

1 Introduction

It is simplistic to regard corruption in Latin America as a feature of the bad old corporatist past, easily to be dissolved by thoroughgoing liberal economic reform and democratization. On the contrary, successive historical shifts from mercantilism to liberalism and back again have been marked by struggles for control of the power rhetoric of anti-corruption, and there is no reason to regard the current struggle as already won by the contemporary predominance of neo-liberalism in the region. Democracy, seen by many as the natural concomitant of economic liberalism, provides strong temptations for corrupt behaviour. Political parties do not run on conviction alone. Expenditure in the 1986 election campaign in the Brazilian state of Pernambuco is said to have amounted to \$US 20 per voter, or almost 3 per cent of GDP: an extreme, but not an isolated example (Aguiar 1994).

But this is not all. It is true that many of the corruption scandals that have plagued Latin America in recent years have been beached whales of the old corporatism, stranded by a receding tide. But the current style of economic reform carries its own opportunities for corruption: first, through the re-emergence of private monopoly in sectors long reserved to the state because of their public sensitivity; second, and more subtly, by placing excessive concentration of executive power in the hands of small bands of technocratic reformers, confident that their fine ends justify dubiously constitutional means, or worse.

A recent Argentine corruption scandal, the Yabran affair, reflects both these species of contemporary corruption. When reforming Economics Minister, Domingo Cavallo, alleged that the main bidder for control of national postal and courier services had used corrupt and coercive means to shape the privatization bill and intended, if successful, to use the system for criminal purposes, he came very close to being forced out of office. I shall use this case to illustrate the dual dynamics of corruption in the era of economic liberalization and democratic government in Argentina. To be fruitfully understood, however, the Yabran affair needs to be viewed in the context of economic and political reform in Argentina and neighbouring Brazil over the past decade.

The Argentine Debate

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2 Corruption in Historical Context

The Argentine case merits close attention because it nicely captures some of the ambiguities and conflicts that surround the very concept of corruption. A simplistic interpretation has taken hold among policy makers in North America, and even some in Latin America itself, that characterizes corruption as a set of obstacles to the implementation of economic reform and democratization left over from the corporatist past. It was in this spirit that Alberto Dahik, Vice-President of Ecuador, called for a pan-American anti-corruption drive in March 1994. But things are more complicated than this new brush approach would suggest. Privatization and economic reform may easily open the door to new forms of corruption whereby common weal and body politic are afflicted by overweening private corporations or 'Mafias'. As in the past, the battle is on for possession of the terms of debate.

On the one hand, purist political liberals have long maintained that the purpose of economic reform is not just to increase welfare but to get rid of corruption. Throughout the late eighteenth and early nineteenth centuries opponents of mercantilism were every bit as much concerned to ensure free access to markets by breaking up the regional trade monopolies of the British East India Company or the privileged merchants of the handful of Spanish ports who were permitted to trade with the Indies as they were to reduce tariffs. Equally, contemporary British reformers were concerned to draw clear boundaries between the public and the private sphere, bringing to an end a system that had allowed private corporations to operate their own armies, courts, prisons, and, in effect, foreign policy, while establishing instead the principle that all firms might compete on equal terms under the dispassionate protection of the law and the Royal Navy. These moves formed part of a larger strategy, which included the economic emasculation of a supposedly war-loving aristocracy, reform of local government, and extension of the franchise, by which liberals aspired to circumscribe and choke what was termed 'The Old Corruption' (Cain 1979; Rubinstein 1983). Economic liberalization, democratization and the battle against corruption, it was assumed, marched hand in hand.

Yet within a century, the relatively unfettered operation of the private sector in the handful of leading

industrial economies had itself produced concentrations of power and pools of deprivation that together threatened the public good. This was clearly recognized in the United States by Populists and Progressives and before long yielded the noble, if ultimately ineffective, edifice of antitrust law and the less than noble racist immigration policies of the 1920s. In Britain, imperialists of the early twentieth century, concerned above all with state security in an age of war and economic crisis, were willing to compromise the individualism of an earlier liberalism. This shibboleth was abandoned as the Liberal administration of 1906 started once again to extend the public sphere to deal with poverty, ill health, and the abuse of monopoly. For these problems were now to be regarded as corruptions of the body politic because they transgressed the old frontier between private and public to threaten general well-being, national efficiency, and security.

Such reactions were not limited to the United States and Britain, nor even to the major belligerents of the world wars of the twentieth century. They were also mimicked in those countries, like Argentina and Brazil, whose economies had been badly mauled by the mercantilism of others during the inter-war period. Neo-mercantilism also became the orthodoxy of post-imperial states, like India or Indonesia. And though often attributed to non-European publicists like the Argentine economist Raúl Prebisch or to political leaders like Kwame Nkrumah or Julius Nyerere, such Third World ideologies owed much to the metropolitan schooling of the new governing elites at institutions such as the London School of Economics, which had already left individualist liberalism far behind. The Soviet Union and other self-proclaimed Communist states provided little more than variants of a universal tendency towards a more or less benign totalitarianism. This tide was always most strongly felt in those states which were large enough to believe in the possibility of relative national autarky; and in this respect, the Argentina of Juan Domingo Peron or the Brazil of Getulio Vargas, at its peak, looked every bit as plausible as Mussolini's Italy had in the 1930s.

During the past 20 years this statist mind-set has once again been reversed. To speak of a long cycle in which liberal and mercantilist tendencies alternate would be at best premature and at worst naive.

For present purposes it is enough to note that each successive transition, from mercantilism to liberalism, to neo-mercantilism, and now to neo-liberalism, has been the occasion for fierce public debate about the incidence and nature of corruption. Confusion arises not because the term is meaningless or vague but because it is valuable. Each side covets it. The ability to redraw the frontier between the public and private spheres is central to ideological transformations, and accusations of corruption advance like heralds before the closing armies of corporatism and neo-liberalism.

3 Crisis and Reform in Argentina, 1983-1995

Let us now turn to the most recent phase of this process in Argentina. In spite of mounting macro-economic strains in the mid 1990s, caused by the Mexican crisis of December 1994 and the inauguration of the MERCOSUR free trade area in January 1995, the presidency of Carlos Menem seemed to have achieved in Argentina the elusive combination of economic reform and political stability which had so catastrophically eluded the first democratic administrations in both Argentina and Brazil.

The contrast between Menem's first term (1989-95) and the presidency of his Radical predecessor (1983-89) could hardly have been more extreme. Under Raul Alfonsin, the first president to take office after the collapse of military authority, the country experienced rapid inflation, industrial decline, and currency depreciation as it pursued a downward career punctuated by heterodox shock plans, general strikes, and debt renegotiations. Argentine GDP per capita fell by a quarter during the 1980s. In 1989, as Alfonsin gave way to Menem, annual inflation had reached 4,923 per cent. State-owned enterprises were set to lose \$US 5 billion, exceeding their recent average of about \$US 3 billion a year. Close to half the population of the capital city were living below the official poverty line. Servicing of the \$US 60 billion external debt was in arrears by \$US 3 billion. Little had been done to address the financial crisis of the state, which owed its origins to the corporatist populism of Juan Domingo Peron, half a century ago.

An economy in this chaotic condition offered manifold opportunities for just the kinds of corruption

that most offend neo-liberal sensibilities, afflicting both the core functions of the state and its relations with civil society. A government audit commission in 1988 revealed that government departments had spent \$US 2 billion over and above market prices for goods purchased in a year when Alfonsin was trying to cut public spending by just \$US 0.5 billion in order to placate the IMF. Two years before, an inquiry into the fiscal system had established that half the value-added tax collected never reached the Treasury while bribes to customs officers exceeded receipts of import duties and 84 per cent of direct taxation was being paid by less than 30,000 individuals. State corporations were massively over-staffed, and the National Mortgage Bank (Banco Hipotecario Nacional), originally set up to provide cheap mortgage loans, had become an instrument of political patronage, with some individuals holding dozens of loans. Within weeks of taking office, Menem had ordered an investigation of the 'disappearance', during the 1980s, of \$US 67.5 billion from the Central Bank, most of which had gone to bail out private sector banks, and been covered by illegal printing of additional bank notes, fuelling hyper-inflation.

Corruption was by no means restricted to the fiscal and economic functions of the state. Walter Little (1992) was already able to cite abundant evidence of misuse of office in the civil service, the judiciary, and the armed forces of several Latin American countries, as well as among politicians. Worse, he noted a widespread public perception that corruption had reached unprecedentedly high levels and drew attention to the emerging tendency for those candidates who played the populist anti-corruption card most strongly during their election campaigns - Collor in Brazil, Lusinchi in Venezuela and Menem in Argentina - to be themselves implicated in corruption once in office. Nothing could be more calculated to erode the legitimacy of the state and place democracy itself at risk.

A large part of the solution to corruption on the fiscal and economic fronts lay in privatization. Capital proceeds from sales to foreign firms promised to ease the public sector deficit and reduce the external debt, creating an opportunity for monetary reform. Privatization would put a stop to the recurrent drain of state subsidies to loss-making public-sector firms. At the same time,

privatization promised to limit corruption in appointments, finance and taxation by placing clear accounting, legal, and organizational boundaries between corporations and the state. But the opposition Peronist Party, still strongly tied to the trade unions, deeply interested in employment levels in the public sector corporations, and ideologically opposed to the dismantling of institutions it had sired in the 1940s and 1950s, blocked implementation of government commitments to privatization under the Austral Plan of 1985 and the Primavera Plan of 1988.

Election of the Peronist candidate Carlos Menem in the 1989 presidential election exposed this opposition as partly tactical. Why let the Radicals take the political credit for a policy which, however difficult for party stalwarts to swallow, was not only a financial imperative, but also, according to the polls, becoming more and more popular? Two sales alone during the first year of the new administration, those of the national airline (Aerolíneas Argentinas) and the telephone company (ENTel) promised to reduce the external debt by more than 10 per cent. Indeed, the sale of 60 per cent of ENTel in June 1990 cleared \$US 5 billion from the external debt by a record-breaking debt-equity swap. Whatever view the unions might take, it had been evident as early as 1985 that 67 per cent of the inhabitants of Buenos Aires favoured privatization of a telephone system that could no longer be relied upon in wet weather. With privatization came also serious moves towards trade liberalization, with cuts in export taxes on agricultural goods and a shift from sectoral and bilateral liberalization *vis-à-vis* Brazil to the more thoroughgoing and outward looking regionalism of the MERCOSUR free trade agreement.

In spite of these and other reforms and proposals, including a November 1990 plan to cut public employment by 20 per cent (and with it, petty corruption), the new administration soon had its feet firmly stuck in the swamp and its nose, many claimed, in the trough.¹ There had been doubt from the outset about the reliance of the President on

family and friends as aides and appointees, and on support from the conservative Peronist unions. Then a succession of incidents during 1990 and 1991 moved corruption to the head of the political agenda and came close to implicating the President himself.

The first of these nicely illustrates the difficulties of reform of the complex bureaucratic structures bequeathed by decades of authoritarianism. As a first step towards their privatization, Menem ordered that state-owned utilities should pay their way by making charges that reflected real costs. In a climate of hyper inflation, the firms responded by what were widely perceived to be arbitrary and inequitable price increases. Bills for water, electricity, or telephones, sent out monthly because of rapid inflation, would arrive at neighbouring apartments, one up by a few hundred, the other by several thousand per cent. Suspicion grew that systematic overcharging was being used to substitute for state subsidies and delay painful improvements in efficiency. A lively market developed in the adjustment of meter readings and bills by junior employees. Payment for electricity in particular aroused anger as it was widely believed that a significant percentage of current was stolen with the collusion of corrupt senior employees. Although Menem addressed the ensuing chaos in April 1990 with new regulations on billing and accounting, some of the mud stuck to his administration, and as was to happen in each successive corruption scandal, even when it was the government itself that unearthed the dirt with a sincere intention to reform.

April 1990 saw a lightning fly-posting campaign implicating several Menem appointees including his younger brother and the Minister of Health and Social Welfare. Public attacks on corruption by the United States Ambassador and the Catholic Church early the following year fuelled growing public discontent with official corruption and provoked Menem into a reactive campaign against it. By April 1991, he had lost three cabinet ministers and several close aides, but was still dogged by accusations

¹ Since 1990, corruption has been the focus of intense public interest in Argentina. Authors like Horacio Verbitsky (1991), Mariano Grondona (1993), and Luis Moreno Ocampo (1993) have topped the non-fiction lists for weeks on end with contributions to the debate.

of drug trafficking and money laundering levelled against members of his own family. Corrupt procurement procedures in the air force, money laundering at Buenos Aires airport (Menem's sister-in-law was finally acquitted of these charges in 1994), corrupt airport modernization contracts and adulterated baby food led on to the impeachment of a federal judge in November 1992. This was followed by legal proceedings against members of the Supreme Court the following year, revelations of gross financial maladministration at the Health Ministry in January 1994, and a succession of tax evasion scandals affecting Peronist trade unions and state-owned firms.

In neighbouring Brazil, moreover, a disturbingly parallel course was being pursued by another recently elected and charismatic president, Fernando Collor de Mello, who had taken office less than a year after Menem, in March 1990. Collor, much more than Menem, had fought on an explicitly anti-corruption ticket. Collor took power in circumstances every bit as difficult as those encountered by Menem and, like Menem, he pledged himself to reform the economy, in spite of the lack of broad political support, with the aid of a team of young technocrats. Privatization got under way, belatedly and haltingly, in 1990; but, like Menem, Collor was also surrounded by corruption scandals.

Yet the difference in outcomes could hardly have been more stark. A wave of inquiries into Collor's affairs revealed evidence of influence peddling, insider trading, and electoral irregularity. Impeachment proceedings began in September 1992 and by December he had resigned, too late to prevent the final impeachment vote that stripped him of office. This was no mere personal catastrophe. It constituted a serious setback for economic reform and democracy in Brazil, where the out-turn for 1992 was zero growth and 1,200 per cent inflation. The defeat of Collor, however corrupt he may have been, was also a victory for the forces of an older corporatism.

4 Cavallo and the Yabran Affair

To Carlos Menem, already battered by a succession of corruption scandals of his own, the fate of reform and of its most vocal advocate in Brazil was more

than a salutary example. It was a direct source of pressure, pointing to his own vulnerability with disturbing accuracy. In these circumstances, good news on the economic front was more than welcome. And it was Domingo Cavallo PhD (Harvard) who was delivering it. Before his arrival at the Economics Ministry in February 1991, Cavallo had already formulated a strategy he was quick to implement and tenacious to defend. Reform of the tax system, institutional and bureaucratic reform throughout the public sector, and above all, a sound fully-convertible currency were the clear priorities. By April, the Austral (later to be re-named the peso) had been fixed at parity with the United States dollar, a rate defended through thick and thin up to the time of writing. Annual inflation for 1992 seemed likely to be close to single figures, much of the state sector was in private hands, the economy was moving towards positive real growth for the first time in years, Argentines were even starting to pay their taxes, and the budget was close to being balanced. However much Menem might resent the considerably higher popularity ratings of his Economics Minister, he could not dispense with him.

In spite of these early economic successes, however, Menem faced mounting opposition from intermediate social institutions still saturated with the attitudes of the old corporatism. Several Peronist union leaders publicly withdrew support from Menem in July 1991. The Church supplemented its *démarche* against corruption with an attack on the seeming indifference of the state towards poverty, deprivation, and unemployment in November that year. In 1993, economic pressures on marginalized classes and regions continued to mount, leading to riots in Santiago del Estero and La Rioja in 1993 and in the major industrial city of Cordoba in June 1995.

Although they were not enough to turn the electorate against him, these events combined with economic setbacks in 1994 and the early months of 1995 to place the newly re-elected President and his team in a vice not unlike the one that had crushed Collor. By December 1994, opposition forces in Congress were strong enough to start a campaign to drive a wedge between Menem and Cavallo by demanding modification of clauses relating to further privatizations and civil service reforms in the 1995 budget as the price for additional funds to pay

government pensions, as Cavallo encountered an unanticipated shortfall on the 1994 budget.

Cavallo responded with a public expenditure 'strike', calculated to conserve the funds needed to meet the legal obligations of government without making the concessions demanded by Congress. At the same time, he resorted, not for the first time, to the leaking of corruption rumours implicating opponents of the regime. As 1995 progressed, Cavallo campaigned against corruption allegedly surrounding the purchase of computing equipment from IBM by the Central Bank and the forthcoming postal privatization. And in August 1995, this seasoned privatizer of oil, telephone, and utility companies stepped forward to oppose the Bill for privatization of the state postal system, in spite of his strong commitment in principle to the need for more efficient communications. The reason was that an alliance of Radical and Peronist members of the Senate had passed a version of the original bill which, far from opening postal services up to competition, promised to create a virtual monopoly in private hands, setting up high barriers to entry and leaving government with little right to inspect the privatized service.

It was above all the means employed to secure this bill and the nature of the political alliance that lay behind it that led Cavallo to attack Alfredo Yabran in Congress towards the end of August 1995. Yabran, the head of a group whose ostensible business centred on delivery services, was alleged to have employed bribery, threats, and violence in his bid to convert the national postal, airport, and customs services into a personal fiefdom. Cavallo went further, claiming that as well as exerting public control over his courier services, with its near monopoly of bank clearing business, Yabran effectively managed additional companies that between them handled more than half the nation's courier business as well as the leading armoured transport and long-haul trucking firms, placing him in an ideal position to conduct money-laundering on a grand scale. Add to this his recent bid for Argentina's sole printer of bank notes, Ciccone Calcografica, and the circumstantial evidence began to look impressive.

Yet circumstantial evidence was more or less all there was, since the use of nominees makes it possible to conceal ultimate ownership of shares in

Argentine companies. In short, Cavallo was willing to go out on a limb, risking his career and the achievements of four years of reform, to oppose a privatization which he suspected would lead on to further corruption. In doing so Cavallo confronted not simply Yabran, but a cluster of political factions in the country by now prepared to ally with the devil himself in order to oust him. These included elements in the Roman Catholic Church, the labour movement, and the Peronist party - including the governor of Buenos Aires Province, Eduardo Duhalde - committed, whether by interest or conscience, to halting if not reversing the economic reforms. The strength of those willing to exploit his vulnerability was evident in the immediate attempts made to isolate Cavallo by implying that his attack was directed implicitly at the highest levels of the Peronist party, including the President himself.

Corruption scandals have a way of running and running. Though proof might be lacking, Cavallo convinced a majority of the 28,000 workers in the many local savings banks within the state postal services, who in turn put pressure on the Radical party. When the Postal Bill came to the Chamber of Deputies following the attack by Cavallo on Yabran, the Radicals withdrew their support and effectively killed it.

The difference between the Yabran affair and the corruption scandals of the first Menem term were profound. This time, Cavallo had targeted not just anti-reform factions in the legislature but the new corruption of the private sector as represented by Yabran. Moreover, for the first time the technocratic Economics Minister, notoriously lacking any conventional political power base, had succeeded in mobilizing a nation-wide constituency in his support. Not yet 50, apparently incorruptible, Cavallo proved by the Yabran affair that he was capable of marshalling conventional political forces to get his way, and that he was no more tolerant of private than of public subversion of a liberal economy. But for democracy to be better secured against the kind of tactical alliances of old and new corruption which Cavallo faced in 1995 would require one additional reform, as much social as political. That is a democratization, in place of the marginalization of recent years, of those intermediate social institutions that have been most resistant to economic reform in Argentina, but without which neither

reform nor democracy is likely to thrive in the long run.

5 Conclusion

The immediate political and financial backlash against Cavallo demonstrated the vulnerability of technocrats without any traditional power base to pressure from trade union, religious and political factions justifiably embittered by the way their constituents had suffered from cutbacks in state spending on social services and the opening of the Argentine economy to international competition.

For reforming administrations to be able to confront the corruption associated with emergent private monopolies, some loss of executive power and slower implementation of reforms is a fair price to pay provided political parties, trade unions, and religious, municipal, and professional bodies, constructively reformed, can subsequently be counted on to sustain and deepen reform. To override rather than reform such intermediate institutions is to offer the emergent Mafiosi of the neoliberal order rich possibilities of tactical alliance with the demoralized, corrupt, yet still legitimate residuum of corporatism. But few things are harder for the current generation of neoliberal Jacobins to accept than

dispersal and separation of powers and the toleration - even cultivation - of the kinds of checks and balances, throughout society, without which democracy is likely to be at best the etiolated and disease-prone growth of a single season.

The reform project ultimately relies on the legitimacy of the state. The dual Mexican crisis of 1994/5 - devaluation and Chiapas - suggests that neither reform nor the legitimacy of the democratic state can be sustained in the long run unless both old and new forms of corruption are attacked with equal vigour, and that the key to success lies in reformed and re-empowered social institutions, whether they be professional and employers associations, universities, trade unions, religious bodies, the media, municipalities, or movements based on gender or community. The great strength of reforming governments of the past 20 years, in Mexico or Great Britain as much as in Argentina, has been their centralized technocratic competence. But this strength hides a potential weakness. It too easily saps the legitimacy of the state by leaving traditional mediators of political and social power isolated and demoralized, a prey to new forms of populism of the kind exemplified by Silvio Berlusconi in Italy.

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