

Corruption and Democracy in Latin America

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1 Introduction

Over the last decade or so the issue of corruption has been prominent in the politics of a majority of the countries of Latin America. At least two Presidents have been forced out of office and others have subsequently had to flee their countries in the face of corruption charges. There have been public demonstrations against it in Argentina and Brazil. Cabinet ministers have been sacked in Mexico and judges purged in Venezuela. Congressional committees have investigated, anti-corruption agencies have been established, and new legislation enacted. And everywhere, editors, bishops and academics have fulminated.¹

Making sense of this furore is more difficult than describing it. Identifying what might be done in a practical way to lessen the incidence of corruption is yet more difficult. Broadly, there appear to be three sorts of approaches to the problem.

The first (and by far the most common) view has been well expressed by ex-President Arias of Costa Rica:

When the public at large demonstrate for more accountable and decent government ... they are motivated, to no small extent, by anger over corruption: corruption that humiliates the poor who must bribe small officials for minimal services; corruption that bankrupts the honest trader; corruption that empowers unscrupulous captains of commerce and their partners, dishonest politicians; corruption which spreads like a cancer to kill all that is decent in society.²

Here Arias is arguing what might be called the reform position, viz. that corruption is a pervasive ill which damages economic performance and weakens democratic institutions. However, he also claims that it is not acceptable to the general

¹ By corruption, I am focusing on the abuse of public office whether elected or appointed. I am not concerned with business fraud or nepotism, but with illegal actions by public agents which are committed for private advantage. As I argue in an earlier piece (Little 1992), for both ethical and practical reasons, corruption is above all an elite-level problem.

² Speech given to the international anti-corruption Transparency International NGO in Berlin, 1993.

public, by extension implying that while democracy may be threatened by corruption it is also capable of combating it. No explanation of the social or economic causes of corruption is offered but there are some implicit remedies: more explicit legislative prohibition, more vigorous executive action, and more effective punishment among them.

Counterpoised to the reform view is what might be called the realist position. Understandably less commonly advanced, it would argue that corruption has been endemic in Latin America since colonial times and is a reflection of deep cultural traditions (among them familism, clientelism, and corporatism) which cannot be seriously modified by this or that government, democratic or not (Pietschman 1982; Leys 1989). Realists could variously argue that corruption is damaging to society or that it may be in some way useful, but they could plausibly add that it is an issue which tends to come to the fore when times are hard and to subside in periods of prosperity. They could also argue that its political salience in recent years is a kind of theatre, a phoney war of denunciation which will produce little or nothing in the way of results and may indeed be a way of pre-empting reform.

Finally, liberals would agree with reformers that something should and could be done but would differ radically in what they would do. For them the answer lies not in state action but in state restructuring because, they would argue, it has been the Latin American tradition of state preponderance over civil society which is the root cause of the phenomenon of corruption. Traditionally monopolistic, over-powerful, inefficient, and unaccountable, the state survives by extorting rent corruptly from the private realm. If it were to be diminished in size and power (via downsizing, privatization, and deregulation) then the provision of public goods could be made more transparent, efficient, and honest.

There is something to be said for each of these positions, but each also has its problems. The reform view that the critical issue is to do with political will does not encompass the deeper structures of corruption and hence seems rather voluntaristic. The realist position (more or less do nothing since

nothing much can be done) is more coherent, but it is not one which can be easily sold politically. Finally, while the liberal position's critique of the state would be acceptable to many, it adopts a remarkably ingenuous view of the extent to which the private sector in Latin America can do better than the public one.

For all their differences, these various approaches have in common the implied judgement that corruption flourishes under conditions of uncompetitiveness and secrecy. To the extent that democracy is competitive and open, it could be argued that it is in some way incompatible with corruption. The rest of this essay addresses this question.

2 Militarism, Party Politics and Corruption

One of the more surprising aspects of the demilitarization of Latin America over the last two decades has been the relative absence of charges that the military ruled corruptly. This may reflect circum-spection or simply that there have been more important priorities (such as human rights trials) in military-civilian relations. But it is also possible that, contrary to what one might expect from regimes that were beyond the law, levels of corruption were relatively modest.

This would certainly be a popular view among the military themselves. Indeed, in almost every case the charge that civilian politics was corrupt and that the military would at least rule honestly was part of the apologia for their intervention in the first place. The manifesto of the Peruvian coup of 1968 was typical and can be taken to be sincerely felt when it referred to:

government leaders (who) with other corrupt politicians scorned the popular will ... proof of this can be seen in the government's lack of direction, its compromises, its immorality, its corruption.³

The evidence is that, in some countries at least, the record of the military may have been better than either that of their civilian predecessors or successors. It is not easy to tell because whistle-blowing

³ Quoted by Loveman and Davies 1978: 209.

is difficult when the press is censored, parliament closed, and whistle-blowers liable to summary detention or worse. Corruption under the military seems to have taken institutionalized rather than personal form: double payment (as serving officers and civilian administrators) was common; pay and fringe benefits were disproportionately improved; above all, huge sums were spent (and wasted) on armaments and infrastructural projects which benefited the military as a class. Obviously some officers took bribes and some may have grown rich but this Paraguay and Central America apart - does not seem to have been especially widespread. It is a curiosity that some of the worst instances of military corruption (especially concerning the drug trade) have occurred in Colombia, Mexico and Venezuela under civilian governments.

If this interpretation is correct, the main explanatory factor seems to have been the degree to which the military had a radical project which could have been endangered by grossly corrupt use of office. Chile (and to a lesser extent Brazil and Argentina) illustrate this point. Pinochet ran a brutal military dictatorship for 16 years during which time well-connected civilians made fortunes, but hardly any cases of fraud and corruption have been unearthed. It is as if the maxim of the regime was 'you may kill but you may not steal'.

It is with the return of civilians to power that corruption has become a public issue. The reform approach could argue that this was only to be expected given greater press freedom, parliamentary immunity, and electoral competition. It would certainly argue that, while corruption might be a threat to democracy, it has to become a matter of public concern before anything can be done about it. Realists and liberals would probably agree though they would differ over what, if anything, might control it.

But there is another possibility: namely, that democracy as it has been practised in Latin America is actually productive of corruption. This would involve some consideration of the themes of personal and party economy, the relationship between

party and state, and the clientelistic structures of party politics.

At the personal level there are of course honest politicians in Latin America. Indeed, Presidents Fujimori of Peru and Caldera of Venezuela have got where they are because they are widely perceived to have high levels of personal integrity. But there are also plenty of dishonest ones, particularly at lower levels in the political system where public scrutiny is much less. An important element here would seem to be the economic vulnerability of the middle-income, educated classes from amongst whom most of the political class is recruited. Opportunities in the private sector where the family firm is still important are not extensive enough to meet demand and in countries with long traditions of high inflation and political volatility confidence in the future availability of valued goods such as health care, education and pensions is understandably fragile. Though elected officials are well paid by local standards in most countries, the temptation to use office corruptly in order to build a capital stake is often irresistible.

The temptation becomes all the stronger because of the tradition of impunity. The corrupt are confident that they are unlikely to be caught and that, even if they are, few sanctions will follow. Even if caught and prosecuted they are unlikely to be convicted and gaoled. And even in this highly unlikely event, their assets will not be sequestered. In such a situation honesty can begin to look eccentric.

Impunity also has a cultural dimension. A politician such as President Menem of Argentina who has been grossly nepotistic in appointments to his personal staff may be seen by a select few as a vulgarian, but he is not the object of general social condemnation. In societies where the bonds of friendship and family remain important and where public trust is at best uncertain, self-regarding behaviour, whilst officially frowned upon, does not result in social ostracism or loss of status.⁴

Venezuela illustrates the issue of impunity well. The problem is certainly not a legal one. In addition

⁴ The case of Menem's Ferrari is a classic. A 'gift' from an Italian firm, Menem paid no duty on it, did not tax or register it, and drove it around Argentina at illegally

high speeds. When asked about the propriety of his behaviour, he replied that he was just doing what every Argentine would do, given half a chance.

to the general provision of the constitution, the 1982 Public Property Protection Law (Ley Organico de Salvaguardia del Patrimonio Publico or LOSPP) identifies the following as grounds for prosecution: the procuring of illegal advantage in the administration of public affairs; any official act performed or not performed in return for cash or other benefits whether received or not; private agreements between public servants and others (including intermediaries) concerning contracts, services, or goods which prejudice public monies; misuse of public funds; the issuing of false documentation; influence trafficking; the illegal issue of permits; alteration of documents; negligence or failure to support the proper actions of public bodies. The exhaustive nature of the LOSPP provisions suggests that its drafters had no illusions as to the extent and variety of corrupt behaviour in Venezuela.

Nor is it the case that Venezuela lacks agencies and institutions whose job is to investigate the abuse of public office. Besides the ordinary police and court system they include DISIP (Military intelligence), the Contraloría (Audit Office), the Ministerio Público (Attorney General's Office), the PTJ (Technical Judicial Police), the Audit Commissions of Congress, the Superintendancy of Banks, and the TSS (Public Property Protection Tribunal). Rather it is that it has too many uncoordinated, under-financed agencies. This may or may not be deliberate.

The result has been scandals such as the Recadi one. Originating out of a 1988 decision to abandon fixed convertibility and adopt a differential exchange-rate system, it is generally believed in Venezuela that it led to the fraudulent loss of around \$US 11 billion of hard currency, most of which found its way abroad. By any standards this is a large sum and its misappropriation (via over-invoicing, phantom companies, and false valuation) involved most of the import sector, many state and foreign companies, the political parties, and the highest public authorities, among them the Central Bank. Yet despite the fact that so much of the economic and political establishment was involved, only one individual - a naturalized Chinese, Ho Fuk Wing - was ever convicted. Upon his release

after a two year sentence the 'expiatory Chinaman' (as he was dubbed in Venezuela) declared, 'I was a political prisoner. Twenty thousand firms benefited from preferential Recadi dollars ... and I've been the only one jailed' (Capriles 1992: 582). He seems to have had a point.

There is also the matter of party finances. Though some political parties in Latin America date back to the last century and enjoy impressive levels of voter support, they are institutionally very weak and prone to 'capture' by wealthy individuals and special interests. Hard core membership is normally very low and membership dues are a correspondingly insignificant factor in party income. This might not matter were it not for the fact that the current wave of democratization in Latin America has been accompanied by almost continuous electioneering at every level of the political system. The cost (especially the electronic media cost) of elections has risen dramatically in recent years and has forced politicians into actively soliciting money and help in kind from the private sector which of course is not given without strings attached. The most notorious current example is President Samper of Colombia who is under investigation for accepting money from the drug cartels to finance his successful 1994 campaign.⁵

The problem of the politicization of the state apparatus is of long standing. In Mexico, for example, by the early 1980s it had reached the point where the distinction between the dominant PRI (Institutional Revolutionary Party) and the public sector became next to indiscernible. Even in the 1994 elections (supposedly the most plural and honest in Mexico's history) PRI candidates had their printing done by the Ministry of Education, their speeches broadcast by state TV and radio, and their transport laid on by a whole range of public bodies. Mexico, of course, remains essentially a one-party state, but the problem of the colonization of state agencies by the political parties (*partidocracia* as it is called) is evident in multi-party systems as well. Colonization - as liberals rightly contend - has led to overstaffing, low morale, and widespread inefficiency. It has also led to widespread corruption.

⁵ Typically, he has just been exonerated by his allies in Congress but prosecution may still result. The United States has been particularly critical of him.

Venezuela, again, provides some illustrations. The National Institution of Sanitation (INOS) is responsible, among other things, for the public supply of water. In 1989 and 1990 INOS officials deposited two and a half billion *bolivares* with eight private sector banks despite the fact that this practise had been forbidden by the Central Bank. According to the Auditor General's report of 1990 these deposits earned interest rates at 30 percentage points below the prevailing market rate. In return the banks paid an under the counter commission of 5 per cent. The point is that this particular scam by INOS had been denounced in Congress as early as 1985 but investigations by the Superintendancy of Banks had produced no results.

Of even greater public concern has been the way in which *partidocracia* has contaminated the judicial system. A particularly notorious Venezuelan example of the failure of the courts to take appropriate action arose out of the Recadi scandal. In 1989 the TSS (Public Property Protection Court) issued arrest warrants against 10 high officials of the Lusinchi government on the grounds that they had issued \$US 8 billion over and above the amount authorized in the foreign exchange budget. All but two of them, having been tipped off, fled the country, including the Ministers of Finance, Development, Planning, Agriculture and a President of the Central Bank. Less than three months later the Supreme Court revoked the warrants, declared that it was not a penal matter, and ordered all investigations to cease. Those concerned were able to return to Venezuela. Capriles and Diaz are in no doubt as to why the Supreme Court came to this decision:

As everyone knows, the judges of the Supreme Court and the Supreme Judicial Council are appointed by the top leaders (of the main two parties). Even if they are not paid up members of the party they are allied to them and their leaders. They don't need to receive direct instructions ... The survival of the system would not allow such high officials whatever their party, to be condemned.

(Capriles 1992: 660-1)

It might be argued that Venezuela is an atypical case. Certainly, no other country enjoys the petroleum rent around whose distribution Venezuelan politics revolve, but this has to be set against the

fact that Venezuela is widely regarded as one of the most democratic countries of the region. Either there is something very badly wrong with Venezuelan democracy or the supposed tension between democratic values and corrupt behaviour may not be as clear as has been suggested. The question then is, to what extent do party systems in the rest of Latin America resemble Venezuela's?

First, very few enjoy the institutionalized competition and alternation of parties in office which is characteristic of Venezuela. In general, the pattern is one of loose coalitions on the Brazilian model or hegemonic movements of the sort found in Mexico or Argentina. If political competition is an important element in controlling corruption then the overall position does not seem particularly propitious. Moreover, even where two party politics is well-established, as in Colombia and Uruguay, its competitiveness is much diminished by informal pacts.

Second, the rest of the continent resembles Venezuela in so far as party politics is largely non-ideological. The struggle is for the fruits of office rather than one of ideas. Ideological parties do exist but none have very much electoral weight. This is not to suggest that ideologically informed parties are necessarily more honest than non-ideological ones (though the parties of the left in Latin America probably have been more honest), but rather that political parties are not even effective vehicles for aggregating notional policy choices. In short, voters can have little or no idea of what they are voting for.

Third, the clientelistic, authoritarian, and personalistic characteristics of Venezuelan parties are widely replicated. Though some of the newer parties such as Brazil's Workers Party or even Venezuela's Radical Cause do appear to be reasonably plural in their internal workings, the general pattern is one of leadership - often highly personalistic - dominance over the rank and file.

Fourth, the electoral systems of Latin America are not conducive to party accountability. Multi-member constituencies, high voter - representative ratios, quotas, and closed party lists greatly reduce the contact between the electorate and its representatives. Instead, parties are prone to capture by

special interests and to pacted rather than genuinely competitive politics.

Finally, there is the issue of public opinion. The reform view argues that the average voter is offended by corruption and would like to see it reduced. Opinion poll data in country after country endorses this view but distaste for corruption is quite compatible with acceptance of it and even involvement in it. Whilst corruption might temporarily arouse public anger it is nowhere near as important an issue with the electorate as jobs, wages and services.

3 Conclusion: Prospects for Reform and Latin American Democracy

The reform agenda is by now well known: public service training; improved public sector wages and pensions and greater wage differentiation; ministerial watchdog units; codes of ethics; enhanced disciplinary measures; integrated task forces; rewards for whistle-blowing; ombudsmen; and more simplified administration. However, if the success of efforts to date are any guide, such measures, whilst perhaps desirable in themselves, are difficult to sustain in the longer term. Not only do they take decades to come to fruition but they require a degree of political will which has so far not been forthcoming.

The alternative liberal agenda is yet more radical. This would include not only the above but also root and branch public sector reform, a drastic overhaul of the judiciary, parliamentary reform, decentralization, and the creation of a genuinely competitive private sector to replace corrupt public sector monopolies. The scale of such a project far eclipses the more modest reform agenda.

The problem with any reform is the *cui bono* one. The general public might benefit but the political and administrative classes who would have to initiate and sustain the reform process would not. Why then should they bother? For them the more immediate response of denunciation in order to ride the temporary storm would seem to be more

sensible and also appears to have been what has actually been happening. Mexico and Colombia aside, the issue of corruption is certainly less salient than it was four or five years ago.

The only real chance for significant change in corrupt behaviour by elites will arise - if it arises at all - from fear of retribution by the people. For this to happen the political systems of Latin America would have to become a lot more responsive than they currently are. That is, today's formal democracy would have to become substantive.

Democracy can be defined in terms of contestation and rights.⁶ On the first, Latin America has made some progress insofar as elections are more frequent, more honest, and more respected than they were. There is also greater freedom of expression, at least in urban areas. However, effective participation involves more than casting a vote. In the ongoing sense of participation Latin America has a very divergent tradition. At the producer level (employers associations, the military, the church) it has a powerful, corporatist tradition but at the consumer or civil level a very weak one. Grass roots organizations focused around ethnic, community, and environmental issues have emerged in recent years but they too are prone to capture and are in any case still very weak. In short, in Latin America even more than in the well-established democracies the structure of everyday participation is biased towards the privileged and powerful.

Thus, even if one accepts the most minimally liberal approach to defining democracy (accountability via elections), then the Latin American picture is a mixed one. Costa Rica and Uruguay (and possible Venezuela, Argentina and Chile) might muster two cheers. Mexico, Central America and Paraguay would be hard pressed to muster one. Brazil, Peru, Ecuador and Bolivia would fall somewhere in the middle. Genuine contestation in the sense of freedom from constraints and more or less extensive participation is at best embryonic in Latin America.

If a less modest definition of democracy is taken then the picture becomes even more problematic. Such a definition is implicit within liberal/institutionalist

⁶ Some would add welfare outcomes, but this is a contingent rather than a necessary criterion and is not discussed here. However, I have previously argued that

elite corruption is ultimately paid for by the poor. See Little 1992.

approaches and has to do with the idea of substantive justice. Thus when minimalists speak of freedom and participation they are referring to the idea that, whatever might be the distribution of social and economic power in society, the basic civil liberties of citizens must be respected by the state and those who control it. Civic equity or fairness translates into the idea that citizens should be treated even-handedly by those in authority and in accordance with civilized legal standards.

In a sense this is to ask whether a formal democracy is also a 'real' one. As with the electoral test the picture with regard to this expanded definition of democracy in substantive terms varies from country to country and from region to region within countries. In general, however, it seems that 'real' democracy in the sense of equitable treatment by the state and its officials is seriously deficient. For so long as this situation continues, so will corruption.

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