacy, while democratic rights and gender equality has been presented as important factors by others as variables with high explanatory effect (Beetham, 2013, p. 3–ff; Gilley, 2009, p. 5–ff).

#### *Welfare:*

In measuring welfare, public services and net social expenditure is chosen. One describes how much of the services the public stands for, the other the amount spent on these services. This will give a balanced view on the concept of welfare and how this is performed in the countries. Welfare is considered a variables that has been argued to explain state legitimacy, see 2. Theoretical background.

Below is the variables descriptive presented. This gives an impression of their characteristics and measurements, showing how the variable values differ between the included countries. This is a table including the dependent variable, and as the table show, the confidence in national government in the OECD countries reaches from 13 to 77, which it quite a large gap.

Variables	Obs.	Mean	Std. Dev.	Min	Max
Confidence in National Government	32	41.0625	16.72151	13	77
Regulations on Conflict of Interest	32	0.59375	0.4989909	0	1
Rule of Law	32	13.875	2.225222	6	16
Political Institutional Quality	30	1.314922	0.5748503	-0.09623	1.98582
Government Effectiveness	32	1.340899	0.5538058	0.144244	2.245212
Levels of Corruption	32	1.301861	0.8552506	-0.37029	2.413564
Gender Equality	32	0.7186	0.0582716	0.5828	0.8276
Political Stability	32	0.717857	0.5603207	-0.92075	1.441499
GDP per Capita (PPP) US Dollars	32	34583.16	13402.96	15160.51	84763.73
Net Social Expenditure	29	22.28763	5.469347	8.757874	32.05172
Economic Institutional Quality	32	0.965457	0.544521	-0.14144	1.827632
ICRG Indicator of QoG	32	0.80136	0.148095	0.5	1
Political Rights	32	1.125	0.4918694	1	3
Functioning of Government	32	11	1.367833	7	12
Public Services	32	2.4875	1.23177	1.1	5.8

**Table 1. Descriptive statistics of all variables**

# 5 Empirical results

In this chapter, the results from the empirical study will be presented. First, a preliminary descriptive statistic is presented, with the purpose to demonstrate how the data on the dependent and independent variables are divided and to get an impression of the data and results. Further, multiple regressions will be run, testing for potential problems with the model. The two tests chosen is one test for multicollinearity and one for heteroskedasticity, trying to avoid correlation and giving a picture of how well the model fits. The chapter will end in a summary of the results.

## 5.1 Descriptive statistics

To get a first look of my chosen variables and their relation, staples of the dependent and independent variables “Confidence in National Government” and “Regulations on conflict of interest” is performed. The staples show the *mean* of “Confidence in National Government” in percentage. The staples are divided in the countries who have respectively do not have regulations on conflict of interest.



**Table 2. Descriptive statistics**

The diagram does not give a significant results, which does not provide us with a clear indicator whether or not regulations on conflict of interest and legitimacy have a relation. It does show that the difference between the two groups is not considerable, and this leads us to further investigate the data using other methods.

## 5.2 Regression

To be able to answer the question of issue, running regressions to test the significance of regulations on conflict of interest is necessary. Several multiple regression on cross sectional data is performed, testing first for possible multicollinearity, then heteroskedasticity, before ending up with a result giving an answer to the question of issue.

In this first model presented below, all control variables are included. As the table show, regulations on conflict of interest is not significant, which would imply that these types of regulations does not lead to an increase in a state's legitimacy. Other variables are significant, but this model will not be considered a result before going through tests on the model. This is a first result, but tests for multicollinearity and heteroskedasticity will be done and more regressions will be performed before reaching a conclusion on the impact of regulation on conflict of interest, then using the model with the best fit. When reaching the model with the best fit, it would also be possible to say something about the control variables impact on state legitimacy.

VARIABLES	Confidence in National Government
Regulations on Conflict of Interest	-6.884
	-4.675
Level of Corruption	-36.84*
	-19.39
Government Effectiveness	29.99
	-17.34
Political Institutional Quality	77
	-43.96
Rule of Law	-2.048
	-3.297
Gender of Quality	73.48
	-69.75
Political Stability	-34.72**
	-12.18
GDP per Capita (PPP) US Dollar	-0.000939**
	-0.000382
Net Social Expenditure	-0.978
	-0.554
Economic Institutional Quality	17.69*
	-9.457
ICRG Indicator of QoG	-13.4
	-98.11
Political Rights	-1.462
	-16.99
Functioning of Government	-12.60**
	-5.577
Public Services	-7.264
	-5.137
Constant	155.8**
	-68.62
Observations	27
R-squared	0.829
Adjusted R-squared	0.629
Standard errors in parentheses	
*** p<0.01, ** p<0.05, * p<0.1	
Adjusted R-squared	0.629

**Table 3. Regression with all control variables**

### 5.2.1 VIF-test

It would be reasonable to assume that some of the variables included in the model above potentially have too high degrees of multicollinearity. That means that the variables in the model correlate (explain the same) in such a degree that the model does not give correct answers (Verbeek, 2012, p. 40–ff). This is because of the related variables chosen (in example, the variables in the group of governance), that possibly explain parts of the same factor. It is desirable to end up with the model with the best fit, giving the most correct results, which again will give us an indication on whether or not regulations on conflict have an impact on state legitimacy.

To test for multicollinearity, a VIF-test was performed on the model giving this result:

Variable	VIF	1/VIF
Political Institutional Quality	79.38	0.012597
ICRG Indicators of Quality of Government	62.26	0.016062
Levels of Corruption	46.42	0.021541
Government Effectiveness	26.05	0.038395
Political Rights	24.64	0.04058
Rule of Law	16.56	0.060374
Public Services	12.89	0.077569
Functioning of Government	11.53	0.086739
Economic Institutional Quality	7.97	0.125451
Gender Equality	5.03	0.198684
GDP per Capita (PPP) USD	4.35	0.229833
Net Social Expenditures	2.49	0.402013
Regulations on Conflict of Interest	1.45	0.691747
Mean VIF	23.16	

**Table 4. VIF-test with all control variables**

When experiencing a VIF- level above 10 there is an established thumb rule to suspect multicollinearity between the variables (Verbeek, 2012, p. 44). As seen in the performed VIF-test, it is reason to suspect high degrees of multicollinearity, given that the highest VIF value is 79.38 (Political Institutional Quality), and the average VIF is 23.16.

To clarify, “Regulations on Conflict of Interest” is not suspected to correlate with the other variables, as we can see in the table (VIF value of 1.45). Even so, correcting for multicollinearity might give the model a better fit in general, making the explanation level higher, which also might have an effect on the significance for the independent variable “Regulation on Conflict of Interest” that we are interested in.

In an attempt to create a model with a better fit, four variables with the highest VIF’s (Political Institutional Quality, Government Effectiveness, Levels of Corruption and ICRG Indicators of Quality of Government) were removed, due to the small changes in VIF levels when not removing all four. A plausible explanation for the need to remove all four, is that these variables not only highly correlate with each other, but also with variables like Functioning of Government, Rule of Law and Political Rights. In example, the variable “Functioning of Government” includes corruption as a measurement in the variable (Teorell et al., 2015). This gives us that levels of corruption is not left out of the model by removing it, but is included in another, broader variable. The same reasoning can be carried out with all four variables.

The variable of “Levels of Corruption” is in this first model (table 3) significant, but considering that this is a bigger part of the measurement of “Functioning of Government”, removing this variable will not further be considered a problem. All these four variables with high VIF results are not included in the further regressions, in an attempt to get more accurate results and the rightful significance of the variable “Regulations on Conflict of Interest”.

After removing the four variables mentioned above from the regression, a new VIF-test was performed, to control that the new model does not have high levels of multicollinearity. The new VIF results show that the level of multicollinearity has decreased to a much lower level, making it possible to argue that all variables in the regression now is relevant and not correlating at a level which affects the results. The second VIF-test gave these numbers:

Variable	VIF	1/VIF
Functioning of Government	12.26	0.08156
Rule of Law	10.4	0.096155
Political Rights	7.77	0.128748
Political Stability	4.58	0.218471
Public Services	4.39	0.227559
Economic Institutional Quality	3.37	0.297112
Gender Equality	3.16	0.316177
Net Social Expenditure	2.54	0.393733
GDP per Capita (PPP) USD	2.12	0.472264
Regulations on Conflict of Interest	1.35	0.738229
Mean VIF	5.19	

**Table 5. Result of VIF-test on the model without the four variables with the highest VIF's**

The possibility for the model to suffer from multicollinearity has decreased to an acceptable level, only leaving two variables just above 10, where multicollinearity is to suspect. In order to include as many control variables as possible, these two variables will be included further, being important explanatory variables of state legitimacy.

To continue the study, regressions adding one variable at a time was performed (see table 6). These regressions show that regulations on conflict of interest still do not have a significant effect on state legitimacy. Adding one variable at a time, we can see the how the variables affect each other and the explanation level of the model (R-Square). Regulations on conflict of interest does not turn significant in any of the regressions performed in table 6. The last regression, regression 9, includes the most control variables and has the highest explanatory degree (highest R square). This is also the model we are left with after controlling for multicollinearity. Before concluding on whether or not this is the model with the best fit another test, testing for heteroskedasticity will be performed, in order to in a greater scale be able to trust the results.



Confidence in National Government										
VARIABLES	Reg. 1	Reg. 2	Reg. 3	Reg. 4	Reg. 5	Reg. 6	Reg. 7	Reg. 8	Reg. 9	Reg. 10
<b>Regulations on Conflict of interest</b>	0.364 (-6.118)	0.193 (-6.166)	0.927 (-6.367)	1.515 (-6.203)	-1.634 (-5.907)	-4.821 (-5.342)	-4.905 (-5.367)	-1.711 (-5.84)	-6.366 (-4.73)	-6.487 (-4.693)
<b>GDP per Capita (PPP) USD</b>		0.000174 (-0.00023)	0.000268 (-0.000284)	0.000226 (-0.000278)	-7.24E-06 (-0.000276)	-0.000181 (-0.000252)	-0.00022 (-0.000257)	-0.000183 (-0.000252)	-0.000366* (-0.000203)	-0.000298 (-0.00021)
<b>Rule of Law</b>			-1.001 (-1.74)	-5.773 (-3.407)	-7.783** (-3.274)	-3.676 (-3.231)	-3.561 (-3.248)	-4.62 (-3.265)	-1.624 (-2.674)	-0.557 (-2.813)
<b>Functioning of Government</b>				8.736 (-5.412)	5.752 (-5.177)	7.107 (-4.605)	8.871* (-5.04)	5.844 (-5.126)	-3.197 (-4.685)	-5.36 (-5.019)
<b>Public Services</b>					-10.26** (-4.405)	-11.42*** (-3.918)	-12.52*** (-4.128)	-12.08*** (-4.121)	-9.039** (-3.321)	-8.912 (-3.296)
<b>Political Rights</b>						25.99*** (-9.066)	28.34*** (-9.488)	15.31 (-11.58)	14.92 (-9.047)	-8.611 (-10.54)
<b>Gender Equality</b>							-59.91 (-67.99)	-22.48 (-67.98)	-25.03 (-53.09)	2.134 (-57.8)
<b>Net Social Expenditure</b>								-0.703 (-0.678)	-0.435 (-0.534)	-0.669 (-0.568)
<b>Economic Institutional Quality</b>									24.25*** (-6.529)	26.08*** (-6.673)
<b>Political Stability</b>										-8.527 (-7.468)
<b>Constant</b>	40.85*** (-4.714)	34.93*** (-9.135)	45.12** (-19.99)	16.36 (-26.37)	112.5** (-47.98)	22.2 (-52.86)	45.72 (-59.43)	92.95 (-65.36)	125.4** (-51.78)	129.0** (-51.47)
<b>Observations</b>	32	32	32	32	32	32	32	29	29	29
<b>R-squared</b>	0	0.02	0.031	0.116	0.269	0.45	0.467	0.426	0.667	0.69
Standard errors in parentheses										
*** p<0.01, ** p<0.05, * p<0.1										

**Table 6. Regressions adding one control variable at a time**

## 5.2.2 Test for heteroskedasticity

As a last test of the model in the thesis, a test for heteroskedasticity will be performed. Heteroskedasticity is easily explained as the models ability to predict the dependent value across all values of this variable, using the residuals of the model. Testing for heteroskedasticity is important in determining if the model can predict what it is desired to predict and the accuracy of these predictions. If a model is very heteroskedastic, using the model in a study would not give true answers (Verbeek, 2012).

The test to investigate the presence of heteroskedasticity chosen is the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity, testing if there is a constant variance or not. This is done using a null hypothesis, which in the test is constant variance, and the null hypothesis is rejected at a 5% level. This means that if the p-value of the test is lower than 0.05, the null hypothesis will be rejected and the model will have problems with heteroskedasticity (Verbeek, 2012).

The test performed on the model in this thesis gave these results:

chi2(1) =	0.2
Prob > chi2 =	0.6586

**Table 7. Result for the Breusch-Pagan/Cook-Weisberg test**

The p-value (Prob > chi2) here is clearly above 5% (65.86%), and the null hypothesis of constant variance is therefore accepted. From this we can conclude that the model is not heteroskedastic, giving that we can trust the model to give correct predictions and is a model with a good fit for the further analysis.

## 5.3 Final results

These previous tests leads us to accept the last model, regression 9, as the optimal model in this thesis. The model is controlling for the most important variables without having problems with multicollinearity and heteroskedasticity. A few variables was left out, removing the problems the model had with multicollinearity. The analysis and conclusion of this study will therefore be based on the result of this model.

In the optimal model (regression 9, see table 8), the significant variables are Public Services and Economic Institutional Quality, implying that these are the factors that will have an effect on state legitimacy. Economic Institutional Quality is the only variable with a three-star significance, and interpreting the result for this variable as a one increase (improvement) in Economic Institutional Quality would give a 26.08 increase in state legitimacy. This is large increase, considering the scale of state legitimacy (or the variable Confidence in National Government) is a scale between 1 and 100. Even so, the measurement of the Economic Institutional Quality has a very low range, giving that an increase of 1 would be a significant increase in this variable.

The other variable with significance is Public Services. This variable has a negative coefficient, leading us to interpret that an increase in Public Services would lead to a decrease in state legitimacy. This would seem illogical, given the theories on welfare as a factor on state legitimacy presented in 2. Theoretical background. This might be the result of measurement errors or weaknesses in the model, giving the variable the wrong outcome, or it might be a connection as the model presents. Even if this is an interesting result, I will not further speculate in why this result is negative nor discuss this variable itself in the continuation.

As for the independent variable, regulations on conflict of interest is not significant, leading us to the conclusion that through this model, these types of regulations does not have an effect on legitimacy. The variable is not significant in any of the regressions run, leading us towards a conclusion of a robust and trustworthy result. A further discussion will be carried out in the next chapter, 6. Analysis.

VARIABLES	Regression 9
<b>Regulations on Conflict of interest</b>	-6.487 (-4.693)
<b>GDP per Capita (PPP) USD</b>	-0.000298 (-0.00021)
<b>Rule of Law</b>	-0.557 (-2.813)
<b>Functioning of Government</b>	-5.36 (-5.019)
<b>Public Services</b>	-8.912** (-3.296)
<b>Political Rights</b>	8.611 (-10.54)
<b>Gender Equality</b>	2.134 (-57.8)
<b>Net Social Expenditure</b>	-0.669 (-0.568)
<b>Economic Institutional Quality</b>	26.08*** (-6.673)
<b>Political Stability</b>	-8.527 (-7.468)
Constant	129.0** (-51.47)
Observations	29
R-squared	-0.69
Standard errors in parentheses	
*** p<0.01, ** p<0.05, * p<0.1	

**Table 8. Final model**

## 6 Analysis

The empirical results in this study suggests that the presence of regulations on conflict of interest does not have an impact on a state's legitimacy. This conclusion is reached based on the lack of a significant results in the regression model with the best fit (see table 8). The result is the opposite of the expected effect from the argumentation of OECD and other organizations, as well as the thesis' hypothesis. The result of regulations on conflict of interest not being significant further suggest that to increase state legitimacy, the focus should be shifted towards other factors.

OECD recommending these regulations might therefore not have the desired effect that is argued for in their reports. GRECO and ESO also argues in favor of these regulations, using the same line of arguments as can be found in the OECD reports. This could be seen as a consequence when policy comes before research. The reasoning of how and why these regulations should have an effect is clear and logical in the report presented by OECD, but theory and practice can differ, which in this case is what is being suggested.

Even so, OECD's recommendations might have other positive effects not testes in the thesis. The main argument of increasing the population's confidence in their own government did not show to be true in this thesis, but that does not mean the regulations does not have any positive effects. It might be a factor in controlling corruption or other factors that more indirect or not at all are connected with state legitimacy.

Implementing these regulations is not a demanding procedure in any country, and with only even the possibility for it to increase state legitimacy, it might seem like an argument in itself. Even so, some negative effects of these regulations are presented and used arguing against the implementations of regulations on conflict of interest. The increased difficulty in recruiting qualified employees is a strong argument, along with the economic side of carrying through quarantine time, other consequences and side effects. The choice of implementing these regulations can therefore be turned into an economic trade off, with costs and benefits on both implementing and not.

In the defense of the argument that regulations on conflict of interest in fact do increase state legitimacy, the dependent variable might be a cause of misleading results. The question is formulated in a possible unfortunate way, which might give incorrect answers. Misunderstanding “confidence in national government” as the government in power, not the state in itself is a possibility. This leading the ones asked to answer “no” if they do not agree on who is government in power, instead of the legitimacy of the government as a whole. If this is correct, the model might not give a significant result even if regulations on conflict of interest in fact is significant.

A different view on the dependent variable could be that based on the high degrees of general welfare in the OECD countries, the citizens are more likely to accept their governments as legitimate. The idea is that the higher the level of welfare, the happier the population will be in general, not thinking of their government as illegitimate even if this might be the case. This is a measurement problem difficult to control for, using the operationalization of 4.1.1, Dependent variable: Confidence in National Government.

The study only uses the OECD-countries in the empirical investigation. These are all more or less stable democracies. A trail of thought is that regulations on conflict of interest might have a greater effect (or an effect at all) if tested on other countries that in example are weaker or younger democracies. This is though for another study to investigate.

When going back to the theoretical background of the thesis, it gives a different point of view when concluding that the implementation of regulations of conflict is not relevant in increasing state legitimacy. This result could have at least two angles of approach looking at the key components of legitimacy (The key components are presented and explained in 2.Theoretical background).

One view is that legality is not as important of a component as others when explaining state legitimacy, in line with Gilley’s weighing of the key components. Implementing regulations on conflict of interest will therefore be a small change within legality as a component, with legality itself as a component contributing with a minor degree of explaining legitimacy. The implementation of these regulations will therefore not lead to that the perception of the government’s legitimacy is changed.

Another point of view that can be obtained from the theoretical background is that the absence of conflict of interest from higher civil servants and public officials is already expected from both the population and themselves. From this, it is logical to assume that this behavior and the expectation of it is already is a part of what in this thesis is called normative validation. Moving this behavior (absence of conflicts of interest) from the component of normative validation to legality when making it a formalized regulation, would not have an impact when testing this statistically, with the thought that they have an equal effect on state legitimacy.

This would though imply that the absence of conflict of interest has an impact on legitimacy.

If we do accept that the model in this study presents correct results, it is also interesting to see how big of an effect the model suggests that economic institutional quality has. The model suggests a large change in confidence in national government when improving the economic institutions. The variable Public Services is also significant, but based on the result of this variable, it is difficult to say something certain (see. 5.3 Final results).

## 7 Conclusion

To conclude, this study has not shown that the presence of regulations on conflict of interest would imply higher state legitimacy. This could be explained in many different ways, which is attempted in 6. Analysis.

The lack of impact regulations on conflict of interest has on state legitimacy leads the thesis to reject the argumentation presented by OECD on the effect on state legitimacy when implementing regulations on conflict of interest. The thesis does not give OECD support for the arguments used to formalize regulations on conflict of interest as a legitimacy increasing measure, leaving the policies as possible empty words. Even so, the regulations might have other positive effects not detected in this thesis.

Explanations on the not significant result is discussed, like measurement errors and operationalization difficulties. Theoretical reasoning gives further input on if and why the results is not significant using legality and normative validation. These speak both in favor and against these regulations as needed.

The result of the thesis suggests that when confronting the “legitimacy crisis” Europe is in presented in the introduction, other measures than the implementation of regulations on conflict of interest would most likely give the most efficient result. Regulations on conflict of interest is, as shown in this thesis, not the first and most efficient tool for improving state legitimacy.



## 8 Suggestions for further research

There are many aspects on the subject that would be interesting to further study, given that the results argues against OECD's argumentation.

Performing this study with a larger number of countries would increase the strength of the conclusion in this thesis. Testing for weaker and younger democracies would possibly strengthen or weaken the statements made in this thesis. Increasing the number of control variables would also give more power to the conclusion reached, also choosing more concrete variables in the model. These are both more time consuming studies, dealing with more complex data.

It would be complementing for this thesis to study the positive and negative effects of the regulations, looking at economic consequences of implementing versus not implementing the regulations. This would give a picture of whether or not these regulations improve the government, or is only an obstacle.

A more broad study on what measures do have a positive effect on state legitimacy, giving more quantitative support for measures that concrete will improve a state's legitimacy, would also be a further study interesting to carry out.

Further, testing other policies recommended from OECD and other organization on the field of public officials and higher civil servants would maybe give a broader look on their total policy recommendations and the hold in these.

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