

# Legislative Capitalism: Governing after reforms

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There is little doubt that the past 20 years have been a period of profound changes in the role played by governments everywhere, and that in Latin America these changes have particularly significant. After decades of heavy state intervention in the economy during which sprawling state bureaucracies were established, Latin America witnessed sweeping economic reforms during the 1980's and 1990's that profoundly changed the political and economic landscape in (Geddes 1995, Crisp & Kelly 1999, Lora 2001, and many others).

One of the main criticisms leveled towards excessive state intervention in the economy was that it distorted economic incentives by creating too many opportunity for rents, consequently leading to misallocation of resources (Krueger 1974). Since state resources are commonly used to meet political goals, a smaller state should — in principle — reduce the “harm” that can be done by politicians. This argument tacitly acknowledges that state resources are important for political bargaining. After all, if this were not the case, it would not be “necessary” to reform in the first place.

In this chapter I develop the idea that if, in fact, state resources are an important part of political exchanges, changes in the amounts of these resources available for political use must produce political effects. While in previous chapters I have exhaustively made the point that resources under the control of the president are essential to executive-legislative relations branches, now I argue that the importance of state resources is not confined to this specific class of political exchanges.

Economic changes, such as stabilization and greater openness to capital — by imposing tighter and cleared budget constraints on governments — and privatization of state assets — by reducing the size of the state — have shrunk the amount of resources available for political bargaining. The consequence, and main idea in the chapter, is that this reduction in the availability of resources might have forced politicians into a negotiating equilibrium different from the one that prevailed in the pre-reform period. In particular, the chapter focuses on one specific consequence of a smaller supply of resources: I argue that for a president that governs after a period of sharp reduction in resources, bribing legislators to obtain support might become a rational and reasonable coalition building strategy.

The chapter proceeds as follows. Section 1 discusses why the resources controlled by the executive are politically important, and possible impacts of economic reform on the availability of these resources. In Section 2, the theoretical argument as to why less resources can make

bribing legislators a rational strategy is presented as an informal extension of the model from Chapter 3. Section 3 discusses the extent to which cross-national comparative data support the main claims of the Chapter, and is followed, in Sections 4 and 5 by a closer examination of the cases of Brazil and Bolivia. I conclude, in Section 6, with a summary of the findings and an analysis of their implications.

## 1 Political Effects of Economic Reform

The already sprawling literature assessing the impacts of reform has mostly concentrated on social (Crisp & Kelly 1999) and economic effects of these changes (Lora, Panizza, & Quispe-Agnoli 2004), but there has been less work on the *political* effects of reform, understood as changes in the behavior and strategies of politicians. Despite this scant attention, reforms can affect politics in many different ways, both indirectly through socio and economic changes that lead to reconfiguration of political forces, and directly by altering the landscape in which politicians operate.

In this chapter, I focus on the latter, and more specifically on the idea that reforms affect the amounts and type of resources available for political distribution. Since — as I have argued in the preceding chapters — these are an important part of ordinary political exchanges, if the availability of resources changes, politics becomes subject to a new set of constraints. In the remaining of this Section I develop this argument a little further, by examining both the importance of resources, and the potential effects of reforms on their availability.

### 1.1 Importance of resources

The amount and type of resources controlled by governments have important effects on politics in what is perhaps its most “ordinary” form in Latin America: the constant bargaining and negotiations between the legislative and executive branches. Given that across the region, legislatures exert little control of the functioning of the bureaucracy, presidents in almost every country have considerable leeway to enact infra-legal regulation that dictates how agencies function and are organized, and also over budget making and implementation.<sup>1</sup> This allows the executive almost exclusive control over policy implementation, including decisions such as when and where to spend, who to hire, who to subcontract to, and when. Granted, many of these decisions have to respect certain legal procedures, but there is ample room to maneuver within the legal boundaries, and even more room to circumvent them altogether.

Presidents are indisputably the most influent members of the executive branch, so their resulting capacity to make political use of extensive bureaucratic apparatuses allows even those with little constitutional legislative powers to remain as the key players in politics.<sup>2</sup> As anecdotal

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<sup>1</sup>I discuss the issue to more detail in Chapter 2, but it is worth mentioning here that according to UNDP (2005) president’s can unilaterally modify the budget after it is approved in only four out of 18 countries analyzed. However, this number is misleadingly small, because in 16 countries presidents can impound moneys when revenues are less than predicted, and in six president’s impounding powers extend beyond this. In order to accommodate more of legislators requests in the budget, and revenues take some time to be collected and processed, government can almost always claim revenues were lower than anticipated and alter the budget through selective impounding of budgeted spending.

<sup>2</sup>A good example of this is Pre-Chávez Venezuela, where presidents had no power to issue decrees, veto or exclusively introduce legislation (Shugart & Carey 1992), but where the president had control over a sprawling state apparatus which included PDVSA, the national oil company.

evidence suggests, and scholarly accounts describe in more detail, presidents rarely shy away from dispensing these resources (Crisp 1997, Gamarra 1997, Pereira 2002, Mejía Acosta 2004, Altman 2000), and except under very specific circumstances these provide an almost irresistible attraction for other political elites because they contribute to their own future electoral success.

Granted, some authors have pointed out that there exist situations in which a president's resources are not enough to lure supporters. Altman (2000) shows that in Uruguay, as elections approach, the incentives to defect from the government coalition grow to the point that the price the president would have to pay to keep coalitions together becomes too high. Mejía Acosta (2004) argues that both time since election and popularity of the president — which in Ecuador are highly correlated — affect the political costs of siding with the president, thus forcing the creation of secret “ghost” alliances, which allow members to reap the benefits of cooperation without paying the audience costs it entails. Yet another such example can be drawn from Saiegh (2004), who presents a model where the pressure legislators suffer from their constituencies make them too expensive for the president to buy.

Note, however, that in these accounts, the president is *unable* to buy support due to insufficient resources. Moreover, they all suggest that support *could* be bought *if* only the president controlled more resources. Therefore, these arguments really highlight the importance of the amount of resources controlled by the president, and the potentially grave impact of changes on its levels.

## 1.2 Reform and loss of resources

Structural adjustment and market oriented reforms have dominated much of the political agenda in Latin America in the last decades. Most countries underwent significant processes of stabilization and reform, which entailed making fiscal balance a priority — albeit with varied degree of success — liberalizing trade and financial flows, and privatizing banks, industries, utilities and infra-structure.

Across the region governments have faced the challenge of having to muster enough support to govern while the resources available to buy support dwindled. Governments have privatized utilities, state owned companies and banks, and sometimes reorganized and downsized public agencies which reduced the number of jobs that could be distributed. At the same time, the pressure for balanced budgets has increased, and the fiscal constraints have become clearer and more binding than in previous periods. These changes have limited the availability of resources that executives can use to buy support. Political players recognize that reformist policies have had this effect, as one former Bolivian minister and seasoned legislator commented in an interview:

As democracy developed, parties proceeded to amputate their fingers, their hands, and later their arms and feet, because they rid themselves of political instruments. Instruments that were used to strike deals, but also to answer to the citizenry. Before one could appoint the Central Bank [directors], but no longer. One could appoint Customs [officials], but no longer (...). Now what happens is that the State has become too small, and so has the discretionary capacity of officials. On the one hand, this is positive, but on the other it creates internal problems in the coalitions. (Interviewee 03 2005).

**SOE's:** One of the most visible consequences of the economic reforms of the past two and decades has been the sharp reduction in the number and scope of State Owned Enterprises (SOE's) (Chong & Lopez-de Silanes 2005), and with them the capacity to appoint directors, hire workers and deliver political benefits. Much, if not all of the government assets that were shed or downsized during the reform process were previously under the executive's control.

Whenever the president was confronted with the task of coalition building, be it in the strict sense of attracting other parties into the government, or more generally to pay back supporters, these assets were crucial political resources. SOE's accounted for an important share of the executive's political resources. Directing posts were coveted political appointments, serving as launching pad for many political careers and as reward for cementing political loyalties. At lower levels, these companies were also frequently important sources of employment positions, and very politically useful for setting the prices of basic services in response to constituents' demands, and also for providing services in exchange for political support. Through public companies governments — or their allies — could distribute tangible benefits to voters, such as a phone line, an electrification project, the opening of a local office, or even a swimming pool in the worker's association club.

**Fiscal Discipline** Fiscal discipline constrains presidents' ability to use the budget to reward supporters. In the specific case of legislators, restrictions on the budget impose limits on resources available to build a school or a road, limits to the expansion of public employment and sometimes failure to improve the provision of public services to their constituencies. As the executive typically has the last say whether and how resources are actually spent, legislators commonly hear that regardless of its merits, their piece of pork or patronage cannot be appropriated as budgeted.

But what is the lint between fiscal discipline and reforms? Though these are, in principle, two different topics, starting in the late 1980's they were often carried out in the region with considerable degree of overlap. Exchange rate based stabilization plans, for instance, which were responsible for the eventual taming of inflation in most countries in the region at around this period, rely on greater openness to trade as a way to discipline prices. Currency overvaluation and the inevitable rise in imports that follows, fuels the consumption boom typical of these plans (Aisen 2004) and requires capital inflows to balance external accounts. As an incentive to these inflows, governments engage in capital liberalization, privatization, and market deregulation, in order to make the country more attractive.

Granted, the need for capital is not new, and is in some ways almost a defining characteristic of Latin American economies since ancient times. However, the crucial role of this capital in maintaining the hard fought for stability, and the increased mobility of capital, put even more pressure on governments to maintain the budget under control and inflation low. Even small deviations can be noticed by investors, and can trigger major reactions that can leave governments in dire straights. This increased capacity of investors to vote with their feet, "disciplines" governments and reduces the range of macroeconomic policies available to government (Campello 2004), at least in non fuel exporting countries.

In fact, average fiscal results in Latin America have improved from -9.1% in the 1980's to -3.3% in the 1990's, reaching -1.4% in 2004, according to World Bank figures (World Bank 2004, p.181). One should still consider that these figures are *after* interest payments, which in some countries have risen considerably during the past decade. As a result, governments sometimes

run large primary *surpluses* in order to generate cash to meet their debt obligations, which frequently requires reductions in public investment and expenditure. Even where the budget crunch has been met with increased taxation, much of the excess revenue is devoted to paying debt, keeping inflation low and markets calm.

## 2 Legislative Capitalism?

Prior to the reforms there was a relative abundance of resources over which to bargain for state apparatuses were larger and inflation made budget constraints non binding. Especially in the more aggressive reformers, the environment in which political bargaining occurs has changed considerably. Hence, both expectations of the political players and outcomes of the political bargaining process must have shifted. In essence, my argument is that the reduction in the resources available for distribution must have forced politicians into a different negotiating equilibrium.<sup>3</sup>

### 2.1 Agreeing to lose

But why, then, would politicians — whose consent is usually necessary to reform in the first place — agree to reforms which in the long run should reduce their ability to obtain resources from the state? Why, paraphrasing the Bolivian politician quoted in the previous section, would politicians agree to cut off their own limbs?

If reforming were easy, no country would have undergone the perils of hyperinflation. Reforms can have very negative consequences to specific groups, and rewards are frequently uncertain, and often diffused. No politician, for instance, wants to be blamed for layoffs in the public and private sectors, deindustrialization, and for withholding pensions and salaries. On the other hand, failing to reforming is can also be very costly, as the deep crisis of the 80's showed. In this scenario stabilization can momentarily boosts popular support and first generation reforms can generate an immediate stream of income — such as revenue from privatization or even loans from multilateral institutions given to reward efforts (Schady 2000) — that can be used to compensate losers and buy consent of key political players, which would not otherwise play along. This is such a well known regularity that it has even been one of the arguments in favor of starting economic reforms by a quick and sweeping privatization program (Galiani, Gertler, Schargrodosky, & Struzenegger 2005). Moreover, strategies exist that allow to shield certain politically important sectors from immediate negative effects of reforms (Remmer & Wibbels 2000).

Therefore, it is is frequently the case that “modernizing” reforms are carried out through — or concomitantly with — “traditional” political strategies. Calvo & Gibson (2001) provide an interesting analysis of the Argentine case, and show how handouts were used to ensure support for reforms in the politically over-represented backward regions of the country. México's PRONASOL (Dias-Cayeros & Magaloni 2003) and Peru's FONCONDES under Fujimori (Schady 2000, Tanaka 2006) are examples of similar phenomena. The uneasy relationship between coalition formation through spoils distribution and reforms has also been identified in

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<sup>3</sup>An argument of this sort has been specifically made in the past by Valenzuela's (1978) work on pre-1973 Chile, who claimed that polarization spiraled out of control after constitutional changes prevented dispensing clientelism, which had until then ensured the accommodation of political interests in parliament.

other settings as well. For example, Mayorga noted that in Bolivia, coalitions “played a contradictory role: they allowed government to stabilize democracy, implement long-term policies, and carry out institutional reforms that weakened the spoils system, but they also legitimized patronage to a great extent” (Mayorga 2006, p.164).

The problem is what happens afterwards. Once the immediate rewards, both in terms of popular support, and of cash flow are reaped, how can governments continue to maintain their support coalitions?

## 2.2 Coping with loss of resources

In aggressive reforming countries, the political landscape that emerges *after* the bulk of the reforms are carried out is dramatically different, and this has been noted by other authors. For instance, Estévez, Magaloni, & Dias-Cayeros (2002) affirm that “the economic crisis of the 1980s and the market oriented reforms that followed lowered the amount of public resources available for patronage and clientelism” (p.19), and Mayorga (2006) stated that “key state institutions — Central Bank, the Office of the Controller General, the National Electoral Court, and the former state-owned enterprises — were taken out of the spoils system.” in a processes that ‘dried up the sources of plunder’ (p.172).

With less resources, what does “ordinary politics” look like? If the budget constraint change went ignored by politicians, and they continued to demand the previous levels of transfers from the president, the inevitable result would be ungovernability. In this scenario, presidents would simply “run out of resources,” before being able to assemble a working coalition. However, this is much less common than originally thought. Presidents generally do not fall due to lack of coalitions (Cheibub, Przeworski, & Saiegh 2004), and when they fall, Latin American president’s are more often than not overthrown by the “streets” than by the legislature (Hochstetler 2006).

What happens, instead, is that politicians adapt to the new environment in several non-exclusionary ways. Some adjustment might occur on the “demand side,” of political bargaining, as long as politicians know the new budget constraint is binding and adjust demands. Politicians might also focus on obtaining a proportion of the resources available instead of absolute amounts. However, even if this is the main logic behind adaptation, there are limits to how much politicians can reduce their demands, since they are also accountable to local constituencies, which are frequently demanding and open to competition.

To this effect, a tighter budget constraint might provide an extra incentive for presidents to seek more cost-efficient systems of spoils distribution. Though, as I have argued in preceding chapters, all presidents have incentives to minimize coalition making costs, the ones hit by a greater reduction in resources are the ones likely to receive the extra push. What makes this issue particularly interesting is that the push for “fiscal efficiency” provided by reforms does not necessarily lead to “good” political outcomes, for under different circumstances a cost effective strategy to deal with the demands of political elites might come to mean very different things.

One type of response to changes in the availability of resources might include greater concern by the president with the efficient use of the resources he has at his disposal. An example of such is the Cardoso’s government implementation of the SIAL, as described by Pereira & Muller (2004), where the office of the president’s Chief of Staff followed closely the demands of legislators and party leaders, how they behaved in Congress, and how much resources they received from the government. While there is some controversy over the actual role of the SIAL

— as discussed in Chapter ?? — most would agree that it at least a tool to centralize and coordinate government efforts with respect to the legislature, and to make the government's use of resources more efficient. This logic can also be illustrated by Aécio Neves' first term as governor of Minas Gerais, one of the most important states in Brazil, whose strategy was to appoint technocrats to the spending posts in the government and to call up local legislators to claim credit whenever expenditures were performed in their respective bailiwick. This way, he managed to maintain unity in a very large coalition, balance the state's budget, and please his supporters in the legislature (Cruvinel 2004).

There is also some evidence that similar efforts were made in Bolivia. For instance, the office of the presidency started out very small in the early nineties and gradually expanded. An official that served as liaison between the executive and the legislative in Sánchez de Lozada's second term described how the executive had to begin investing considerable efforts to track initiatives in Congress, gather and report information on votes, and follow up with legislators by enticing them with public works or proposed budget expenditures in their districts (Interviewee 06 2005). Reputedly, such a mechanism had not been necessary during the late eighties and early nineties, when the three main parties were tightly controlled by their historic leaders and controlled most of congress and discipline was taken for granted. But eroding party structures and discipline eroded coupled with the erosion of resources (See Section 5) then used to ensure support, prompted efforts by the government to make sure the resources it still had were effectively used.

The key, in these examples, was to *reorganize* the political practices to increase the payoff the executive receives from its resources, rather than to *change* the political currency itself. While this phenomenon is one worth studying in its own merits, it is not always possible to compensate for the loss of resources with greater efficiency in the exchange process. In the remaining of this chapter, I focus on a rather different type of response to changes in the amounts of state resources available for political bargaining, namely, the direct "purchase" of support through illegal cash payments to legislators.

### 2.3 Paying for Support

The direct "purchase" or bribing of congressmen by the executive in exchange for support has recently been observed in several Latin American countries. Major scandals of this type have occurred in Peru in September 2000, Argentina in October 2000, in Brazil in 1997 and 2005, and the practice has been a more or less regular fixture in Bolivia during the 15 years or so that preceded the fall of Sánchez de Lozada. These examples all come from aggressively reformist countries, and here I speculate that this is not mere coincidence.

In the previous chapters of the dissertation I worked with a model of spoils distribution in which the president controlled two type of goods, a club good that could be handed out to parties and a private good that could be targeted to individual legislators. In that model, the trade-off between reducing the waste of resources through targeting and the economies of scale of dealing with parties rather than individuals provided the friction that lead presidents to provide a mix of both goods.

Now, let there be a third type of good controlled by the president, which for simplicity I will call "bribes." As with the private good, bribes can be targeted, but have a larger unit value, since they are completely fungible and can be used in whatever way the recipient sees fit. The drawback, in this case, is that bribes carry the disadvantage of the potential generation of large

scandal, thus penalizing both the executive and the receiver.

If the probability of generating a scandal is large enough, presidents will usually not resort to bribes. However, as their resources dwindle, the greater yield of bribes makes them more and more attractive. A lower budget constrain on “legal” political trade goods might make bribing legislators an optimal strategy, which suggests that under certain circumstances, bribing legislators might be cost efficient for the government. In fact, it might even be the case that the reduction of resources does not have to be too radical. As the budget constrain lowers, the supply of “legal” goods is reduced, thus affecting their relative prices vis-a-vis the “illegal” option. Such change can be enough to make bribes attractive.

There are two reasons for which one can treat the funds used for bribing as if they were not subject to the general resource constraint that affects the provision of pork and patronage. First, as described bellow, the money for bribes typically comes from extra-budgetary sources, or from budget items that are not subject to public scrutiny. Second, the amounts involved in bribes are usually much lower than even a small development project. In this sense, it is much cheaper to pay a legislator directly for his vote than to buy it through a piece of pork. The effectiveness of the bribe is extremely high for the recipient, though obviously the bribe generally does not produce any positive social effect as does, for instance, a sewage project or even soccer a field, for that matter.

The main hypothesis of this chapter is that the incentives to bribe legislators in exchange for support increases with a decline in resources, caused by reforms. I also expect that these incentives to be greatest a few years after the bulk of the reforms, which is when the immediate inflow of resources that follows first generation reforms will have dried up, and precedes the politicians’ ability to arrive at a new *modus vivendi* for political exchanges.

### 3 Comparative Empirics

While the proposed argument might be internally coherent, its external validity is, as always, an empirical question. In this section, I begin looking for evidence that the mechanism linking reforms and legislative bribing might be at work. I start by quickly reviewing the cases of five countries in which bribing of legislators in exchange for support happened or might have happened and then, in the rest of this section, I examine whether the *intensity* of reform is associated with greater probability of occurrence of legislative bribing, and also whether the *timing* of these episodes is compatible with the argument.

**Peru:** After securing the right to stand for a third term, Alberto Fujimori was reelected president of Peru in 2000 in elections that were deemed “highly irregular.” Fujimori fell short of an outright majority in the first round of the elections, but in the second round — in late May — he ran uncontested after Alejandro Toledo withdrew from the race over allegations of fraud, and received 51% of the vote.

In August of the same year, Fujimori and Vladrmiro Montesinos — his information minister and mastermind of the regime — had a falling out apparently over the latter’s involvement in an arms sale to the Colombian FARC (Tanaka 2006, p.286). In September, shortly after this rather obscure episode, a video in which Montesinos was shown paying congressman Alberto Kouri \$15,000 to enter the president’s support group became public. Almost immediately, fearing that Montesinos and the army might plot to overthrow him, Fujimori called new elections for

the next year, setting in motion the sequence of events that ultimately led to his resignation and auto-exile in Japan in November.

After the fall of his government, hundred of other “vladivideos” became public, providing evidence that the same strategy had been used with other legislators to assure Fujimori a majority in the legislature.<sup>4</sup> Through this method, Fujimori was able to expand his support base from 52 to 70 legislators, even before the 120 member parliament was sworn in, and was able to ensure the election of his candidate to the post of president of Congress, on July 27. Investigations later placed the number of legislators involved in the bribing at 21 (18% of parliament), which included “transfugas”, as were called the legislators who effectively switched parties, “topos”, the infiltrated *fujimoristas* in other parties, and members of Fujimori’s own party that received illegal campaign contributions from Montesinos.

**Argentina** Given the magnitude of the Argentine meltdown of December 2001, not many people outside of Argentina remember that the political crisis in the De la Rúa government began more than an year earlier. In late June 2000, a small note in *La Nación* mentioned the provision by the government of “personal favors” to some *peronista* senators. As Senator Antonio Cafiero (PJ) proposed to debate the issue in the Senate, rumors of bribery began circulating, and in a few weeks, precisely as the government was hitting the first economic bumps and its popularity plummeting, the case evolved into a full fledged scandal. The main allegation was that the executive had paid *peronista* senators a hefty bribe to support the government’s labor reform bill, which had been voted in the Senate in April after clearing the lower house — where the government had a comfortable majority — in February.

The scandal was particularly damaging to the government because De la Rúa had been elected on a platform of moderate political change with an emphasis on clean government. Adding insult to injury, Alberto Flamarique, the labor minister, main political negotiator for the bill, and the main implicated in the case was “promoted” chief of staff at the height of the scandal. It is worth noting that Flamarique was the same man that, just after the bill passed the lower house, had been caught on record saying that “for the Senators, he had Banelco,” in a not so subtle reference to a the main official bank in Argentina (Gasparian 2005, p.58). Almost immediately, vice president Carlos “Chacho” Alvaréz resigned, leading to the eventual withdrawal of Frepaso from the government and the formal breakup of the *Alianza*.

At the time, it was estimated that 11 senators had split a large bribe (LAWR 2000) that, as in the peruvian case, had originated from discretionary funds of the “information” secretariat of the presidency (LAWR 2001a). Estimates vary widely. Some news outlets mentioned between US\$ 50,000 and US\$ 80,000, prosecutors at the time stated that US\$ 6.5 million dollars were distributed (LAWR 2001a), and Gasparian (2005) suggests that individual bribes varied from US\$ 75 thousand to US\$ 1 million. The following year the, the judiciary closed the case due to lack of evidence but years later, when corruption allegations against the main judge in the case become public, the case was reopened. In September 2005, six former senators were indicted.

**Brazil:** The first time allegations of legislative bribing surfaced was in 1997, when on May 13, the newspaper *Folha de São Paulo* published the transcripts of recordings in which two congressmen from the state of Acre admitted to receiving, along with other colleagues, R\$ 200 thousand each to vote in favor of the Constitutional Amendment to allow re-election of the

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<sup>4</sup>The videos and their transcriptions are available from the Peruvian’s Congress website.

president (LAWR 1997a), which had been brought to the floor of the lower house on January 28 of that year. According to the *Folha*, Sergio Motta, then Ministry of Telecommunications and main political articulator of the government, had teamed up with governors aligned with the president to buy the necessary votes to ensure the amendment was passed. Immediately thereafter, rumors of widespread bribing began circulating, and some even suggested that Motta had personally bribed other members of the lower house as well.

Once the scandal erupted, the government moved boldly to limit fallout and managed to avoid the creation of a Parliamentary Investigation Committee (CPI). The two legislators in the recordings resigned to avoid being prosecuted, and other three mentioned in the recordings were acquitted in a vote in the house. As a consequence, little was ever officially investigated and nothing was ever proven. Motta died the following year, taking these and other secrets to the grave. The only concrete aspect of the story is that according to surveys carried out by the press, about “70 congressmen changed the way they planned to vote on the Amendment at the last minute” (LAWR 1997b).

A few years later, during Lula’s first term as president, similar allegations had much greater repercussions.<sup>5</sup> On June 6, 2005, and then again on the 12, *Folha de São Paulo* published interviews where Roberto Jefferson (leader of the PTB) revealed the practice of regular payments allegedly made José Dirceu, the government’s Chief of Staff. In testimony to a CPI that was investigating a bribery scandal in which he was implicated, Jefferson later revealed that Dirceu headed a scheme that made periodic payments to congressmen from the PTB, PL and PP, which were coalition partners in Lula’s first term in office. In that very day, Jefferson referred to these payments as *mensalão*, a neologism that translates roughly into “large monthly allowance,” and which became the popular name of the scandal.

The fallout was immense, and in Section 4, I examine this episode in more detail. Two CPI’s dealt with the issue, and though one of them was inconclusive they managed to keep the issue on the front of the political news for almost an year. Several legislators, including Jefferson and Dirceu, resigned or lost their mandates in connection to the scandal, and though President Lula, himself was never directly implicated, the crisis had and an important — though not lasting — impact on the his popularity.

**Bolivia** Though not having registered specific scandals of this type, Bolivia is the a case that illustrates this logic the best. Between 1985 and 2002, Bolivia enjoyed the longest and most stable period of democratic rule in the country’s history. During this period, a succession of coalition governments enjoyed unprecedented support from congress, to the point that relations between the executive and the legislative were commonly referred to as the *rodillo oficialista*.

Bolivia’s system of allowing Congress to choose the president from among the frontrunners in case no candidate obtains an outright majority of the popular vote contributed to produce presidents with working legislative majorities. However, at least part of the constant subordination of the legislature to the executive during the years of the *democracia pactada* can be attributed to the regular direct payment of legislators to support the government. This practice, which I examine at a greater length extent in Section 5, is an open secret in the country, and was confirmed, or at least not denied, in almost all the interviews I conducted in the country.

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<sup>5</sup>This probably attests more to the differences of political skill and strength of those involved than to differences in the alleged practices.

**Ecuador** Gustavo Noboa was handed the presidency of Ecuador in January 2000, after a coup led by future president Lucio Gutierrez and supported by middle level military officers and indigenous groups ousted elected president Jamil Mauhad from office. Noboa inherited an economy dollarized by his predecessor on the eve of the coup, and attempted to further economic liberalization. To support his reform program, the IMF approved in April 2001 a US\$ 300 million stand-by loan agreement. However, like his predecessors, he had to cope with an extremely fragmented, volatile and chronically unstable congress.

After failing to pass a bill increasing the VAT from 12% to 14%, a key piece of the policy package on which the IMF loan depended (Mejía Acosta 2004, LAWR 2001b), President Noboa stretched the legislative rules and presented the tax increase as a vote to override a presidential veto rather than an actual bill. This shifted the burden to the opposition, who on May 2<sup>nd</sup> 2001, fell six votes short of the two-thirds it then needed to block the initiative (LAWR 2001b).

Less than a week later, as tensions rose and Noboa sought reassurance from the military, the opposition mustered the necessary two-thirds to “revise” the tax increase. Though it was unclear at the time whether such revision was allowed under the constitution, the opposition “argued that the vote in favor had only been made possible by the barefaced bribery of 20-odd deputies by government officials” (LARR 2001), and by a secret deal in which the government had offered to lift criminal charges against the exiled former President Abdalá Bucaram, which would allow him to return to the country and eventually run for president, as long as his supporters in the Partido Roldosista Ecuatoriano (PRE) withdrew their opposition to the bill. In fact, the votes in the PRE had been crucial to the executive’s victory on May 2<sup>nd</sup>, as 14 of its 22 congressmen either abstained or were absent (LAWR 2001b). The dispute ended up being referred to the constitutional Court, which eventually decided the matter in favor of the executive (IPS 2001).

### 3.1 Intensity of Reform

With these cases in mind, I now turn to a more systematic analysis of the two central hypothesis of this chapter. In this subsection I examine the issue of whether bribing of legislators is more likely to occur in countries that have reformed the most, and in the subsequent section I examine if the timing of these episodes is compatible with my argument.

Measuring the changes in resources is no easy task. While data can be obtained on particular aspects of reforms and resources in particular times, such as number of public employees, number of public companies, share of the economy in the hands of the state, etc, it is especially tricky to obtain such data consistently across countries and across time. Therefore, for my cross-sectional approach I rely on readily available and widely used indices that seek to measure the “intensity of reform” in the region.

Most papers that quantitatively address reform, both as a dependent and as an independent variable, use either Morley, Machado, & Pettinato’s (1999) index, or Lora’s (2001) index. The original version of the MM&P index spans the period from 1970 to 1995 and covers 17 countries in Latin America. The coverage of Lora’s index starts later (1985), but reaches until 1999 and covers 19 countries. Both indexes are composed of sub-indexes that are themselves aggregations of more specific criteria that measure several aspects of trade, financial, tax, privatization, and labor (Lora index only) reform. Both indexes evaluate the degree of liberalization in each country *relative* to the most reformed country in each criteria, over the complete time span of

the each survey.<sup>6</sup>

One of the main differences between the indexes is that Lora's captures both policy initiatives and actual results of reforms, while MM&P's index concentrates on the former. Since the argument of this chapter links *changes in resources* with the purchase of support, results also matter, and for this reason the Lora index is more adequate. Moreover, to be faithful to the argument presented it is important to look at changes rather than the level of resources available to the president.

It is also the case that in order for its effects to be felt, democratic political institutions must be in place. For instance, the argument does not apply to changes that happened while parties were banned, as in Chile, because when parties returned to activity the new constraints were already in place.

Table 1 reports the change in the overall reform index and in the privatization index since 1985 or the country's return to democracy (whichever happened later). The year of 1985 was used both because it is when coverage of the Lora index begins, but also because it marks the year Bolivia became the first country in the region to launch economic reforms under a democratic government. For comparison, the changes in the aggregate index and the privatization component of Morley, Machado, & Pettinato index in the same period are also shown.

Countries are shown ranked from "aggressive" to "timid" reformers in the Lora index, which roughly matches the stylized facts about the cases. Note that Mexico and Chile appear at the bottom of the list because most economic reform happen prior to when these countries transitioned to democracy, and Uruguay, which underwent a considerable amount of financial and trade liberalization under military rule in 1970's, has since then become a notoriously slow and timid reformer (Blake 1998). On the other hand, Bolivia and Argentina are examples of fast and drastic reform (Conaghan, Malloy, & Abugattas 1990), Brazil was late to start but ended up with the largest privatization program in the world. Ecuador, it should be noted, attempted reforms several times, but only implemented most of them, including dolarization, after the period covered by the index.

In the four most aggressive reformers, Bolivia, Peru, Brazil and Argentina, there has been some instance of the executive bribing legislators in exchange for support, even if the president was not always directly implicated. Furthermore, in all cases this happened after the bulk of the reforms were carried out. I have searched news outlets and archives and despite the existence of many cases of corruption, I have found only one other case — in Ecuador — that *might* fit this category, though the details of the case are a bit unclear. The subsequent sections review these cases, and discuss two on them (Brazil and Bolivia) in more detail.

The small number of cases, and especially the fact that the four most aggressive reformers are the only countries that exhibited such crisis, prevent a multivariate analysis using a binary dependent variable regression. On the other had, this perfect matching suggests that the relationship might be more than just a coincidence. As an alternative, I present difference of means tests between the two groups of countries in Table 2. In three of the four measures of change in resources, the countries where bribing scandals were registered are significantly more aggressive reformers than the countries without such scandals. The only change in resource measure that

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<sup>6</sup>Very recently, an updated version of the MM&P index, extended through 2003, began circulating. However, the Financial Reform component of the index has considerable discrepancies with the original work, and has not yet, to the best of my knowledge, been published. For this reason, I rely on the original MM&P and on the Lora indices.

Table 1: Extent of “Reform”

Country	$\Delta$ Reform Index (Lora)	$\Delta$ Privat. sub-index (Lora)	$\Delta$ Reform Index (Morley et al.)	$\Delta$ Privat. sub-index (Morley et al.)
Bolivia	0.42	1.00	0.38	0.29
Peru	0.38	0.60	0.45	0.29
Brazil	0.35	0.50	0.33	0.14
Argentina	0.30	0.39	0.29	0.20
Colombia	0.27	0.23	0.21	0.13
Costa Rica	0.25	0.03	0.35	0.14
Venezuela	0.25	0.29	0.21	0.45
Guatemala	0.25	0.29	0.31	0.13
Ecuador	0.23	0.03	0.25	0.09
El Salvador	0.22	0.36	0.33	0.03
Dominican Republic	0.22	0.18	0.42	0.00
Paraguay	0.19	0.01	0.24	0.09
Honduras	0.19	0.16	0.16	0.05
Uruguay	0.13	0.01	0.08	0.08
Nicaragua	0.05	0.34		
Chile	0.04	0.13	0.07	0.20
Mexico	0.01	0.02		

*Notes:* Change ( $\Delta$ ) in all indices is measured as the difference between the highest and lowest observation since 1985 or transition to democracy, whichever came later.

falls short of statistical significance is MM&P’s privatization sub index. It should be noted, however, that an important difference exists with respect to the privatization component of the index. Lora used actual proceeds of privatization, while MM&P indirectly measured privatization as “one minus the ratio of value-added in state owned enterprises to non-agricultural GDP.” As MM&P indicate, this measure “does not penalize countries which do not have public enterprise, or which, like Chile, had sold off a good deal of the public enterprise sector before he began his measurement.” For the present purposes, this change is exactly what should be captured, so for this reason Lora’s methodology should be more appropriate.

More interestingly, perhaps, is the fact that the two groups of countries are *not* different in terms of their overall levels of corruption — if the Transparency International data are to be trusted. Finally, countries in which cases of legislative bribing were registered also tend to display higher legislative fragmentation. One possible interpretation of this result is that the existence of more parties makes it harder for the president to negotiate coalitions, making it harder to adapt to shocks in the level of resources available for political bargaining.

Together, these data suggest that regardless of the overall levels of (perception of) corruption, legislative bribing is more likely to occur when there are many parties and where resources have dwindled.

### 3.2 Timing of reform

There are a few reasons for which the direct political effect of reforms should be greater “a few years after” the bulk of the reform process. On the one hand, privatization, one of the main

Table 2: Differences of means between countries with and without legislative bribing scandals

Country	$\Delta$ Reform Index (Lora 2001)	$\Delta$ Priv. Index (Lora 2001)	$\Delta$ Reform Index (Morley et al. 1999)	$\Delta$ Priv. Index (Morley et al. 1999)	Corruption Index (TI 2001)	Effec. Number of Parties (Payne et al. 2002)
No Scandal	0.17	0.17	0.24	0.13	3.67	2.87
Scandal	0.34	0.50	0.34	0.20	3.18	4.60
t-score	-3.88	-2.05	-1.93	-1.32	0.78	-2.25
p.value	0.00	0.10	0.08	0.21	0.45	0.08

*Notes:* The t statistic and respective p-value are based on a two sided difference of means tests between the two groups. The "scandal" group is composed of Argentina, Brazil, Bolivia, Ecuador, and Peru. Data and definition of groups are shown in Table 1.

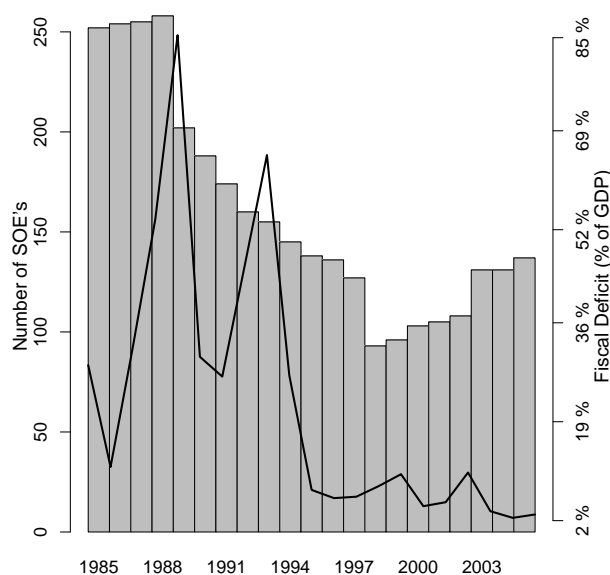


Figure 1: Government Resources in Brazil

*Notes:* Vertical bars, measured on the left axis, show the evolution of the number of State Owned Enterprizes, as reported by *O Globo* on September 24, 2005, using data provided by the Brazilian Planning Ministry. The line, measured on the right axis, shows the fiscal deficit, computed by the Brazilian Central Bank and retrieved from IPEA Data. Figures used correspond to the nominal deficit of the consolidated public sector, according to the “below the line” methodology.

components of the reforms, provides a momentary windfall of resources while monetary stabilization provides a surge in popularity that improves the president’s leeway with the opposition in the short run. In the very long run, on the other hand, politicians should have enough time to adapt to the new political environment and establish other *modus vivendi* and other ways of operating.

Unfortunately, the data such a the reform indices are not available for a time period that would allow for a more systematic analysis of the timing of reform in time and across countries. Nonetheless a somewhat less systematic, but still illustrative analysis is still possible.

Take, for instance, the case of Brazil, where bribing scandals were reported in 1997 and again in 2003 and 2004. Can we relate this method of legislative coalition building with the reduction in resources due to reform?

To say so is clearly a difficult task. First of all, even after reforms the Brazilian state is still quite vast. While many juicy posts are gone, there are still political appointees in many important agencies, which many times have subsidiaries and autonomous local branches in the states. These jobs, while not too visible nationally, play important roles in the political disputes in the states, which is the arena in which all but a few politicians play the political game.

Still, more than 150 public companies were sold or liquidated between the late 80’s and mid 90’s, by the federal and state governments, shedding just under 300 thousand jobs and reducing the number of public companies to 96 in 1999.<sup>7</sup> As a consequence, while prior to privatization government-owned companies accounted for roughly one third of the industrial sector of the

<sup>7</sup>Data from the official website of the Brazilian Planning Ministry.

country, by the year 2000 this participation had shrunk to less than 10%.<sup>8</sup>

Prior to stabilization, the Brazilian government ran a very loose fiscal account, a situation that has since changed radically. This has produced a much tougher budget constrain, which coupled with *less* (though not necessarily few) freely dispensable political goods provide the environment in which use of bribes to purchase legislative support was reported.

Prior to reforms, the most infamous episode of legislative “vote buying” occurred during the writing of the current constitution, in 1987-1998. Then president José Sarney, who was bound to see his term cut short a year, managed to turn things around by opening the government’s purse. At the time, the main “currencies” that were used to buy votes were jobs, and specially radio and TV concessions, which were given out in large numbers of to legislators and their relatives (Motter 1994). Actual payment of legislators to vote a certain way, however, seems to be much more recent, perhaps a characteristic of the post-reform era where these perks are less abundant.

Today, both these currencies are much more regulated. Radio and TV concessions are now in the hands of an “independent” regulatory agency, and while a few thousand managerial positions are still considered political appointments, civil service examinations are constitutionally required for all regular public careers.

Figure 2 illustrates the plausibility of this link, even though evidence is still circumstantial, at best. It shows the predicted effects of the variation of the Brazilian government’s fiscal deficit and number of State Owned Enterprises on the probability of occurrence of legislative bribing. The tentative conclusion here is that sharper *reductions* on the deficit over a four year period increases the probability of bribing. Though this story is compatible with the argument of the paper, limitations in the data prevent making too much of these results. There are only 20 years worth of data, and three years with bribing episodes.

Yet, somewhat similar stories can be told about the other cases, even though systematic data to allow tests equivalent as the one carried out for Brazil are not available.<sup>9</sup> We know that in Argentina, for instance, the bribing scandal broke out in 2001 by when there were just around 30 federally owned public enterprises with approximately seven thousand employees, and whose expenditures accounted for less than 0.1% of GDI, down from close to 200 companies employing more than 300 thousand people at the beginning of the 1980’s. Reforms had also affected Civil service in Argentina, with employment falling by more than 20% between 1987 and 1999, with most jobs being shed by the Federal Government.<sup>10</sup>

By the time of the scandal, the growth cycle that accompanied the onset of neoliberal reforms was clearly something of past, and the country was already two years into what would become a major recession. The government was under such fiscal pressure to maintain the soon-to-collapse currency peg that it was attempting to implement an across-the-board cut on public sector employees and “US\$ 700 million in politically sensitive spending cuts” (Goodman 2000). In this context, it is not completely not surprising that it resorted to unusual coalition building techniques to try to obtain the support it needed.

There had been many corruption scandals before that, such as 1995 Banco de la Nación

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<sup>8</sup>Data from BNDES — National Development Bank, available at <http://www.bndes.gov.br/privatizacao/pndnew.asp>

<sup>9</sup>One especially hard number to come about is the number of SOE’s by year.

<sup>10</sup>Data for 1980 was obtained at the Library of Argentine Economy Ministry and in Ugalde (1984). Current numbers were obtained from the *Secretaría de Hacienda* website, which indicates the existence of 28 Public Companies and 5 “Other Public Entities” in 2007. Civil service figures are from CLAD.

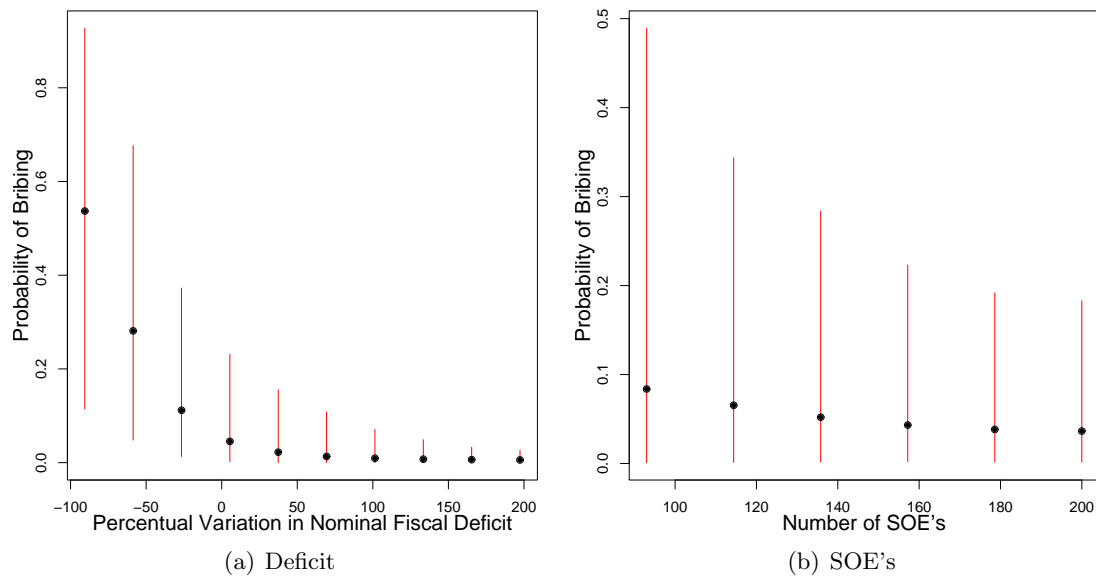


Figure 2: Predicted Effect of Fiscal Constraint on Probability of Bribing

*Notes:* Model ran was a logit regression of a binary variable indicating the occurrence of a bribing episode on the variation of fiscal deficit and number of SOE's. Data consists of yearly observations, from 1985 to 2005. Fiscal deficit variable is the four year variation of the nominal deficit of the consolidated public sector, according to the “bellow the line” methodology (IPEA-DATA series BM NFSPNY). Figure shows predicted values and the 95% conf. interval.

and IBM case, and the 1994 PAMI affair (LAWR, September 1995)(RS, April 94), and Chacho Alvarez later commented on the existence of a *democracia tarifada* in all the legislative bodies of the country, from the Senate to the local assemblies (Alvarez & Solá 2002). However, no explicit case of bribing by the executive in exchange for support was previously mentioned in the press or in the literature.

As in Argentina, the legislative bribing in Peru occurred as economic growth faltered for the first time since a relatively long period of growth that had followed the onset of neoliberal reforms. Between 1991 and 1997 the economy grew at impressive rates and in that period the government privatized more than 200 firms, including all Telecommunications and public Finance sector, as well as most of its holdings in other sectors of industry and service (Torero 2005), and de-regulated and opened the economy considerably. When the emerging markets crisis hit in 1998 and 1999, even though the government let the budget balance slip, it did not have the resources of the past to ensure its support.

## 4 Case Study: Mensalão in Brazil

In April 2006, after months in spotlight, the *CPMI dos Correios* issued the final report from its exhaustive investigations into the allegations that José Dirceu — Lula's former chief of staff — had commanded a scheme to bribe legislators in exchange for support.

The investigations showed that the scheme was much more varied and irregular than suggested by its name. It was found, for instance, that the *mensalão* was part of an ever larger scheme, dubbed the *Valerioduto*, by which the publicist Marcos Valerio channeled resources to politicians. According to a parallel report prepared by the *Ministério Público* — Attorney Gen-

eral's Office — this scheme began operating to finance PSDB electoral campaigns in the state of Minas Gerais, but after 2003, when the PT came into power, the scheme was transplanted to the national level. To greatly simplify the scheme, Marcos Valerio would raise money from several sources<sup>11</sup> and transfer it — either directly or through intermediaries — to legislators and other party operatives indicated by Delubio Soares — then treasurer of the PT — allegedly acting on behalf Dirceu.

The two thousand page long CPMI report presents a patchwork of tables, diagrams, transcription of testimony and inference about the scheme. It documented a total of just over R\$55 million, that was transferred from Marcos Valerio's companies to parties and/or politicians between February 2003 and October 2004 (Comissão Parlamentar Mista de Inquérito dos Correos 2006, p.841),<sup>12</sup> and suggests that these resources were used for different purposes, such as to increase the size of the governments support base by stimulating party switching, to buy votes on important bills, and to pay for past and future political campaigns of political allies. Many members of the PT eventually acknowledged the existence of a parallel accounting system (*caixa dois*) in the party as a “fact of life”, but insisted that payments, if made, were only intended to pay for campaign expenses, and not to buy votes in congress.

In fact, the largest chunk of the documented transfers (R\$ 30 million) was handed to legislators or party executives of the PT itself, and the second largest share (R\$ 15.5 million) was transferred to Duda Mendonça, the now infamous marketeer that ran Lula's first successful presidential campaign. Given that the PT had other means to entice its own legislators to toe the party line, these resources are likely to have been used to pay-off previous campaign debts and/or to fund municipal elections, that were being held in October 2004.

The remaining R\$ 25 million was distributed almost exclusively to politicians from the PL (R\$ 12.2 million), PP (R\$ 7.8 million) and PTB (R\$ 4.1 million), and were allegedly used to buy support throughout the first three years of the Lula government. In this period, the three almost equally sized parties accounted for between 115 and 159 deputies, a considerable contingent in the 513 member lower house. In hindsight, it is not that surprising that Roberto Jefferson from the PTB was the one who denounced the scheme. After all, his party received much less resources than the other two.

As Figure 3 shows, the payments made to the PL seem to have been done on a much more regular basis than for the other two parties, which supports the claim made in the committee's report that the resources distributed were not part of a single unified bribing scheme.

One of the alleged roles played by this money were to entice legislators to switch into allied parties. Figure 4 illustrates effect of payments on migration into the three parties, taken together. For this analysis, the one and half year long period of disbursements that is documented in the report was broken down into 40 biweekly observations, from which I regressed the number of migrations into the PTB, PL and PP (MIGIN) on the amount disbursed (PAID), controlling for whether the periods fell in or near the legislative recess, when a lot of legislators switch parties (RECESS), and for the size of the party in that period (SIZE). Note that since there few periods in which very large payments happened, there is much more noise on the right

<sup>11</sup>The report of the CPMI describes six methods of raising money, from politically motivated loans to Marcos Valerio, to the granting of overpriced publicity accounts from the government or public companies and undeclared donations from businessmen (Comissão Parlamentar Mista de Inquérito dos Correos 2006, p.677). In exchange, Marcus and donors would be favored to win government contracts.

<sup>12</sup>The tables on p.797 of the report provide a summary of these amounts, and the one on p.918 provide a breakdown of these amounts with the dates in which they were disbursed.

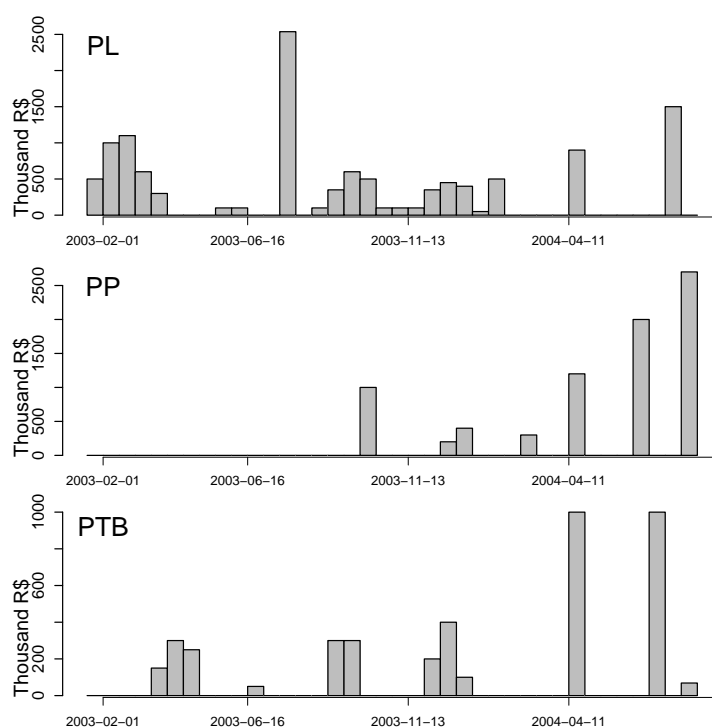


Figure 3: “Mensalão” in time, by party

*Notes:* Figures show payments aggregated in bi-weekly periods. Data were obtained from the congressional report on the scheme (Comissão Parlamentar Mista de Inquérito dos Correos 2006). See appendix for details.

side of the graph. Despite this fact, the data suggest that the *mensalão* had some effect on the number of switches. The upper portion of Table 3, reports the first differences for PAID, as well as for the control variables.

If one considers the parties individually, payments seem to have had more effects on switches into the PL than on the other two parties. The lower portion of Table 3 shows the first difference for the amount paid to each party, holding the control variables fixed at their means.

I also conducted a similar analysis to assess the link between payments and votes in the legislature. The first aspect to consider is whether the occurrence of an “important” vote affects the amount of resources that is distributed. During the period documented in the report there were at least four important matters that were brought to the floor in the house, namely the Fiscal Reform (September 2003), the Social Security Reform and its “parallel” bill (August and December 2003), the new Bankruptcy Law (October 2003), and the regulation of the Bingo/Gaming industry (April, 2004).

Using the same biweekly observations as in the previous analysis, I created a variable that indicates whether an important vote was taken in that period or in the period immediately subsequent (IMPVOTE). The first differences for the (tobit) regression of the amounts paid in the period on this variable, controlling for the size of the government’s base and the number of migrations into the three already mentioned parties is shown in Table 4.

The conclusion for the three parties taken together is that the occurrence of an important vote did increase the amounts paid, even after controlling for the migrations that had occurred. Additionally, it is interesting to note that the government tended to pay out less as the size of

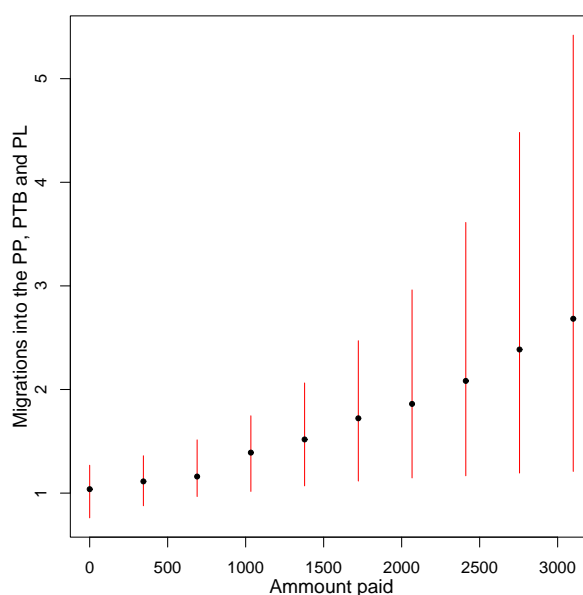


Figure 4: Effect of Payments on Party Switching (Predicted Values—Poisson Regression)

*Notes:* Vertical axis shows the predicted number of switches into the PP, PTB and PL considered jointly in each period, for different amounts paid to the parties (horizontal axis). Other variables included in the poisson regression were SIZE and RECESS, and data set consists of bi-weekly observations. See appendix for details.

the base increased. When taken individually, the conclusion is that this result is strong for the PL, but again, not so clear for the other two parties.

But how effective were these payments? Table 5 shows the results of an OLS regression where the dependent variable is the average share of these three parties voting with the president in roll calls taken in each period. The results suggests that payments did have a discernable, though small, impact on the support the executive obtained from the PL, PTB and PP. A one percent increase in the amount paid generated an increase of 0.01 percentage points in the support levels.

This effect, in reality, might be a bit larger, for migrations into the government allied parties also increases levels of support. Since it has already been shown that payments increase the number of migrations, there exists some extra indirect effects of payments on support, which are not considered here. These effects were stronger in the PL, and significantly smaller in the PP.

Did these resources compensate for less “legal” transfers? A systematic answer, again, is difficult. However, it is no secret that allied parties were unsatisfied with the distribution of political appointments. In May 2005, on the eve of the scandal, *O Globo* — another leading news outlet — reported that while the PT represented only 27,7% of the government’s support base in the legislature, it occupied 64,9% of the relevant politically appointed jobs. At that time, the allied parties were calling for a “de-PTzation” of the government, and demanding greater sharing of resources with other coalition members (Franco, Vasconcelos, & Lima 2005). Corroborating this view, Pereira, Power, & Raile (2006) have found evidence that the Lula government was indeed handing out less resources than that it was expected to.

Another indirect piece of evidence, which I found in a visit to Brasília in December 2005, is that at least in the first two years of the Lula’s government, the structure behind the

Table 3: Effect of Payments on Party Switching (First Differences—Poisson Regression)

Full Sample	First Dif.	St. Dev.	90% CI	
PAID	0.87	0.48	0.10	1.94
RECESS	1.38	0.53	0.50	2.59
SIZE	-0.36	0.24	-0.86	0.06
Party-by-party				
PAID (PL)	1.05	0.85	0.03	3.27
PAID (PTB)	5.73	13.55	-0.36	37.89
PAID (PP)	0.12	0.90	-0.40	2.16

*Notes:* Table shows results of a poisson regression of the number of legislators that migrated in to the PP, PTB and PL in each period on payments, occurrence of legislative recess, and the size of the parties (taken together). First differences were taken between 0 and 2000k for PAID, the 0.2 and 0.8 percentile for SIZE, and between 0 and 1, for variable RECESS. Party-by-party results are the first differences for PAID in regressions using only one party at a time. Data set consists of bi-weekly observations. See appendix for details

Table 4: Determinants of Payments (First Differences—Tobit Regression)

Full Sample	First Dif.	St. Dev.	90% CI	
IMPVOTE	937.31	423.06	80.90	1741.97
SIZE	-1002.41	389.23	-1753.10	-265.29
MIGIN	56.37	81.33	-102.30	218.77
Party-by-party				
IMPVOTE (PL)	893.08	308.83	291.08	1499.62
IMPVOTE (PTB)	250.51	301.39	-349.07	820.42
IMPVOTE (PP)	1529.76	1201.13	-836.16	3825.46

*Notes:* Variables measured in two week periods. Dependent variable PAID is the amount paid to the PP, PTB and PL in each period. First differences were taken between 0 and 1 for IMPVOTE, between 35 and 55 for variable SIZE, and also between 0 and 1, for variable MIGIN. Party-by-party results are the first differences for IMPVOTE in regressions using only one party at a time.

SIAL/SAAP — the system of legislative coordination implemented during the Cardoso government and mentioned in Section 2 — was dismantled and became all but irrelevant. Members of the second team of advisor’s to the presidency, which at the time had recently been appointed, said there was no record of what had been done by that office during the first two years of Lula’s government — the period in which José Dirceu’s staff handled legislative affairs (Interviewee 13 2005). They claimed to have never seen the SIAL at work, and had only heard rumors of such a system. Meanwhile, across the street, in Congress, many people stated that during the first two years of the Lula government the “black suitcase man” tactic had replaced most other forms of political bargaining between executive and legislative.

If true, this would help explain why my empirical model to explain legislative behavior, presented in Chapter 2, fit the data for 2003 and 2004 less well than in previous years. Recall that in that chapter I portrayed legislative behavior as a function of ideology, handouts given to parties, and handouts given to individual legislators. While this structure fit most years quite well, the pattern was much less clear in the years the *mensalão* was allegedly in place.

In Table 4, I show a quick comparison between the basic model of legislative behavior, and one that accounts for the effects of the *mensalão* simply by including a dummy variable

Table 5: Effect of Payments on Voting Behavior (Estimates—OLS Regression)

	Estimate	Std. Error	t value	Pr(> t )
(Intercept)	0.54	0.026	20.81	0.000
logPAID	0.01	0.006	2.09	0.038
IMPVOTE	0.05	0.046	1.18	0.239
MIGIN	0.03	0.016	2.07	0.040
PTB	-0.02	0.033	-0.66	0.511
PP	-0.06	0.033	-1.76	0.080
N = 162				
R2 = 0.1				

*Notes:* Dependent variable is the average share of the party voting with the executive in the period. Periods without any roll call votes taken were considered missing, and excluded from the set. logPAID is the log of the amount paid by period, measured in millions of reais, IMPVOTE is a dummy indicating whether an important vote happened in the current period or, in the one immediately before or after. MIGIN is the number of migrations into the parties and the remaining two variables are party dummies. Data set is composed of party/period observations and each period corresponds to two weeks.

(MENSALAO) which is equal to one for those parties that are listed as having received payments from the Marcos Valerio scheme. Both models are fit to data from 2003 and from 2004. Note that the legislator's party participation in the *mensalão* reduces the behavioral distance between the legislator and the president, an effect which is statistically significant, and in line with the theoretical expectation. Moreover, in both years the inclusion of the MENSALAO variable reduces the effect of PORK and especially CABINET. This suggests that the *mensalão* might have *substituted*, to some extent, individual pork handouts to legislators and patronage handouts to parties.<sup>13</sup>

Table 6: Effect of “Mensalão” on Legislative Behavior (OLS Estimates)

	2003		2004	
	Basic Mod	Alt Mod	Basic Mod	Alt Mod
IDEO	0.05	0.10	0.04	0.03
p-value	0.004	<0.001	<0.001	<0.001
PORK	-0.03	-0.02	-0.09	-0.06
	0.413	0.476	0.001	0.006
CABINET	-0.32	-0.05	-0.21	0.02
	<0.001	0.135	<0.001	0.523
MENSALAO		-0.32		-0.19
		<0.001		<0.001
Const.	0.42	0.46	0.41	0.47
	<0.001	<0.001	<0.001	<0.001
N	258	258	411	411
R2	0.31	0.74	0.21	0.43

*Notes:* Basic Model is the same as shown in Table 3(a), in Chapter 2. The alternative includes a dummy variable indicating whether the party to which the legislator belonged received resources from the *mensalão*. See appendix to Chapter 2 for definitions of other variables.

<sup>13</sup>While the number of cabinet positions has not diminished with reforms, many companies and agencies formerly controlled by these ministries are gone, and the fiscal constrain is much more salient.

Individually, none of these bits of evidence are definitive. Combined, however, they are all compatible with a story in which the government's strategy was to keep more government resources to itself and to substitute traditional patronage and pork with direct payments — be it to help pay for political campaign debts, or simply to pay for legislative votes. It is unnecessary to say that all of this is extremely hard to measure, but there is some limited evidence that direct payments did substitute for “legal” resources. In the case of Brazil, it is not clear whether this new political strategy was prompted, as I argue, by the constraints imposed on the government by a smaller state simply a matter of political strategy. However, in the next example, this link is much clearer.

## 5 Case Study: Gastos Reservados in Bolivia

Bolivia implemented its first round of neoliberal reforms in the 80's, under Victor Paz Estenssoro, in what quickly became a benchmark “success” story. Executive Decree 21060, issued in August 1985, has since become a crucial turning point in the recent political and economic history of the region. In that day, Bolivia became the first country in the region to implement neo-liberal reforms under a democratic government, at a time where there was much skepticism about the compatibility of the two. That the country had at the time one of the highest inflation-rates ever recorded anywhere and a dismal record as far as political stability was concerned, was also not too auspicious.

Early into Paz Estenssoro's term, Sánchez de Lozada — then planning minister — “borrowed” the economic advisors that had worked for the defeated presidential candidate Gen. Hugo Bánzer, drafted and delivered the Bolivian “shock treatment” by decree Conaghan, Malloy, & Abugattas (1990). Against all the odds and against the left leaning tradition of the MNR, the recipe that included sudden tariff reduction, privatization, and wage repression succeeded in stabilizing the currency. Despite the immediate macro-economic success, Paz Estenssoro had to govern much of his term under state of seige, Sánchez de Lozada — despite winning a plurality of the popular vote — lost the bid to succeed him, and the long term effects of these policies are still being disputed. Nonetheless, from 1985 when Paz Estenssoro came to power, until 2003 when Goni — how Sánchez de Lozada is best known in Bolivia — was forced out of office, the country enjoyed its longest period ever of relative political stability and institutional continuity.

Paz Estenssoro was followed in office by Jaime Paz Zamora (MIR), whose government was particularly uneventful in terms of reforms. In 1993, when Goni was finally elected president, an important second wave of sweeping neo-liberal reforms was carried out. Bánzer succeeded him promising to revert the reforms, but did not accomplish much. He died in office and handed to the presidency to Tuto Quiroga, who had to deal with the growing civil strife in the country. Finally, in 2002, Goni won a second term after defeating Evo Morales, who finished a surprising second place in the popular vote, but only governed for an year and a half, until being toppled by severe riots.

Throughout this period, no presidential candidate ever received more than 36% of the vote nor commanded more than 40% of the seats in the lower house, and in three of the five elections the winner received 25% of the vote and commanded 30% of the seats or less. Strikingly, despite this absence of anything close to majority and the emergence of new political forces such as the UCS and CONDEPA that increased even more the fragmentation towards the end of the period, *all* of the governments in the period commanded strong support in the legislature, with

the exception of the final year of the Bánzer-Quiroga government. Through most of the period, the dominance of the executive over the legislature was complete and frequently referred to as the *rodillo oficialista*.

During the five presidencies of the period, the three main traditional parties — MNR, MIR, ADN — entered alliances that exhausted all possible permutations between them. This flexibility of the established parties was exactly what characterized this period, so much so that it became known as the *democracia pactada*. Though today this flexibility has come to be regarded as “political promiscuity,” and one of the causes of the collapse of the political system in 2002, at the time the capacity of the main leaders to put their past differences behind them was lauded as a sign of political maturity.

During the many interviews I conducted in the country, politicians from all affiliations pointed out three main parties gradually shifted from being closely knitted cliques organized around the historically dominating figures — Paz Estenssoro, Hugo Bánzer and Jaime Paz Zamorra — into more decentralized and regionally based electoral machines. As time went by, the “good old days” in which discipline was not achieved simply by the voice command of the leader were left behind. Others pointed out that several institutional reforms that lead to increasing decentralization — such as the creation of single member constituencies, the sharp increase in the number of municipalities and consequently of the number of elected mayors (*alcaldes*, and, more recently, the direct election of the nine regional governors (*prefectos*) — contributed to the greater autonomy by individual legislators, lead to a sharp increase in renovation rates in the legislature, and facilitated the emergence of new parties and powerful local politicians.

With looser traditional parties, and several new entrants to politics, patronage tended to become more and more necessary. Paradoxically, with the advancement of reforms especially during Goni’s first presidency, patronage resources became increasingly scarce as the size of the state in Bolivia was “drastically” reduced. In the mid 80’s there existed approximately 150 public companies employing more than 50 thousand people, whereas now there are less than 30 companies with no more than three thousand employees.<sup>14</sup> Such radical changes suggest that perhaps nowhere, as much as in Bolivia, were the patronage requirements to maintain political support so much at odds with the reform process itself, a fact that has been noted before.

Key state institutions — Central Bank, the Office of the Controller General, the National Electoral Court, and the former state-owned enterprises — were taken out of the spoils system. This process paradoxically dried up the sources of plunder, and the remaining sources have increased in value for parties. (Mayorga 2006, p.172).

Thus, while patronage requirements could be met at the beginning of the period, governments encountered more and more difficulties towards the end. It is perhaps not surprising, then, that in almost all the interviews former ministers and legislators acknowledged that direct payment to legislators were a considerable ingredient of coalition making in the country, and the (not so) hidden secret behind the executive’s supremacy.

Most interviewees agreed that this *modus operandi* has been in place at least since the Paz Zamora government, though some interviewees suggested that it started with Paz Estenssoro, which was not confirmed by any member of the MNR. Interviewees stated that the funds to

<sup>14</sup>Data was obtained from the *Contaduría General de Bolivia*, CLAD and LAWR (1982).

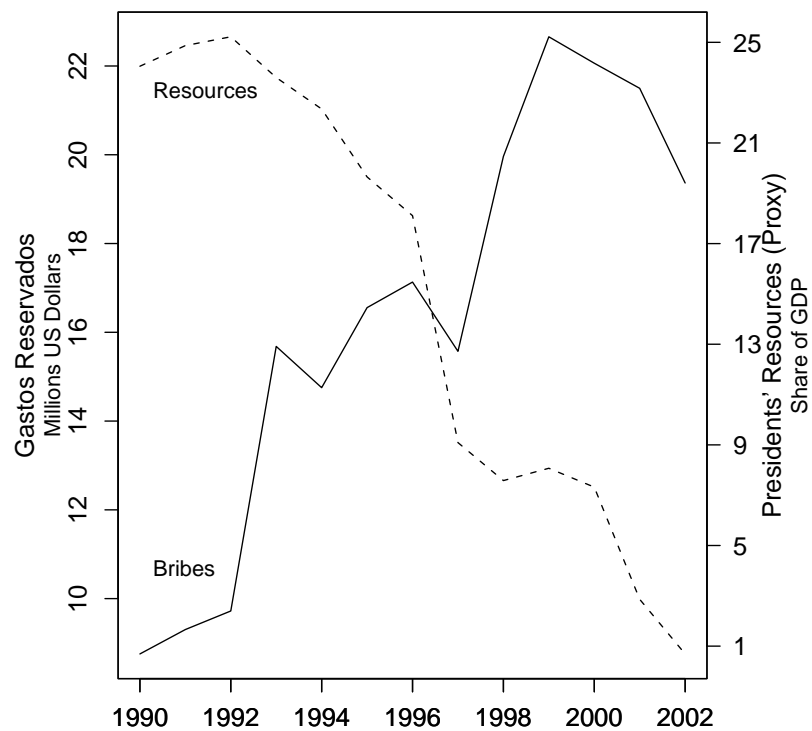


Figure 5: Bribes and Government Resources in Bolivia

*Notes:* Government Resources is proxied by the share of the GDP accounted for by public companies, computed by INE. Bribes are proxied by the *Gastos Reservados* expenditures obtained from the National Accounting Office. See appendix for details on data and sources.

bribe congressmen came mostly from an item in the budget known as *gastos reservados*, which has the peculiarity of not being subject to public scrutiny, and was created to be used for issues involving national security interest.

According to several interviewees, the practice of paying legislators began as a complement of legislator salaries, which are almost unanimously regarded as too low. However, by the end of the 90's, such payments are said to have become the main glue that kept Bolivian coalitions together. Figure 5 shows this rough proxy for bribes paid out to the legislature increasing markedly as the State's legal resources dwindled.

One former government official from the MIR suggested that the main beneficiaries were the smaller parties, since the larger parties, with stakes in the government, were easier to control (Interviewee 04 2005), but most interviewees acknowledged that the practice benefited members of the traditional parties as well, especially towards the end of the 90's.

The description of the internal dynamics of the coalitions reinforces the idea of a gradual "decay" in the functioning of the Bolivian parties. For instance, when Bánzer supported Paz Estenssoro during the hardship of stabilization, he did so without participation in the cabinet. Granted, interviewees have pointed out that the ADN did receive a few lower level jobs and directors of agencies and companies (Interviewee 11 2005), and that there was some political strategy involved in letting somebody else pay the price for implementing hard measures (Interviewee 09 2005). However, these considerations aside, it is hard not to believe that Bánzer's support was mainly out of principle — after all, the MNR was implemented *his* proposed policies, and was using foreign advisors originally brought to the country by *him*.

When Bánzer supported Paz Zamorra, however, he demanded half of the cabinet as well as the vice-presidency (Interviewee 10 2005), because by then ADN knew that "its people would not stand supporting somebody else in exchange of nothing, since they were already tired. They had felt the effects [of such deal] in the 1989 elections, and needed political oxygen." (Interviewee 01 2005). Still there was a marked difference between the MIR-ADN alliance under Paz Zamora and the one a few years later under Bánzer. As leading figures in both governments described, during the Paz Zamorra years, arrangements between the two party bosses generated an almost automatic voting majority in congress, but later, under Bánzer, Leadership and party structures had deteriorated to the point it became necessary to deal with individual politicians, and managing the other parties in the coalition became a nightmare (Interviewee 08 2005). This government started with a "mega-coalition" of close to 80% of the lower house, and functioned relatively well as it lost its allies one by one. By 2000, however, as civil strife increased and Bánzer's illness advanced, for the first time legislative gridlock became an issue.

Along the same lines, those that participated in both Sánchez de Lozada governments, for instance, would commonly contrast the two. In the first, Goni would hold regular meetings with legislators, regional party leaders, and allies, and though he always retained the final decision power, he was quite open to input from his colleagues. Patronage was important, but not only force behind the coalition between the MNR, UCS and the MBL. Both small parties were granted a cabinet position, but in terms of managing the coalition, a government official in charge of intra-coalition politics described that the "former cost 90 while the latter cost 10" (Interviewee 07 2005). The the MBL was much less demanding in terms of patronage, participated more in government decisions and did managed to extract some policy concessions from Goni.<sup>15</sup> The

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<sup>15</sup>MBL interviewees claim that the ground-breaking popular participation law, one of the most important pieces of legislation passed during Goni's term, was their initiative.

leader of the UCS, however, was described as *saco sin fondos* that would ask for something new every day, and withhold support in important votes to extract more resources (Interviewee 07 2005). When the UCS officially broke with the government, in September 1994, the official justification was that it had “demanded a bigger share of power,” which would “distort the very essence of the pact” (LARR 1994b). Interestingly, a significant portion of the UCS’s congressmen were “persuaded” to remain loyal to the government even after the formal split (LARR 1994a).

During the second government, in contrast, only a very small and select group of four or five close advisers had access to the presidential palace. As interviewees pointed out, at this point government decisions were centralized and coalition partners and party members were simply told how to vote. Most in the MIR even regretted having ever entered a coalition with Goni, and blamed the decision in on a lack of perception by Jaime Paz Zamorra that “times were changing” (Interviewee 03 2005). In this scenario, the bribes became the essential glue holding coalitions together, but discipline was already faltering (Interviewee 06 2005). While former officials from the MNR said that already during Goni’s first term more or less regular payments were made to legislators (Interviewee 07 2005), an estranged member of the party (Interviewee 05 2005) claimed that during his second presidency, Goni’s Presidency Minister began “purchasing support more aggressively,” which “contributed to the deterioration of relations between executive and legislative [branches].” According to this same former official, this happened most within the UCS, but also within the MNR itself.

In the final period of the second Goni government, apparently not only legislators, but many leaders of social movements were also on the parallel payroll. According to Interviewee 02 (2005) an official in the Mesa government, people would show up in the Ministry of Government to ask for their allowances even after Goni’ had fallen. An attorney in the *Defensoría del Pueblo* mentioned that “everybody” new *gastos reservados* were used to bribe legislators, but that there was very little accurate information on the topic. While I was in Bolivia, the government of caretaker Veltzé Rodríguez announced that the *gastos reservados* would be cut to a minimum just to keep security operations going. Perhaps not so surprisingly, Congress was so paralyzed it could not agree on how to implement a court ordered redistricting plan, forcing the president to solve the issue by decree and delayed the general elections in three weeks.

One of the very few interviewees that downplayed the role of the *gastos reservados* in bribing congress claimed that the bulk of these resources were used in the fight against narco-traffic. According to this former head of the Ministry of Government (Interviewee 01 2005), the size of the *Gastos Reservados* increased because of renewed coca eradication efforts, and not because of increased handout to legislators. To check for this, I regressed *Gastos Reservados* on a proxy for resources, controlling for coca eradication.

As is common with time series, the data display moderate serial autocorrelation.<sup>16</sup> The most commonly employed techniques for dealing with this problem are the inclusion of a lagged dependent variable in a standard OLS regression and the use of auto-regressive methods. In Table 7, I show the results of both techniques.

The measure of government resources used is not the only possible one, so a positive result for this variable is only indirect evidence of claim made here. Results should furthermore be discounted because the small number of observations restricts the number of controls that can be used. Nonetheless, the measure of state resources did show acceptable levels of statistical sig-

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<sup>16</sup> Autocorrelation is 0.35, for a Durbin-Watson statistic of 0.71. The null of no autocorrelation is rejected with a p-value of 0.000.

Table 7: Determinants of *Gastos Reservados* in Bolivia

	OLS Lag-DV	AR-1 Coch-Orch
Gvt Resources	-0.31	-0.47
SE	0.10	0.17
p-value	0.01	0.02
Lag D.V.	0.44	
SE	0.14	
p-value	0.01	
Coca Eradication	-0.01	0.13
SE	0.22	0.24
p-value	0.95	0.58
Const.	13.66	9.95
SE	3.78	3.51
p-value	<0.01	0.02
N	14	14
R <sup>2</sup>	0.80	0.48
Autocorrelation	-0.07	<0.01
Durbin-Watson p-value	2.09	1.87

*Notes:* The dependent variable in both models is the value of *Gastos Reservados* measured in thousands of dollars (current). Government Resources is proxied by the share of the GDP accounted for by public companies, computed by INE. This series had missing values for years 2003 and 2004, which were imputed using Amelia software (King, Honaker, Joseph, & Scheve 2001), with the restriction that imputed values be positive. Coca Eradication is the area eradicated in the year (Müller & Asociados 2004). AR-1 estimates were obtained by the Cochrane-Orchutt method, and results are reported after 10 iterations.

nificance in both models, which do control for the government's coca eradication efforts. While coca eradication efforts apparently have no discernible effect on the size of *gastos reservados*, a one percentage point decrease in the participation of public the productive sector in the GDP is associated with a US\$ 314,000 to US\$ 400,000 increase in *gastos reservados* expenditures.

## 6 Conclusion

Corruption is by no means new. In fact, one can argue that one of the main reasons politicians seek nominations to certain key positions is precisely because they are a good source of corruption revenues (Gingerich 2006). However, the direct bribing of legislators in exchange for support is different, and brings corruption directly into the heart of executive-legislature relations. Thus, going beyond the traditional views of corruption for personal gain, or even the more sophisticated version of corruption as geared towards financing a political party, this practice is a "new" form of coalition building that has been developed in the post reform period.

This paper argued this and that bribing legislators in exchange of support is one way executives have coping with the need to build coalitions in an environment in which traditional political resources have become increasingly scarce because of neoliberal reforms. The evidence presented and analyzed is still quite tentative, but up to this point compatible with the argument. Countries that have reformed the most were also the ones in which legislative bribing occurred, and these episodes have generally happened a few years after the main reform efforts. The *mensalão* case in Brazil suggests that purchasing support through bribes was a means to

avoid discussing “politics” and to avoid handing out posts to allied parties, and in Bolivia there is evidence that *gastos reservados* played the role of substitute of more traditional forms of patronage that were dwindling.

Future work will seek to formalize the argument presented in Section 2.3, and improve both the qualitative and quantitative empirical analysis. However, if one is willing to taking the argument and findings with a grain of salt, it raises an interesting normative question.

Executives have long traded many different political goods for support, and many of these political goods have indirect — an sometimes not so indirect — monetary value. In this sense, is the direct cash payment to legislators is not *that* different from past practices. Under some aspects it might be more cost efficient. From the perspective of the receiver, cash is fungible and can be used for a greater number of purposes than any other less fungible goods. From the perspective of the government, it might limit the damage that can be done by recipients. For instance, if a politician receives a government post with *carte-blanche* to steal, he not only might be extracting undue revenue, but there is also an opportunity cost for the government, which has to refrain from using that post for something constructive.

The use of pork and patronage in exchange of support can lead to inefficient allocation of resources (e.g. less qualified people employed, too many people employed, roads and clinics where they are not needed the most, etc. . . ), but nevertheless they do usually benefit non-elite citizens. In contrast, bribery probably leads to more efficient allocation, as the values are smaller, but is also less likely to benefit ordinary citizens. Even if the legislator uses the bribe to fund his next election campaign, it is likely to be spent on transportation, signs, advertising, T-shirts, and paying campaign workers rather than to build clinics or community swimming pools.

Finally, one also has should to be concerned with the long-term effects of these practices on credibility of the political system and of democratic politics. When coalition partners are paid with pork and patronage, representatives provide those goods to their constituents, meeting a legitimate demand that exists. Alternatively, constituents might want certain policies, and representatives can be responsive by voting for these policies. When support is traded for a bribe, it undermines both of these ways of being responsive. Politicians vote on policy as the briber prefers, not as constituents prefer, and they bring home bacon for their own family, not for constituents.

Democracy in general, and parliaments in specific are supposed to be arenas in which to pacifically mediate between different interests, to exchange ideas, priorities chosen and losers are compensated. If parliament becomes simply a political market, it will be abdicating from doing most of what it is supposed to do. Simply paying off opposition might be efficient in the short term, but as fact in Bolivia, Brazil, Peru and elsewhere have shown, come at the cost of the credibility of the legislative branch. This might well be just capitalism entering uncharter waters, and structuring yet another market, but if that is the case, we should bear in mind what is being lost. After all, “there are certain things that money can’t buy...”

## 7 Data and Sources

The following variables appear in several Tables and Figures, in Section 4:

**PAID** Value of the payments made to members of a political party, or to close associates, which have been established to be acting on behalf of a member. All data on alleged

payments made through the Marcos Valerio scheme were compiled from the official report issued by the Joint Parliamentary Inquiry Committee that investigated the case (Comissão Parlamentar Mista de Inquérito dos Correos 2006). For most analysis, the data was aggregated into by-weekly periods.

**IMPVOTE** A dummy variable indicating whether there was an “important vote” for the government in the period, or in periods immediately prior to and after it.

**MIGIN** Number of legislators that switched into a party, by period. Data were obtained from the Brazilian legislature website, and compiled by the author.

**RECESS** A dummy variable indicating whether the period fell in or near a legislative recess.

**SIZE** The size of a party or set of parties, in the period.

**BEHAVE** Dependent Variable used in Table 6 as the operationalization of “legislative behavior.” This variable was computed using the absolute distance between the 1-dimensional W-Nominate estimates of each legislator and the president’s whip.

**PORK** Computed as the share of a legislator’s individual *pure* amendments to the budget that were *executed* in a given year. The data were obtained in yearly databases from the *Consultoria de Orçamento e Fiscalização Financeira* (COFF), of the Brazilian lower chamber. The following remarks apply:

- *Pure Amendments* are a subset of all legislators amendments that create a new expenditure code (*funcional*). The reason to exclude the non-pure amendments is that of one or more of legislators’ amendments add resources to a pre-existing project it is impossible to distinguish between execution of the amendment of the original amount budgeted. For 2003 on, the COFF had already implemented queries to the data-base that separate between pure and non-pure amendments. For the other years I filtered the amendments to extract the *pure* ones.
- *Execution* of the budget is a process with many steps, and the structure of the data bases varies a little in time. For the computation of the success rate I used the ration between values *liquidados* to *autorizados*. With very few exceptions, values *liquidados* and *empenhados* were the same, but substantially larger than values actually paid (*pagos*). The best characterization would be to use values paid and those authorized to be paid, but left for the following year *restos a pagar*. However, since not all yearly data bases had information on *restos a pagar*, I opted for a more consistent definition.

**IDEO** This is a party-specific variable, taken from the values estimated in Chapter 2.

**CABINET** Indicates the share of the government’s investment and general expenditure budget, excluding the military ministries, that corresponds to the set of ministries held by each party. These two categories that correspond to expenditure identifiers GND=3 and GND=4 are the most politically invaluable types of expenditures. Other expenditures in the budget include Personnel (Gnd=1), Interest Payments (2), Financial Operations (5), Debt Payment (6) and Contingency Reserves (9).

**MENSALAO** Party specific dummy variable that assumes the value of one when the party is listed as having recieved resources from the Marcos Valerio scheme (Comissão Parlamentar Mista de Inquérito dos Correos 2006).

The following variables were used in Section 5:

**GASTOS** Amount (in dollars) of the *Gastos Reservados* expenditures obtained from the National Accounting Office (*Contaduría General*). The actual budget item is *Gastos Específicos de la Administración Central*, found in the budget for the *Ministerio de Gobierno* identified as item 262 until 1993 and item 261 thereafter, which has the peculiarity of not being subject to scrutiny by any other authority.

**RESOURCES** The share of the GDP accounted for by public companies, obtained from Bolivia's *Instituto Nacional de Estadísticas* excluding the "capitalized" firms, since these are not under public management. This is used as a proxy for government resources.

**COCA** Coca Eradication is the area eradicated in the year, measured in thousand has. (Müller & Asociados 2004, p.76).

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