



Demonstrators parade large inflatable dolls depicting Brazil's former President Luiz Inácio Lula da Silva in prison garb and then President Dilma Rousseff dressed as a thief with a presidential sash that reads "Impeachment" 13 March 2016 in São Paulo. Lula faced several corruption charges and was convicted and sentenced in January 2018 after Brazil's largest-ever graft probe decimated the political party he founded; Rousseff, his hand-picked successor, was impeached and ousted from office in August 2016. (Photo by Andre Penner, Associated Press)

Corruption and Corrosion in Latin America

Edward A. Lynch, PhD

In Brazil, the so-called Car Wash scandal is suspected of involving so much money that it has become the largest corruption scandal in the world. So far, it has led to the impeachment of President Dilma Rousseff, the investigation of four former presidents, stories of bribes and kickbacks costing billions

of dollars, accusations against fifty congressmen, and rumors that over one thousand politicians have accepted bribes from a single meat-packing company.¹ The country's politics have been skewed by the seemingly endless scandals involving purchased government favoritism of oil giant Petrobras and construction giant

Odebrecht. According to one study, corruption has cost Brazil between 1.4 percent and 2.3 percent of its gross domestic product annually.²

Elsewhere, eight former Mexican governors (in a country of thirty-one states) face charges for corruption. And, on 23 March 2018, Peruvian President Pedro Pablo Kuczynski resigned on the eve of an impeachment vote over his administration's corruption.³ Peruvian sociologist Hernando de Soto did a study in the 1980s that revealed opening a small business in Peru, with a determination to not pay any bribes, was impossible. Paying what the author determined to be three "essential" bribes, the process still took fourteen months. Performing the same task in Miami, a U.S. city not known for exceptional probity among government officials, took only a few hours.⁴

Transparency International rates the Latin American region as one of the world's worst for difficulties in dealing with government officials. (Chile and Uruguay are noteworthy exceptions. Both are in Transparency International's top fifty countries for doing business.) Even more than Latin America's swing to the left ten years ago, corruption threatens to bring economic insecurity to the region together with the increased social unrest such instability produces. While the link between corruption and arrested economic development is clear, corruption's corrosive effect on democracy is less obvious but far more insidious. In this article, I will trace the heritage of corruption in Latin America, describe some of its more notorious modern examples, and demonstrate the poisonous and corrosive effect of corruption on freedom and democracy in the region.

Latin America, for this article, is defined as the group of nations lying between the Rio Grande and Tierra del Fuego, including the Spanish-speaking nations of the Caribbean. The nations' experience with democracy has been, to put it mildly, mixed. Extreme political ideologies of either the right or the left have gained power at one time or another in virtually every nation in the region. Often these extreme ideologies have been inspired by the apparent success of such ideologies in Europe. Thus, during the rise of fascism in Italy, Germany, Spain, and Portugal in the 1920s and 1930s, imitators appeared in Latin America, such as Anastasio Somoza in Nicaragua, Juan Perón in Argentina, Getulio Vargas in Brazil, and Alfredo Stroessner in Paraguay.

Even the states that did not embrace an identifiable ideological position experienced lengthy and sometimes

brutal military regimes that all but extinguished personal freedom. In many cases, these nonideological dictatorships survived the demise of European fascism (assisted in part by the continuation of the Franco regime in Spain and Salazar regime in Portugal). The durability of autocratic rule was often underwritten by the tacit (and sometimes explicit) support of key agencies of the U.S. government, whose foreign policy makers saw right-wing dictatorships as the most effective bulwark against communism. After the United States' most consequential failure in that regard, the victory of Fidel Castro in Cuba (over the U.S.-backed dictatorship of Fulgencio Batista) in 1959, right-wing threats to democracy were joined by left-wing subversion sponsored by Castro and by the Soviet Union. After a failed attempt to impose socialism in Chile that was followed by the rise of Gen. Augusto Pinochet, Castro saw his efforts to create like-minded regimes succeed in Nicaragua with the advent of the Sandinista regime in 1979. The combination of left- and right-wing pressure all but extinguished liberal democracy in Latin America. In 1980, Costa Rica, Venezuela, and Colombia stood alone as democratic regimes in the region.⁵

By the end of the 1980s, however, the prospects for democracy in Latin America looked better than they had in over a century. Every nation in the region, except Cuba, was either democratic or moving in that direction. Even in Sandinista Nicaragua and Pinochet's Chile, dictators would be decisively defeated by voters at the polls as the decade came to an end. Under President Ronald Reagan, the U.S. government abandoned its long-standing policy of supporting right-wing dictators.⁶ With the demise of the Soviet Union, the attractiveness of communism all but disappeared. The region left the tumultuous and often tragic twentieth century confident in the resiliency and permanence of its democratic institutions.

The last decade of the twentieth century also saw the seeming rejection of socialism throughout the region. As they had with European fascism and Cuban communism, Latin American leaders sought to imitate success. The rapid growth of the U.S. economy in the 1980s, plus the U.S.-backed insistence of international lending agencies such as the International Monetary Fund and the World Bank for free-market reforms, prompted many Latin American leaders to experiment with privatization, market exchange rates, lower taxes, and relaxed regulatory regimes. Starting with the 1994 North American Free Trade Agreement, free trade became a watchword in the region.

As we will see in more detail, however, these economic reforms brought more than just renewed confidence and resurgent opportunity; they brought a renewed threat to democracy in the form of corruption. The combination of large economic interests, large economic rewards, and a government monopoly on decision-making created temptations that were (and remain) too strong for many in the region to resist. The magnitude of the threat cannot be overestimated. Rooted in one of the more resilient elements of human nature—greed—corruption is not subject to the rise and fall of a particular ideology. The malignant effect of corruption on public confidence has proven to be a more dangerous threat to democracy than either fascism or communism.

The Colonial Legacy

In his pivotal essay, “A Summary View of British Rights in America,” Thomas Jefferson made the case that colonists owed little, if any, allegiance to the British government, since most of the original settlements in the thirteen colonies were the result of private enterprise and initiative. Indeed, colonists like the Pilgrims and the Puritans, far from acting on behalf of the British government, were doing their best to escape the British government. Thus, Jefferson believed, the government’s demands for loyalty and obedience were of highly questionable validity.⁷

The Spanish and Portuguese colonists harbored no such doubts about their respective governments’ right to rule over those who made the trip across the Atlantic. Virtually all voyages of exploration to what would become Latin America were government-sponsored projects, beginning with Christopher Columbus’s four voyages. All permanent Spanish and Portuguese settlements were also government sponsored. In most cases, the main purpose of these excursions to the New World was to find wealth, ideally in the form of gold or silver. Thus, from the very beginning, there was an intimate and seemingly unbreakable link between government action and wealth accumulation.

Even for those who were not, strictly speaking, government employees, a link with the government was absolutely necessary to get rich in the Americas. Legitimate trading could be done only by merchants holding a license from Spanish or Portuguese authorities. License holders received a legal monopoly on their enterprise, usually over a vast expanse of territory. For those

who chose landholding over trade, government grants were also crucial. So all-encompassing was the Spanish and Portuguese presumption of government power that land grants included the people already living on the land, who became virtual slaves to the government-favored landowners. For those in Europe hoping to enter this amazingly lucrative arrangement, bribes to Spanish and Portuguese officials became standard practice. Not surprisingly, the culture of bribery and extortion crossed the Atlantic with the colonists.⁸

At the time of independence in the 1820s, most Latin American republics inherited economies that were almost wholly export oriented and almost completely dominated by a small number of well-connected merchants. At the same time, in sharp contrast to the ex-British colonies to the north, Latin Americans also inherited highly centralized governments.⁹ In addition, the most populous ex-Spanish colonies, Argentina and Mexico, began their independent life with deep and bitter political divisions, which appeared to lesser degrees in other Spanish-American nations. (Brazil, having adopted a member of the Portuguese royal family as emperor, postponed the time when such divisions would emerge.)

This combination of circumstances produced a legacy that has plagued Latin American politics for two centuries. Because governments were (and are) highly centralized and almost completely in control of the most lucrative and certain economic enterprises, losing a contest for political power—whether it be an election, a coup attempt, or an intraparty struggle—meant financial as well as a political disaster for the losers. Put differently, the intimate

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link between political and economic power raised the stakes of politics beyond the point where a democratic political culture could survive. Such a culture requires, first and foremost, the willingness to accept defeat, with the confidence that defeat is temporary and will not result in personal ruin.¹⁰

Free-Market Reforms

To illustrate the pervasive impact of corruption in Latin America, it is instructive to examine the economic and political fortunes of South America's poorest country, Bolivia, and its richest country, Venezuela. Both saw reform processes of great promise ruined by corruption, with results that have been disastrous for the entire region.

Bolivia. Bolivia undertook radical economic reforms in the 1980s after cataclysmic five-digit inflation threatened the country with total economic collapse. The architect of these reforms was its five-time president, Victor Paz Estenssoro, and the nature of the reforms he enacted demonstrate the multiple opportunities for corruption in an unreformed Latin American economy.¹¹

The first step in Paz's New Economic Policy was a radical devaluation of the Bolivian currency coupled with what he called "a single, real rate of exchange."¹² At the same time, Paz allowed bank accounts to be opened with foreign currencies at interest rates determined by the market. Prior to this reform, in an arrangement typical of the opportunities for corruption in Latin America, there had been three different "official" exchange rates, depending on the ultimate purpose for which traders desired foreign currency. The rules for determining which transactions fell into which category were complex and often completely contradictory. Even a well-meaning bureaucrat would have had difficulty performing the task honestly. For businesses and private citizens, weeks-long delays to get an exchange rate were common. The temptation to expedite the process with a bribe, coupled with the typical bureaucrat's knowledge that almost any decision could be justified on the basis of the complex rules, made for a lucrative black market in foreign currency. In short, government action made corruption all but inevitable.

Paz made similar progress when dealing with taxes and tariffs—additional sources of corruption in Bolivia. When Paz took office, Bolivia had over six hundred different kinds of taxes, jumbled together in a tax code

so complex that evasion was easy.¹³ Shakedowns by tax collectors were also easy, providing a rich source of bribes from business owners that amounted to thinly veiled protection money. The hundreds of taxes were replaced by fewer than ten, the most significant of which were a 10 percent flat income tax and a 10 percent value-added tax.¹⁴ With every taxpayer playing by the same set of rules, the opportunities for demanding bribes were significantly reduced.

Bolivia's tariff code also underwent significant simplification. Hundreds of different tariff rules (with the accompanying necessity of bribes to have products placed into a more favorable category) were replaced by a single 20 percent tariff. The reform was not perfect, since Bolivia soon created a special category of imports called "capital goods," but it did address most of the root causes of corruption.

Paz's economic reforms brought significant short-term hardship for many Bolivians, but also resulted in significant economic improvement for the chronically impoverished country. When several of Paz's successors, including those from rival parties, declined to reverse the reforms, Bolivia seemed on the road to permanent improvement in the 1990s. Paz, however, did nothing to slow down the migration of political power to the central government in La Paz, Bolivia's capital. At the start of the twenty-first century, disputes over a gas pipeline and water supplies soon turned to widespread suspicion that private gas and water companies had used bribes to receive government permission to discriminate against Bolivia's large indigenous population.¹⁵ A series of high-level resignations (at one point, Bolivia had three presidents in a single day) led to the rise of Evo Morales, an indigenous leader who is also a radical leftist. His assumption of the presidency in 2006 marked the beginning of Latin America's "swing to the left." In short, corruption in Bolivia led to one of the region's most significant political movements in the past forty years.

Venezuela. The situation in Venezuela that led to the rise of Hugo Chávez, the continent's most prominent leftist, also can be directly connected to corruption. In the 1980s, Venezuela seemed the least likely of all Latin American nations to embrace radical socialism. As one of the world's largest oil producers, the country has more promise of prosperity than any other in the region. Moreover, Venezuela not only enjoyed a long democratic tradition, with only one significant break in its

“When the oil boom of the 1970s turned to the oil bust of the 1980s, the Venezuelan economy began a slide from which it has never recovered. More to the point, while the economy shrank, the opportunities for corruption exploded.”

democratic history in the twentieth century, but also had established a stable, two-party system. The center-left Democratic Action Party (AD) competed in free elections with the center-right Christian Democratic Party (COPEI), both of which were unvaryingly classified as “moderate” by U.S. analysts.¹⁶

Yet when the two oil shocks of the 1970s tripled the Venezuelan government’s oil income overnight, the seemingly inexhaustible cornucopia of oil money prompted both parties to promise more and more in their electoral campaigns. The impact of prospective oil wealth had a particularly malignant effect on the Christian Democrats, who abandoned their traditional stance of skepticism of government power in favor of using government power to reward Venezuelans for their votes. In the 1978 presidential campaign, for example, COPEI’s candidate promised to build one hundred thousand new houses every year during his five-year term.¹⁷ The COPEI candidate also promised increased government subsidies to reduce the cost of basic foodstuffs. The AD party, already friendly to the idea of a large-government role in the economy, matched COPEI promise for promise. Overlaying the grand promises of both parties was the lure of well-paying jobs in the oil sector, which was controlled by one of the monuments to corruption in Latin America, the state-run *Petróleos de Venezuela S.A.*

When the oil boom of the 1970s turned to the oil bust of the 1980s, the Venezuelan economy began a slide from which it has never recovered. More to the point, while the economy shrank, the opportunities for corruption exploded. With private sector jobs disappearing, jobs with *Petróleos de Venezuela S.A.* became more coveted. Bribes to ensure a job became common, accompanied by annual kickbacks to ensure continued employment. Government subsidies were reduced, prompting local officials to pay bribes to protect their people from the resulting economic pain. As the traditional parties repeatedly failed to address the ongoing crisis, Venezuelans turned to a former

president, Carlos Andres Pérez, to bring back the heady days of oil-based prosperity.

CAP, as Pérez was often called, proved unable to reverse global trends in the price of oil and soon turned to the International Monetary Fund for assistance. The global body’s investigations revealed staggering levels of corruption in CAP’s administration and both traditional parties. As a result, public confidence in AD and COPEI collapsed, prompting the emergence of new political leaders, the most effective being army officer Hugo Chávez.

More than any other single message to Venezuelans, it was Chávez’s railings against corruption that were most effective. He became a popular hero when he took part in an unsuccessful coup against CAP in 1992. After a short term in prison, Chávez became a dominant figure in Venezuelan politics. Campaigning for president in 1998, Chávez promised to save Venezuela from the chaos that it was experiencing under democracy. Chávez insisted that it was liberal democracy that permitted corruption, and it was that corruption that led to the governmental paralysis. To counter this vicious cycle, the new leftist president held rigged elections for a constituent assembly to write a new constitution. Of the assembly’s 131 members, 121 were Chávez supporters. When the assembly replaced the existing congress and began acting against judges, the president of Venezuela’s supreme court, Cecilia Sosa, resigned. As she left office, she declared that the court was “committing suicide rather than waiting to be killed.”¹⁸

Since 1998, Venezuela’s once continent-leading prosperity has descended into economic collapse, and its democracy has morphed into a virtual dictatorship, led by Chávez’s handpicked successor who is backed up by armed mobs who terrorize opposition figures.¹⁹ This tragic transformation of the region’s most promising nation had its nativity in Venezuelans’ disgust with the pervasive corruption of the two traditional parties. While Venezuela provides the most vivid illustration of the long-term effects of corruption, its corrosive effect on democracy and

Corruption in Latin America

Many Latin American countries have been plagued in recent times by corrupt officials at the highest levels of government. This illustration identifies twelve of the most egregious examples from ten Latin American countries.



President José Daniel Ortega Saavedra
Nicaragua

Ortega has served in his second term as president of Nicaragua since 2007. He was formerly the leader of the communist Sandinista National Liberation Front that overthrew the Nicaraguan government in 1979. Nicaragua is now experiencing a virtual civil war, largely stemming from widespread popular dissatisfaction attributed to Ortega's alleged nepotism and corruption. His repressive measures aimed at putting down political opposition have converted him into a de facto dictator who now rules Nicaragua through repressive measures allegedly including overt violence, censorship, arrest and torture of political opponents, and rule by decree. (Photo courtesy of the Presidential Office of the Republic of China)



Former President Enrique Peña Nieto
Mexico

Nieto served as president of Mexico from 2012 to 2018. His term as president was marked with claims of corruption, with allegations of media manipulation and reports of his wife accepting a luxury home from a government contractor. The disappearance of forty-three students from police custody in 2014 created domestic and international outcry and added to his domestic unpopularity. (Photo courtesy of the Office of the President of Mexico)



Former President Otto Pérez Molina
Guatemala

Pérez was president of Guatemala from 2012 to 2015, when he resigned in the face of a massive bribery scandal. Twenty-six other people, including former vice president Ingrid Roxana Baldetti Elias, were also charged. Pérez is being held in pretrial confinement. He has also been accused of multiple human rights abuses. (Photo by Michael Wuertenberg/World Economic Forum)



Former President Rafael Correa
Ecuador

Correa served as president of Ecuador from 2007 to 2017. Allegations of corruption by the former president include involvement in an attempted kidnapping of opposition lawmaker Fernando Balda. He now resides in Belgium, while Ecuador is seeking his extradition on the kidnapping claims. Additionally, Ecuadorian Vice President Jorge Glas, who served under Correa and current president Lenín Moreno, was sentenced to six years in prison in 2017 for his involvement in Brazil's Odebrecht construction company scandal. (Photo by Micaela Ayala V., The News Agency of Ecuador and South America)



Former President Raúl Modesto Castro Ruz
Cuba

Although he stepped down as president in 2018, Castro remains the head of the Communist Party and the armed forces of Cuba. Following the communist takeover of Cuba in 1959, Castro's brother, Fidel, issued a series of decrees directing the confiscation of private property and money. Subsequently, the one-party state form of government imposed by Fidel and carried on by Raul Castro have institutionalized government corruption in the form of nepotism, unaccountable state monopolies, illicit trafficking in drugs, and rampant cronyism. (Photo courtesy of the Presidency of the Mexican Republic)



Former President Pedro Pablo Kuczynski Godard
Peru

Kuczynski was president of Peru from 2016 to 2018. He resigned in March 2018 just prior to a vote on impeachment for permanent moral unfitness. Kuczynski faced corruption charges based on his association with Brazil's Odebrecht construction company, which is itself facing a huge corruption scandal. (Photo courtesy of the Ministry of Foreign Affairs of Peru)



Former President Cristina Elisabet Fernández de Kirchner
Argentina

Kirchner was president of Argentina from 2007 to 2015. On leaving office, Kirchner faced a host of charges in court including manipulating currencies for her own benefit, illicit association, rampant corruption within her administration, and personal obstruction of justice and high treason with regard to a case involving reputed Iranian bombing of a Jewish center in Buenos Aires. (Photo courtesy of the Office of the President of Argentina)



Former President Hugo Chávez
Venezuela

Chávez was elected president of Venezuela in 1998 and served until his death in 2013. He quickly took control of all branches of the government and the army. He replaced Venezuela's National Assembly and its supreme court, and then used them to rewrite its constitution to allow him to remain in power indefinitely, effectively changing Venezuela from a democracy to a dictatorship. (Photo by Roberto Stuckert Filho, Agência Brasil)



President Nicolás Maduro Moros
Venezuela

Maduro has been president of Venezuela since 2013. Under Maduro's presidency, large sectors of the economy have been nationalized and placed under the control of Maduro's cronies with the consequence that the economy of the state has collapsed, inflation is running at nearly 1 million percent, almost three million economic refugees have fled the country, the oil industry has deteriorated to the point that the country with the largest oil reserves in the world is now importing oil, drug cartels and criminal organizations affiliated with international crime and terrorism have gained control of the military and government administration, and Cuba has been allowed to seize control of Venezuela's internal security and intelligence system. Maduro has eliminated the democratically elected branches of government, packed the high court with cronies, and now rules virtually by decree. (Photo by Fabio Rodrigues Pozzebom, Agência Brasil)



Former President Luis Inácio Lula da Silva
Brazil

Lula served as president of Brazil from 2003 to 2011. He was convicted of corruption and money laundering and sentenced to twelve years in prison in January 2018. (Photo by Roberto Stuckert Filho, Agência Brasil)



Former President Verónica Michelle Bachelet Jeria
Chile

Bachelet served as the first female president of Chile from 2006 to 2010 and from 2014 to 2018. Her previous popularity plummeted in 2015 when it was revealed that her son, Sebastián Dávalos, and daughter-in-law, Natalia Compagnon, had allegedly used insider information to make over \$5 million on a real estate deal. In 2016, Compagnon was charged with tax fraud due to her involvement in the scandal. (Photo courtesy of the Government of Chile)



Former President Dilma Rousseff
Brazil

Rousseff was handpicked by Lula as his successor and served as the first female president of Brazil from 2011 to 2016. She was caught by a wiretap attempting to shield Lula from prosecution, and was subsequently charged with criminal administrative misconduct for her failure to act on corruption uncovered during the Operation Car Wash investigation and with disregard for the federal budget for funding programs without the required legislative approval. Rousseff was impeached and removed from office in 2016. (Photo by Roberto Stuckert Filho, Agência Brasil)

a free economy is visible in other Latin American nations as well. Despite the enormous differences between Bolivia and Venezuela, they ended up leading the shift to the left in Latin America at the start of the twenty-first century. The linking factor was a virulent reaction to corruption.

Tammany Hall. Given the far-reaching and largely negative effects of corruption in Latin America, and the strong reaction against them among ordinary

Honest graft, by contrast, consists of finding “opportunities” for personal enrichment that do not interfere with the workings of local government. As an example, Plunkitt describes making a small fortune on paving stones for a new road by manipulating an auction.²¹ He emphasizes, however, two elements of honest graft that are absolutely necessary for corruption to work. First, the corrupt official must be seen using his ill-gotten gains to benefit his constituents, usually in small ways. Second,



citizens, it may seem inexplicable that corruption is so pervasive in the region and popular explosions against it are not more common. Part of the explanation for this paradox can be found in a disreputable episode in U.S. political history. In this famous treatment of Tammany Hall politics, former New York senator George Washington Plunkitt began by insisting that there is a difference between “honest graft and dishonest graft.”²⁰ The latter, which would include outright bribery and theft of public funds, is to be shunned, not only because the practitioner is likely to go to jail but also because dishonest graft breeds a backlash from the population, threatening to upset the entire system.

Brazilian President Dilma Rousseff receives a picture of former Venezuelan President Hugo Chávez from President Nicolás Maduro during a press statement 9 May 2013 at the Palácio do Planalto in Brasília, Brazil. Rousseff was impeached and removed from office in 2016, while Maduro’s rule in Venezuela continues to be plagued by a plummeting economy, mass migration of its populace, and continual charges of corruption and criminality. (Photo by Valter Campanato, Agência Brasil)

and this is crucial to the discussion of corruption in Latin America, a system that allows Plunkitt to make money on paving stones cannot work if the new road is not actually built. Ordinary citizens, he insists, are perfectly willing to countenance a certain level of corruption,

provided that basic government functions are performed adequately. Indeed, many citizens can be convinced that a certain amount of corruption is absolutely necessary for the smooth implementation of public policy.

Consciously or not, some of the more notorious (and successful) exemplars of corruption in Latin America have taken the Tammany Hall politician's advice to heart. There is a close connection in some regional nations between corruption and populism, as the rise of Chávez shows.

Corruption and Free-Market Reform

For most of the history of Latin America, going back to colonial days, corruption's chief facilitator has been a high level of government control over the economy. In theory, therefore, reducing government control should reduce the opportunities for corruption. To be sure, there are elements of classic free-market reform that do rob government officials of the chance to make illicit income, such as streamlining and simplifying exchange rates, tariffs, and tax codes, as noted above in the Bolivian case.

But free-market reform has not, and cannot, eliminate corruption. First, any significant economic reform, whether free-market oriented or not, will bring a transition period during which rules are uncertain, financial relationships (legitimate and illegitimate) are disrupted, and investors are wary. The temptation to use corruption to "clarify" the rules, continue a relationship, or ensure a return on investment can become stronger during such a transition. The experience of the former Soviet Union is the best global example.

Second, unless great care is taken by the reformist government, the privatization of public enterprises can become a corruption bonanza. Any public enterprise that is likely to attract buyers is also going to attract those who desire an inside track to acquire the most desirable assets. As one expert put it, "The privatization of public enterprises, which involves political decisions over reallocating huge chunks of property, can be skewed by payments under the table. And as public services are contracted out to private providers, kick-backs can influence who receives favorable deals."²²

Yet the link between privatization and corruption is not automatic, and again, the experience of a European nation is instructive. Soon after replacing its communist government in 1989, the leaders of Czechoslovakia (soon to become leaders of the Czech Republic) announced a

plan to streamline privatization, significantly reduce the chances for corruption, and address the many claims of exiles whose property had been lost when the communists took over in 1948. Under the plan, Czechs received vouchers that they could use to purchase state property. In doing so, the Czech leadership made most Czechs into investors and prevented the rise of a nouveau-riche oligarchy. The vouchers were fully exchangeable for Czech currency and could be freely bought and sold, eliminating the need to bribe officials to turn the vouchers into cash.²³ Returning exiles with claims for stolen property also received vouchers, especially when the property in question had been owned by someone else for decades. The voucher system kept corruption in the post-Communist Czech Republic to a manageable level and should have provided a useful model for Latin America.

A second crucial variable in determining the prevalence of corruption was the type of government that undertook the reform. Governments with a genuine system of checks and balances serve as a check on corruption. By contrast, populist governments with either a low level of institutionalization or a leader determined to eliminate accountability, saw exponential growth in corruption levels. Put differently, where there was little or no accountability, there was much more corruption.²⁴

Populist leaders, such as Argentina's Carlos Menem, Brazil's Fernando Collor de Mello, and Peru's Alberto Fujimori, oversaw unprecedented levels of corruption that were tied to the purportedly free-market reforms they enacted. In all three cases, they also concentrated power, undermined existing checks and balances, and sedulously sought to expand their ability to act alone. At the same time, motivated either by personal ideology or external pressure, they enacted free-market reforms, albeit to different extents.

The link with corruption can be isolated in the combination of broad privatization with shallow institutional support. Fujimori, for example, undercut the Peruvian Congress and judicial system constantly, blaming them for Peru's troubles (which, given the strength and violence of the Shining Path terrorist group, among other problems, were catastrophic) and presenting himself as the one man who could save Peru from its own ineffective government.²⁵

Whatever justification Fujimori and his counterparts might have had for attacking the reputation of government officials, these attacks made it all but impossible to

rely on those same government officials to competently implement economic reforms, even supposing that the populist leaders were eager for their help. Thus, the process of privatization became an insiders' game with few players and even fewer referees.

Meanwhile, as neoliberal reform brought hardship to many Argentines, Brazilians, Peruvians, and others, populist leaders faced a real political danger. Accepted by the masses as saviors, and coming to power on the strength of unreasonable expectations and impossible promises, the inevitable pain of economic reform threatened to sweep the populists from power. Menem, Collor, and Fujimori all responded with targeted government spending, including outright bribes, to ensure the loyalty of aides and the appeasement of their loudest critics.²⁶ Populist leaders explicitly reject the strictures of checks and balances, insisting on their right to make their own rules as a way of striking back at the establishment, which, the leaders tell their countrymen, got the country into the mess it is in.

The downside of demonizing the establishment is that every modern leader needs bureaucracy to rule. Leaders also need close aides who know bureaucratic politics in order to oversee the thousands of officials who turn policy into reality. The populist leaders usually lack a preexisting political organization and thus have to turn to people without institutional loyalty to fulfill this task. Permitting corruption is a quick way to ensure that personal loyalty takes the place of institutional or party loyalty. Indeed, corruption can even be encouraged, since it ties the aides to the ruler's continuation in office, lest an eventual opposition regime launch a criminal investigation.

Since most populists come to power promising rapid economic development, leaders such as Menem, Collor, and Fujimori also need the support of business groups and investors. It is clear that graft is necessary to secure government contracts (e.g., to acquire government-protected monopolies) in order to provide leaders with an extra source of revenue, tie the businesspeople to the leader's continued tenure, and allow the leader to punish enemies, real or perceived (the additional income, by the way, may also fund television or radio advertising to boost the leader's popularity). On occasion, the nature of these illicit relationships is protected by violence. In Menem's Argentina, for example, a single businessman, Alfredo Yabrán, used his close ties to the president to garner huge profits from the privatization

of airports and post offices; an investigative reporter who exposed this corrupt relationship was murdered.²⁷

Even populist leaders who promise to attack the wealthy can make a fine profit in doing so. Collor used hyperinflation in Brazil as an excuse to get the country's Congress to freeze all bank accounts over about \$1,100. Business owners with bills and payrolls had to bribe officials just to get use of their own money. The main beneficiary was Collor's former campaign treasurer.

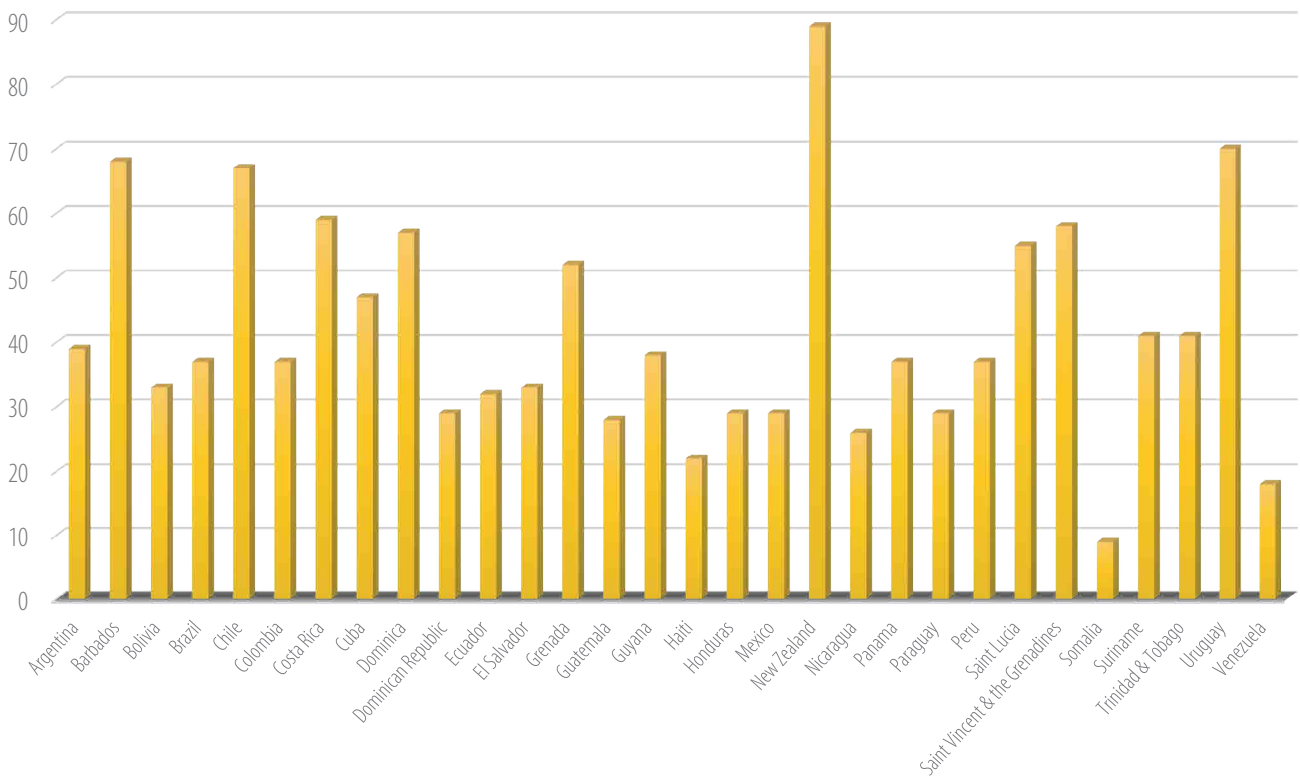
Perhaps the most notorious example of corruption under a populist leader is the case of Vladimir Montesinos, the Peruvian intelligence chief for Fujimori. According to documents published since Fujimori's flight from Peru in November 2000, Montesinos charged bribes to get into the privatization business, which is not unusual, but also redirected international relief funds intended to help Peru deal with natural disasters and accepted bribes from drug dealers in return for not interfering with their operations. A video of Montesinos shows him casually counting large piles of cash spread far and wide, even in those pre-YouTube days, which he made himself to ensure the silence of the businessmen involved.²⁸

Recent Examples

Two more recent examples of Latin American corruption involve the countries of Brazil and Peru.

Operation Car Wash. Without a doubt, the most notorious corruption scandal in recent Latin American history is the *Lava Jato* (Car Wash) scandal in Brazil. The investigation started in 2014 and was not directed at the highest levels of the Brazilian government. Rather, Operation Car Wash took its name from the small businesses that organized crime figures were using to launder their illicit profits.²⁹ Targeting small businesses and small-time criminals was typical of the half-hearted anticorruption efforts in Brazil, which tended toward protecting the wealthiest and most powerful while giving the impression of taking effective action against corruption.

However, Car Wash investigators eventually found out that some of the small-scale money launderers were working for a ranking official at Petrobras, Brazil's giant state-run oil company. The company, and Brazil, had just discovered one of the largest oil fields in the world, and that discovery launched a sense of "anything goes" among company executives and politicians, reminiscent of Venezuela's oil boom in the 1970s. With a seemingly



Data in bar chart comparing Latin American countries are from Transparency International, "Corruption Perceptions Index 2017." Scores range from 0 meaning highly corrupt to 100 indicating very clean. Two non-Latin American nations (New Zealand, with the best rating, and Somalia with the worst) have been included in the rankings for comparison. Transparency International, last updated 21 February 2018, accessed 27 November 2018, https://www.transparency.org/news/feature/corruption_perceptions_index_2017.

2017 Perceived Corruption by Country in Latin America

unbounded source of funds on the horizon, and with no competition, Petrobras directors started to deliberately overpay on contracts covering everything from office buildings to oil tankers. Contracting firms were persuaded to channel a small percentage of the extra funds to secret accounts, controlled by the directors doing the overpaying. The circle of corruption was completed when the directors used a portion of the funds from the secret accounts to pay off the politicians who appointed them to the Petrobras board to begin with.

There was a time when Petrobras and Brazil's political leadership engaged in a style of corruption that recalls the "honest graft" of Plunkitt. In 2002, the left-leaning Brazilian Workers' Party (PT) won the presidency with Luis Inácio Lula da Silva. PT promised more money for social programs, a focus on the poor, and, most important, an end to corruption. However, Lula lacked a congressional majority (which is not unusual, given Brazil's multiparty system). He and his aides turned to bribery to line up the support of smaller

parties and cobble the necessary majority to enact legislation. Like Plunkitt with the paving stones, Lula knew this illegal method of coalition-building could only work if there were visible results. His term actually saw Brazil make some impressive strides in alleviating poverty, protecting the environment, and increasing social spending.³⁰ By the time Car Wash was launched, however, these accomplishments were overshadowed by the perception of widespread corruption.

That perception was amply confirmed by the investigation. While Brazilians may not have been surprised by the extent of the system's rot, they were surprised at the sudden imposition of actual accountability on the accused, including the wealthy and well connected. Two seemingly technical changes in Brazilian criminal procedure had a huge impact on Car Wash's path. The first was the country's supreme court allowing "preventative detention"—in effect abolishing bail for corruption cases. Those accustomed to living in mansions found themselves in crowded cells with little food and no comfort.

Many offered cooperation in return for temporary release. The second reform was Brazil's first use of plea bargaining, which allowed prosecutors to offer shorter sentences or indictments for lesser offenses in return for information about those higher on the corruption food chain. This chain soon led to the upper reaches of Brazil's political and economic hierarchy.

These impressive results, however, brought some unintended negative consequences. First, Petrobras is the epitome of the phrase, "too big to fail." When prosecutors ordered the oil giant to suspend business with many of its contractors (including construction giant Odebrecht), projects were stopped. Massive layoffs caused the doubling of unemployment in Brazil in the space of two years.³¹ Second, the chief scapegoat in Car Wash was PT, the very party that had initiated the reforms that made the investigation and prosecutions possible. Brazilians' anger at PT culminated in calls for the impeachment of Rousseff, a protégé of Lula. She was ousted from the presidency in August 2016. However, the effort in Congress to impeach her was spearheaded by one of the country's most corrupt politicians, Michel Temer (whose personal ties to corruption are much clearer than Rousseff's), from the country's least public-spirited party, the Brazilian Democratic Movement.³² Temer quickly became the target of a second impeachment effort, this time while president. The scandal has created an almost existential crisis of confidence in Brazil, which not even the prestige of hosting the 2014 World Cup and the 2016 Summer Olympics can mitigate.

Peru's Corrosive Corruption. Recent events in Peru are, if anything, even more serious than the Car Wash scandal. While Brazilians involved in corruption were looking for personal enrichment, those in Peru took action to illustrate just how corrosive corruption could be to democratic processes. In 2016, Kuczynski was elected president of Peru, with promises to clean up the corruption that had become endemic in Peru since the presidency of Fujimori (1990–2000). Within a year of Kuczynski's inauguration, however, he was facing impeachment over charges that he had taken bribes from Odebrecht, a giant construction contractor that has been involved in other corruption scandals in Latin America.³³

While Kuczynski was able to fend off that first impeachment effort, his apparent success only plunged him into a new, and darker, scandal. Only days after the first impeachment effort failed, Kuczynski

pardoned Fujimori, who had been slated to stand trial for human rights violations. Peruvians quickly connected the dots between the pardon, which had been unexpected, and the fact that Kenji Fujimori, the former president's son, controlled enough votes in the Peruvian Congress to ensure that Kuczynski would survive the impeachment vote.³⁴

Even so, the connections were conjectural, and possibly survivable, until the release of videotapes showing Kuczynski's allies openly bargaining with congressmen over their pending votes on impeachment. Officials close to the president made offers of public works projects, with kickbacks and other favors, in return for staying loyal to Kuczynski. The content of the tapes moved the scandal from simple pocket lining to an overt attempt to use corruption to undermine the separation of powers, one of the foundations of a functioning democracy.

The scandal also illustrated another feature of corruption that threatens a healthy democracy: the closed, insular nature of elite politics in Peru. In the vote-buying scandal, Kuczynski was temporarily saved from impeachment by pardoning a former president in order to curry favor with that president's son, who controlled votes in congress. To be elected president in the first place, Kuczynski defeated the daughter of that same president; the brother and sister had become political enemies. To many Peruvians, the entire sordid matter seemed to be nothing more than an intense family squabble, the intricacies of which were impenetrable to anyone outside the elite circle. Such a belief leads to cynicism, which leads to nonparticipation by ordinary citizens, which can lead to the death of a democratic polity.³⁵

Common Denominators

While experts on corruption usually focus on the receivers of illicit funds (almost always government officials), it is also useful to see the phenomenon from the point of view of those paying the bribes or providing the kickbacks. Why do citizens involve themselves in such obviously and inevitably unequal relationships? The short answer is lack of alternatives. A private citizen, faced with a demand for a bribe, has only three choices: to take the demand to the proper law enforcement authorities, to seek a different way to accomplish the desired goal, or to pay the bribe. Successful corrupt officials close off the first two possibilities. They may

co-opt or undermine the police and the courts. Indeed, corrupt officials will use a variety of means to erode the separation of powers, usually through some combination of co-optation and suppression.

The desire for illicit funds invariably provides an incentive to concentrate power, to close off alternatives

existential threat? When does corruption become the tares to the wheat of good government?

Corruption can probably never be completely eliminated, but the systemic levels of corruption described above require systemic explanations. The factors that permit and encourage massive corruption follow.



to bribery or kickbacks. For example, a requirement for a government license to do business is one of the most common sources of bribery in Latin America. The more enterprises that require licensing, and the more steps in a business enterprise that require a license, the fewer alternatives for citizens and the more profit for government officials. Growth in corruption can thus go hand-in-hand with the growth of government regulation. At the same time, national governments are unlikely to tolerate competition even from their own subnational governments, so corruption also tends toward unitary governments with little or no devolution.

Conclusion

Why are some regions seemingly plagued by corruption more than others? What causes corruption to change from being an occasional nuisance to being an

A child holds a sign that reads “No más corrupción” (No more corruption) during a demonstration demanding the resignation of Guatemalan President Otto Pérez Molina 30 May 2015 in downtown Guatemala City. Thousands gathered in the main square of Guatemala’s capital to protest corruption after a wave of graft scandals prompted a cabinet shake up and the resignation of the vice president, Ingrid Roxana Baldetti Elías. (Photo by Jorge Dan Lopez, Reuters)

First, government power can be so extensive and pervasive enough that shifts in political leadership threaten the livelihoods of significant numbers of citizens who are not employed by the government. When seeing one’s party lose an election is not just a matter of disappointment, it is also a threat to a citizen’s job, home, or even freedom, making payments to government officials becomes a matter of survival.

Second, corruption thrives in an absence of checks and balances. When awarding government contracts—the hiring to government jobs, the provision of government largess, and even the prosecution of criminal activity are done with minimal intragovernment accountability—government officials may not even have to take the initiative to create an expectation of bribery.

Third, economic factors can contribute to a culture of corruption. Where there is a lack of job opportunities outside of government agencies or when private businesses are too closely tied to government agencies, keeping some sort of favoritism outside of hiring practices becomes practically impossible. Under such circumstances, both favored and unfavored population segments may see bribery as necessary, either to retain their favored status or to overcome their group's exclusion.

Fourth, and perhaps most important, corruption requires a gulf of understanding and connection between government officials and citizens. The former can demand bribes or kickbacks without a pang of conscience, while the latter all too quickly perceive that they have no choice but to buy into a corrupt system.

All four of these factors can be addressed by devolving power from central governments to substate units in a federal system such as that in the United States. Some state and local officials in the United States are guilty of corruption, to be sure, so it is important to note that this sort of constitutional change will not alter human nature, and thus will not eliminate corruption. It will, however, significantly reduce the incentives for corruption and erode the sense of impunity that allows corruption to metastasize.

First, on the most basic level, smaller governments mean smaller amounts of government money in the

hands of potentially corrupt officials. Risking illegal activity for \$1 million is less attractive than taking those same risks for \$10 million or \$100 million. Second, corruption thrives in the absence of alternatives. If a private business faces a choice between paying a bribe and leaving a country, its principals are more likely to pay. If departing the jurisdiction of a corrupt official only means moving to a different city in the same country, however, that official's leverage shrinks. Third, devolution makes local government officials less able to blame central government officials for the inefficiencies and inadequacies that usually accompany corruption. Local control creates an expectation of greater government effectiveness, meaning that corruption, if it exists, cannot be allowed to interfere with basic and necessary government functions.

At the same time, local officials have much greater difficulty maintaining the wall of separation between themselves and the people they govern than do central government officials. Local officials tend to be closer physically to the citizens they govern and thus have very little choice but to be closer to them psychologically. Neighbors can still cheat and bribe neighbors of course, but they cannot do so with the same expectation of anonymity. Federalism is no guarantee of virtue. It does, however, contain structures with built-in disincentives to malicious behavior. With these structures in place, federal systems are less likely to breed the sort of endemic cynicism that permits endemic corruption.

Having weathered the challenges of fascism and communism, Latin American democracy faces a new and even more dangerous threat. This newest threat can be addressed by embracing federalism, one of democracy's oldest solutions. ■

Notes

1. Jonathan Watts, "Operation Car Wash: Is This the Biggest Corruption Scandal in History?," *The Guardian* (website), 1 June 2017, accessed 23 October 2018, <https://www.theguardian.com/world/2017/jun/01/brazil-operation-car-wash-is-this-the-biggest-corruption-scandal-in-history>.

2. Santiago Fittipaldi, "Latin America Cleans up Its Act," *Global Finance* (website), 11 December 2015, accessed 25 October 2018, <https://www.gfmag.com/magazine/december-2015/latin-america-cleans-its-act>.

3. Dan Collyns, "Peru President Pedro Pablo Kuczynski Resigns amid Corruption Scandal," *The Guardian* (website), 21 March 2018, accessed 27 November 2018, <https://www.theguardian.com/world/2018/mar/21/peru-president-pedro-pablo-kuczynski-resigns-amid-corruption-scandal>.

4. See Hernando de Soto, *The Other Path: The Economic Answer to Terrorism* (New York: Basic Books, 2002).

5. Experts differ on the categorization of Mexico before 2000. From the time of the Mexican Revolution to the victory of Vicente Fox and the National Action Party (PAN) that year, Mexican politics were dominated by a single party (the Institutional Revolutionary Party, or PRI). PRI leaders took forceful (usually nonviolent) steps to ensure the party's total domination of Mexican politics. Since Mexico's twentieth-century history did feature regular elections preceded by seemingly competitive campaigns,

disagreement over whether or not the nation was truly democratic is understandable.

6. Edward A. Lynch, "Opening Moves: The 'Final Offensive,' 1981," chap. 3 in *The Cold War's Last Battlefield: Reagan, the Soviets, and Central America* (New York: State University of New York Press, 2011).

7. Thomas Jefferson, "A Summary View of the Rights of British America," Colonial Williamsburg Foundation, accessed 25 October 2018, <http://www.history.org/almanack/life/politics/sumview.cfm>.

8. This mercantilist orientation of the economy was standard practice in North America as well and became one of the root causes of the American Revolution. In British America, however, there were more professions and businesses that did not require a license than in Latin America.

9. The American Founders, for the most part, were horrified by the possible link between government and economic power, and created the city of Washington to prevent New York or Philadelphia merchants from having easy access to government officials. By contrast, political and commercial centers remained united in the capital cities of most Latin American nations. The situation persists to this day.

10. See, for example, Larry Diamond and Juan J. Linz, *Politics in Developing Countries: Comparing Experiences with Democracy* (Boulder, CO: Lynne Rienner, 1995).

11. Arthur J. Mann and Manuel Pastor Jr., "Orthodox and Heterodox Stabilization Policies in Bolivia and Peru: 1985–1988," *Journal of Interamerican Studies and World Affairs* 31, no. 4 (Winter 1989): 163–92.

12. Latin America Regional Reports, *Weekly Report*, 16 August 1985, 2.

13. John Hewko, "Bolivia's Restructuring Deserves More Than a Pat on the Back," *Wall Street Journal*, 28 April 1989, A15.

14. See my chapter, "Bolivia and the New Economic Policy of Victor Paz Estenssoro: Implementation and Aftermath," in *Economic Development under Democratic Regimes*, ed. Lowell S. Gustafson (Westport, CT: Praeger, 1994), 105.

15. See Victor Mauricio Rodríguez, "La moral tributaria en América Latina y la corrupción como uno de sus determinantes" [The moral tributary in Latin America and corruption as one of its determinants], *Revista Mexicana de Ciencias Políticas y Sociales* 60, no. 224 (May–August 2015): 103–32. This is one of many examples where it took only the perception of corruption, before any actual corruption had been proved, to undermine the democratic regime that was the target of this perception.

16. See, for example, Harvey F. Kline, Christine J. Wade, and Howard J. Wiarda, eds., *Latin American Politics and Development* (Oxford, UK: Taylor and Francis, 2018), 221. The full name of the Christian Democratic Party is the *Comité de Organización Política Electoral Independiente* but is usually referred to as either the Christian Democratic Party or the Christian Democratic COPEI.

17. Edward A. Lynch, *Latin America's Christian Democratic Parties: A Political Economy* (New York: Praeger, 1993), 66.

18. "Venezuela: President of the Supreme Court Resigns," YouTube video, posted by "AP Archive," 21 July 2015, accessed 25 October 2018, <https://www.youtube.com/watch?v=vbB5WmPhRI0>.

19. "Venezuela National Assembly Stormed by Maduro Supporters," BBC News, 6 July 2017, accessed 25 October 2018, <https://www.bbc.com/news/world-latin-america-40509498>.

20. William L. Riordan, "Honest Graft and Dishonest Graft," chap. 1 in *Plunkitt of Tammany Hall: A Series of Very Plain Talks on Practical Politics* (New York: Plume, 1991).

21. Ibid.

22. Kurt Weyland, "Reform and Corruption in Latin America," *Current History* 105, no. 688 (February 2006): 84–89.

23. Raj M. Desai, "Václav Havel's Economic Legacy," Brookings Institution, 19 December 2011, accessed 25 October 2018, <https://www.brookings.edu/blog/up-front/2011/12/19/vaclav-havels-economic-legacy/>.

24. Weyland, "Reform and Corruption in Latin America," 85.

25. Latin America Regional Reports, *Weekly Report*, 31 May 1990.

26. Weyland, "Reform and Corruption in Latin America," 86.

27. Ibid., 87. Alfredo Yabrán subsequently committed suicide, and the scandal marked the beginning of the end for Carlos Menem.

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30. Watts, "Operation Car Wash."

31. Ibid.

32. Jonathan Watts, "Brazil: Explosive Recordings Implicate President Michel Temer in Bribery," *The Guardian* (website), 17 May 2017, accessed 27 November 2018, <https://www.theguardian.com/world/2017/may/18/brazil-explosive-recordings-implicate-president-michel-temer-in-bribery>.

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34. Marcelo Rochabrún and Nicholas Casey, "Peru's President Offers Resignation Over Vote-Buying Scandal," *New York Times* (website), 21 March 2018, accessed 25 October 2018, <https://www.nytimes.com/2018/03/21/world/americas/peru-kuczynski-resigns.html>.

35. For more on "power distance" as a link between corruption and the corrosion of democracy, see Bryan W. Husted, "Culture and International Anti-Corruption Agreements in Latin America," *Journal of Business Ethics* 37, no. 4 (June 2002): 413–22.