Legislative Capitalism:
Governing after reforms*

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There is little doubt that the past two and a half decades have been a period of profound changes in the role played by governments everywhere, and that in Latin America these changes have been 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 (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.

This paper rests precisely on the notion that if state resources are an important part of political exchanges, and if economic reforms affect the availability of such resources, it follows that politicians should be forced to adapt and adopt bargaining practices different from the one

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that prevailed in the pre-reform period.

There are potentially many different ways in which politicians could adapt to a more constrained environment. I claim, and present some evidence to support it, that bribing legislators to obtain support might become a rational and reasonable coalition building strategy for presidents that govern immediately after a period of sharp reduction in resources.

As the topic is a relatively delicate one, systematic evidence is hard to come about. For this reason, this paper relies of the analysis of scattered bits of evidence of different types, combining indirect cross country data analysis with more detailed analysis of the mechanism at work in the cases of Bolivia and Brazil. The hope is that readers will be convinced of at least the plausibility of the story, opening the way for future research on the subject.

The paper proceeds as follows. Section 1 discusses the theoretical argument, covering the importance of resources controlled by the president, the effects of neoliberal reforms on the availability of these resources, and the role of bribes as a substitute for lost resources. Section 2 presents a brief outline of cases in which the executive bribed legislators for support. Section 3 discusses the extent to which limited cross-national comparative data support the main claims of the paper, and is followed by a closer examination of the cases of Brazil and Bolivia that show the links between the bribing of legislators and support in Congress on one hand, and the role of bribes as a substitute for traditional legal bargaining chips used by the executive, on the other. I conclude, in Section 4, with a summary of the findings and an analysis of their implications.

1 Buying legislative support (literally)

Structural adjustment and market oriented (henceforth “neoliberal”) reforms 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, restricting public employment and privatizing banks, industries, utilities and infra-structure.

The literature assessing the impacts of economic reform in Latin America 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. Neoliberal reforms, the argument goes, changed the amount and type of resources controlled by governments. Given the importance of
these resources for the bargaining between the legislative and executive branches, such reforms must have changed the way ordinary politics is conducted. In essence, my argument is that the reduction in the resources available for distribution must have forced politicians into a different negotiating equilibrium.\footnote{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.} In this section I present the argument in more detail.

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.\footnote{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 of these the president’s impounding powers are even larger.} 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.\footnote{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.} As anecdotal evidence suggests, and scholarly accounts describe in more detail, presidents rarely shy away from dispensing these resources (Crisp 1997, Gamarra 1997, Altman 2000, Pereira 2002, Mejía Acosta 2004, Zucco Jr. 2009), 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, Mejía Acosta 2004). However, in such accounts the president is unable to buy support due to insufficient resources, suggesting that support could be bought if only the president controlled more resources. Therefore, even these arguments actually highlight the importance of resources controlled by the president, and the potentially important impact of changes in its levels.

In the world prior to neoliberal reforms, state apparatuses were larger and inflation meant...
that budget constraints were non-binding. If this period was one of relative abundance of resources over which to bargain, the environment in which political bargaining occurs changed considerably and abruptly. In aggressive reforming countries, the political landscape that emerged after the bulk of the reforms were carried out was dramatically different. Debating the the post-reform situation in different countries, Estévez, Magaloni & Diaz-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) notes 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 available, both expectations of the political players and outcomes of the political bargaining process must have shifted accordingly as, across the region, governments faced the challenge of having to muster support to govern while the resources available to buy support dwindled. One particular passage of an interview with a former Bolivian minister and seasoned legislator illustrates the point quite well:

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. (Former MIR minister and legislator 2005b).

In particular, one of the most visible consequences of the economic reforms of the past two and a half and decades has been the sharp reduction in the number and scope of State Owned Enterprises (SOE’s) as much, if not all of the government assets that were shed or downsized during the reform process were previously under the executive’s control (Chong & Lopez-de Silanes 2005). Whenever presidents were confronted with the task of coalition building, 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.

Beyond shedding SOE’s, more stringent requirements of fiscal discipline that follow from greater economic openness to the world constrains presidents’ ability to use the budget to reward supporters. Expenditures and investment were brought under much tighter controls and the ranks of the civil service saw a relative — when not absolute — decline. From the point of view of legislators and other political leaders, such restrictions imposed limits on resources available to build a school or a road and for the expansion of public employment.

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 reform can also be very costly, as the deep crisis of the 1980’s showed. In this scenario, stabilization can momentarily boost popular support and first generation reforms typically 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 & Struvenegger 2005). Moreover, strategies exist that allow to shield certain politically important sectors from immediate negative effects of reforms (Remmer & Wibbels 2000, Calvo & Murillo 2004).

Not surprisingly, it 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 (Diaz-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 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 same contradiction was picked up by Grindle, who concluded that “the price of widespread policy reform was to allow the old politics of patronage to continue in the public sector” (Grindle 2004, p.539).

The problem is what happens after the initial inflow of cash is gone, and the popular excitement with stabilization subsides. Governments suddenly find themselves in need of support, but with much less leeway to apply the traditional political methods. If the new reality 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 quite rare. Presidents generally do not fall due to lack of support in the legislature (Cheibub, Przeworski & Saiegh 2004), and when they fall, Latin American president’s are more often than not overthrown by the “streets” than by the political establishment (Hochstetler 2006).

What happens, instead, is that politicians adapt to the new environment in several non-exclusive ways. Some adjustment might occur on the demand side of executive-legislative bargaining, as long as politicians realize the new budget constraint is binding and adjust demands accordingly. 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 and face political competition.

To this effect, a tighter budget constraint might provide an extra incentive for presidents to seek more cost-efficient systems of spoils distribution. 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 still at his disposal. An example of such is the Cardoso’s government implementation of the SIAL, as described originally by Pereira & Muller (2004), by which the office of the president’s Chief of Staff began to closely follow
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, most observers would agree that it was a tool to centralize and coordinate government efforts with respect to the legislature, and to make the government’s use of resources more efficient.

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 (Former MIR minister and legislator 2005a).

The key, in these examples, is the reorganization of political practices to increase the payoff the executive receives from its resources, rather than an effort 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 paper I focus on yet a 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.

The direct 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, possibly in Ecuador in 2000, 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 mostly aggressively reformist countries, and here I conjecture that this is not merely a coincidence.

A theoretical argument for the link between reform and legislative bribing rests on the well documented fact that presidents trade resources under their control for legislative support. Assume, as other have done (Pereira, Power & Raile 2006, Zucco Jr. 2009), that presidents have a bundle of legal goods they can hand to legislators in exchange for support (e.g. jobs and pork). Now, assume that in parallel to these legal political resources there exist “illegal” goods, which for simplicity I refer to as “bribes,” that can also be used. Bribes can be targeted to individual legislators and can be used in whatever way the recipient sees fit. In this sense, bribes are superior to legal goods in that there is no leakage or loss, and the whole of the bribe goes towards
the recipients fruition. The drawback to bribes, of course, is the noteworthy disadvantage of potentially generating a large scandal, and ultimately penalizing both the executive and the receiver.

If the probability of generating a scandal is large enough and/or the availability of legal goods is sufficient, presidents will usually not resort to bribes. However, as their resources dwindle, the greater unit yield of bribes makes them progressively more attractive. A tighter budget constrain on “legal” political trade goods 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 becomes tighter, 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 bribing legislator a rational strategy.

This reasoning assumes that bribes are not subject to the same budget constraints as legal resources. While this is not an orthodox assumption, there are reasons to believe it is warranted. First, as described below, 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, because the full value of the bribe reverts to the recipient. In this sense, it is much cheaper to pay a legislator directly for his vote than to buy him or her through a piece of pork. The return for every unit of a bribe is quite high for the recipient, though obviously it does not generally produce any positive social effect as does, for instance, a sewage project or even soccer a field, for that matter.

Hence, the theory, is that the incentives to bribe legislators in exchange for support increases with a decline in resources, which is assumed to be caused by economic reforms. Furthermore, the logic exposed in this section suggests that these incentives are greatest a few years after the bulk of the reforms. This is because the immediate inflow of resources that follows first generation reforms will have dried up, and politicians’ would not yet have been to arrive at a new modus vivendi governing political exchanges.

2 Episodes of Legislative Bribery

It is not straightforward to evaluate these claims empirically. Bribery is a sensitive topic, and data hard to come about. However, there exist scattered bits of empirical evidence that support different parts of the argument. In the remainder of this paper I attempt to organize, present and analyze these data as systematically as possible. I start by quickly reviewing, in this section,
the cases of five countries in which bribing of legislators in exchange for support happened or might have happened. I have searched for similar occurrences in all other Latin American counties by browsing through several news sources and academic texts. While there are many episodes of corruption scandals, some involving legislators, I found no other instances of alleged bribery of legislators by the executive in exchange for support.

**Argentina:** Given the magnitude of the Argentine meltdown in 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, and for political as opposed to economic reasons. In late June 2000, a small note in *La Nación* mentioned the provision by the government of “personal favors” to some peronista senators and one radical. As Senator Antonio Cafiero (PJ) proposed to debate the issue in the Senate, rumors of bribery began circulating, and in a few weeks the case evolved into a full fledged scandal, precisely as the government was hitting the first economic bumps and its popularity plummeting. 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” to 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 “for the Senators, Banelco,” in a not so subtle reference to 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*, the coalition that had elected De la Rúa.

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 of the actual bribe vary widely. Some news outlets mentioned figures 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. In March, 2006, the prosecutors considered the case as proven and ready for trial. Defendants were pronounced in February 2007, but the case has not yet been tried and has recently (October 2009) expanded to include De la Rua himself.

**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 many interviews conducted with former legislators and cabinet members.

**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 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. 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.

**Ecuador:** Gustavo Noboa was handed the presidency of Ecuador in January 2000, after a coup led by future president Lucio Gutierrez and supported by mid-rank 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 a presented the tax increase as a vote to override a presidential veto rather than an actual bill. This shifted the supermajority burden to the opposition, who on May 2nd 2001, fell six votes short of the two-thirds it 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 from 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\textsuperscript{nd}, as 14 of its 22 congressmen either abstained or were absent (LAWR 2001\textsuperscript{b}). The dispute ended up being referred to the constitutional Court, which eventually decided the matter in favor of the executive (IPS 2001).

**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 Vladmiro 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 was made 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 of that same year.

After the fall of his government, hundreds 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.\textsuperscript{4} 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

\textsuperscript{4}The videos and their transcriptions are available from the Peruvian’s Congress website.
parties, topos, the infiltrated fujimoristas in other parties, and members of Fujimori’s own party that received illegal campaign contributions from Montesinos.

3 A comparative assessment of legislative bribery

Having briefly outlined the possible cases of legislative bribery, I begin examining the plausibility of the link between reforms and legislative bribing by taking comparing the countries in which such episodes occurred with others, where it did not. Hence, this section dwells on the issues of 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.

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.

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 paper 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 small number of cases prevent a multivariate analysis using a binary dependent variable regression. On the other had, this matching of reform intensity to bribing of legislators is remarkable. In Table 2 I present difference of means tests of several variables of interests for countries with and without such episodes. 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 measure of change in resource that falls short of statistical significance is MM&P’s privatization sub index. An important difference exists with respect to the privatization component of each index. While Lora used actual proceeds of privatization, MM&P indirectly measured privatization as “one minus the ratio of value-added
### Table 1: Extent of “Reform”

<table>
<thead>
<tr>
<th>Country</th>
<th>Δ Reform Index (Lora)</th>
<th>Δ Privat. sub-index (Lora)</th>
<th>Δ Reform Index (Morley et al.)</th>
<th>Δ Privat. sub-index (Morley et al.)</th>
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<td>Bolivia</td>
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<td>1.00</td>
<td>0.38</td>
<td>0.29</td>
</tr>
<tr>
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<td>0.38</td>
<td>0.60</td>
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</tr>
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<td>Brazil</td>
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<td>0.50</td>
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</tr>
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</tr>
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<td>0.21</td>
<td>0.13</td>
</tr>
<tr>
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</tr>
<tr>
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<td>0.21</td>
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<td>0.09</td>
</tr>
<tr>
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<td>0.03</td>
</tr>
<tr>
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<td>0.18</td>
<td>0.42</td>
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</tr>
<tr>
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<td>0.01</td>
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</tr>
<tr>
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<td>0.16</td>
<td>0.16</td>
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</tr>
<tr>
<td>Uruguay</td>
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<td>0.01</td>
<td>0.08</td>
<td>0.08</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>0.05</td>
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<td></td>
</tr>
<tr>
<td>Chile</td>
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</tr>
<tr>
<td>Mexico</td>
<td>0.01</td>
<td>0.02</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

in state owned enterprises to non-agricultural GDP.” As MM&P indicate, this measure “does not penalize countries which do not have public enterprises, or which, like Chile, had sold off a good deal of the public enterprise sector before he began his measurement.” For the purposes of this paper, Lora’s index is closer to the concept of interest.

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.

As for the issue of timing, 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 components of the reforms, provides a momentary windfall of resources while monetary stabilization provides a surge in popularity that improves the presi-
Table 2: Differences of means between countries with and without legislative bribing scandals

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>No Scandal</td>
<td>0.17</td>
<td>0.17</td>
<td>0.24</td>
<td>0.13</td>
<td>3.67</td>
<td>2.87</td>
</tr>
<tr>
<td>Scandal</td>
<td>0.34</td>
<td>0.50</td>
<td>0.34</td>
<td>0.20</td>
<td>3.18</td>
<td>4.60</td>
</tr>
<tr>
<td>t-score</td>
<td>-3.88</td>
<td>-2.05</td>
<td>-1.93</td>
<td>-1.32</td>
<td>0.78</td>
<td>-2.25</td>
</tr>
<tr>
<td>p.value</td>
<td>0.00</td>
<td>0.10</td>
<td>0.08</td>
<td>0.21</td>
<td>0.45</td>
<td>0.08</td>
</tr>
</tbody>
</table>

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.
dent’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, data such as 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. As a consequence, while prior to privatization government-owned companies accounted for roughly one third of the industrial sector of the country, by the year 2000 this participation had shrunk to less than 10%.

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.

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5Data from the official website of the Brazilian Planning Ministry.
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.

Somewhat similar stories can be told about the other cases. 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[7]

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 Nacion 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

[7] Data for 1980 was obtained at the Library of the 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.
have the resources of the past to ensure its support.

4 The mensalão in Brazil

In April 2006, after months in spotlight, a Congressional Inquiry Committee knows as 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 even larger scheme by which the publicist Marcos Valerio channeled resources to politicians. According to a parallel report prepared by the Ministério Público — Attorney General’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, it was transplanted to the national level. To greatly simplify the scheme, Valerio would raise money from several sources 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 transferred from Valerio’s companies to parties and/or politicians between February 2003 and October 2004 (Comissão Parlamentar Mista de Inquérito dos Correos 2006, p.841) 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

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8The report of the CPMI describes six methods of raising money, from politically motivated loans to Valeiro, 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, Valerio and donors would be favored to win government contracts.

9The 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.
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 that then other two.

As Figure 1 shows, payments to the PL were made 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 was to entice legislators to switch into allied parties. Figure 2 reports the estimated effect of payments on switches 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 bi-weekly observations, from which I regressed the number of migrations into the PTB, PL and PP on the amount disbursed, controlling for whether the periods fell in or near the legislative recess, when a lot of legislators switch parties, and for the size of the party in that period. Note that since there are few periods in which very large payments happened, there is much more noise on the right side of the graph. Despite this fact, the data suggest that the mensalão had some effect on the number of switches. First dif-

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**Figure 1: “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 web-appendix for details.
Figure 2: Effect of Payments on Party Switching

Notes: Figure shows the predicted number of switches into the PP, PTB and PL considered jointly in each period, for different amounts paid to the parties. Estimates were obtained from a poisson regression (for count dependent variables) of switches by each bi-weekly period on bribes paid, size of parties, and a dummy indicating whether the period falls in a period of legislative recess. See web-appendix for details.

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. The first differences for a 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 3.

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.

\footnote{Bribe payments are naturally bound at zero, for this reason I used tobit instead of regular OLS regressions.}
Additionally, it is interesting to note that the government tended to pay out less as the size of the base increased.

Table 3: Determinants of Payments (First Differences—Tobit Regression)

<table>
<thead>
<tr>
<th></th>
<th>Full Sample</th>
<th>First Dif.</th>
<th>St. Dev.</th>
<th>90% CI</th>
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<tr>
<td>Important Vote</td>
<td>937.31</td>
<td>423.06</td>
<td>80.90</td>
<td>1741.97</td>
</tr>
<tr>
<td>Size</td>
<td>-1002.41</td>
<td>389.23</td>
<td>-1753.10</td>
<td>-265.29</td>
</tr>
<tr>
<td>Switch In</td>
<td>56.37</td>
<td>81.33</td>
<td>-102.30</td>
<td>218.77</td>
</tr>
</tbody>
</table>

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 Important Vote, between 35 and 55 for variable Size, and also between 0 and 1, for variable Switch in.

From the theoretical standpoint, it is important to ascertain whether these bribes compensated for less legal transfers but a systematic answer to this question is difficult. It is no secret, however, 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 SIAL/SAAP — the system of legislative coordination implemented during the Cardoso government, mentioned before — 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 (Advisor to the Lula presidency 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” tactic had replaced most other forms of political bargaining between executive and legislative.

The hypothesis that bribes were, in fact, playing a role in coalition maintenance finds indirect support in results recently published for determinants of legislative behavior in Brazil (Zucco Jr. 2009). There, a model of legislative behavior including ideology, pork, and cabinet positions fits
the data well for most years of the last decade except for 2003 and 2004, years the mensalão was allegedly in place. This would be compatible with the idea that there was yet another ingredient at play.

In Table 4, I show a quick comparison between the above mentioned model of legislative behavior, and one that accounts for the effects of the mensalão simply by including a dummy variable which is equal to one for those parties that are listed as having received payments from the Valerio scheme. The dependent variable in all models is the behavioral distance from the president, computed as the absolute distance from the legislator’s WNominate score to that of the government’s whip in the lower house. 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: all else equal, members of parties that participated in the mensalão behaved in a more pro-government way than the amount of pork, cabinet positions and their ideology would suggest. Moreover, in both years the inclusion of the mensalão variable reduces the effect of pork and especially cabinet membership, and improves the fit of the model. This suggests that the mensalão might have substituted, to some extent, individual pork handouts to legislators and patronage handouts to parties.

Table 4: Effect of “Mensalão” on Legislative Behavior (OLS Estimates)

<table>
<thead>
<tr>
<th></th>
<th>2003 Basic Mod</th>
<th>2003 Alt Mod</th>
<th>2004 Basic Mod</th>
<th>2004 Alt Mod</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideology</td>
<td>0.05</td>
<td>0.10</td>
<td>0.04</td>
<td>0.03</td>
</tr>
<tr>
<td>p-value</td>
<td>0.004</td>
<td>&lt;0.001</td>
<td>&lt;0.001</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Pork</td>
<td>-0.03</td>
<td>-0.02</td>
<td>-0.09</td>
<td>-0.06</td>
</tr>
<tr>
<td></td>
<td>0.413</td>
<td>0.476</td>
<td>0.001</td>
<td>0.006</td>
</tr>
<tr>
<td>Cabinet</td>
<td>-0.32</td>
<td>-0.05</td>
<td>-0.21</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>&lt;0.001</td>
<td>0.135</td>
<td>&lt;0.001</td>
<td>0.523</td>
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<td>Mensalão</td>
<td>-0.32</td>
<td>-0.19</td>
<td>&lt;0.001</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Const.</td>
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<tr>
<td></td>
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<td>&lt;0.001</td>
<td>&lt;0.001</td>
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<td>411</td>
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<td>Adj. R2</td>
<td>0.31</td>
<td>0.74</td>
<td>0.21</td>
<td>0.43</td>
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</table>

Notes: The dependent variable is the absolute distance between each legislators W-Nominate score and that of the executive’s whip in the Camara de Deputados. Ideology is computed from surveys of legislators, pork from budgetary appropriation data, and cabinet indicates whether the legislator’s party held a cabinet position. These data was taken from (Zucco Jr. 2009). The alternative model includes a dummy variable indicating whether the legislator’s party received resources from the mensalão. See the web-appendix for more details.

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 keeping 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. 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. In the next case, however, this link is much clearer.

5 Gastos Reservados in Bolivia

Bolivia implemented its first round of neoliberal reforms in August 1985, under Victor Paz Estenssoro, in what quickly became a success story and a crucial turning point in the recent political and economic history of the region. Bolivia became the first country in the region to implement neoliberal reforms under a democratic government, at a time where there was much skepticism about the compatibility of the two.

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, then drafted and delivered the Bolivian “shock treatment” in the form of the Executive Decree 21,060 (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 siege, Sánchez de Lozada — the MNR’s candidate in the next presidential elections — lost the bid to succeed him and the long term effects of these policies then implemented 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 institutional stability and continuity.

Paz Estenssoro was followed in office by Jaime Paz Zamora (MIR), and in 1993, when Goni was finally elected president, an important second wave of neoliberal 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 do 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.

During the five presidencies of the period, the three main traditional parties — MNR, MIR,
ADN — entered alliances that exhausted all possible permutations among them. This flexibility of the established parties was exactly what characterized this period, so much so that it became known as the *democracia pactada*. Today, this flexibility has come to be regarded as “political promiscuity,” and is considered one of the causes of the collapse of the political system in 2003. At the time, however, the capacity of the main leaders to put their past differences behind them was lauded as a sign of political maturity.

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* in reference to a legislature that is brought to its knees by the executive. Tellingly, when the political system eventually collapsed it was more due to pressure from the outside than from internal gridlock.

But how did the executive manage to keep the fragmented legislature under control? Politicians from all affiliations pointed out in interviews that important changes were felt in the period. The three main parties gradually shifted from being closely knitted cliques organized around the historically dominating figures — Paz Estenssoro, Bánzer and Paz Zamorra — into more decentralized and regionally based electoral machines. As time went by, the “good old days” in which discipline was achieved simply by the voice command of the leader were left behind.\(^{11}\)

With looser traditional parties, and several new entrants into party politics, patronage became 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 1980’s there existed approximately 150 public companies employing more than 50 thousand people, whereas by 2003 there were less than 30 companies with no more than three thousand employees.\(^{12}\) Such radical changes suggest that

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\(^{11}\)Besides the natural decline of the historic leaders, institutional reforms that lead to increasing decentralization — such as the creation of single member constituencies, the sharp increase in the number of elected mayors (*alcaldes*), and, more recently, the direct election of the nine regional governors (*prefectos*) — contributed to the trend.

\(^{12}\)Data was obtained from the *Contaduria General de Bolivia*, CLAD and LAWR (1982).
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 by other.

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 (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 almost all the former ministers and legislators I interviewed revealed 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.14

Interviewees agreed that this *modus operandi* has been in place at least since Paz Zamora, and stated that the funds to 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. Accordingly, the practice of paying legislators began as a way to complement their salaries, which are almost unanimously regarded as too low. However, by the end of the 1990’s, such payments are said to have become the main glue that kept bolivian coalitions together.

Figure 3 graphs the evolution of the *Gastos Reservados* over time. It also shows the size of SOEs as a share of the GDP, which serves as a proxy for resources that can be used as patronage by the president. These trends are the first piece of hard evidence for the hypothesis that the former substituted for the latter. In this respect, one former MIR legislator stated the tradeoffs between patronage and bribes in very blunt terms:

> It used to be the case that deputies would appoint people to customs, tax collection, etc and these people would steal. I’d rather have them receive a higher salary and not interfere with the operation of the government. However, higher salaries would not be accepted by the population, therefore, the allowance payment was not a bad solution. It actually saves money for the government. Less than 2 million dollars a year... It is much better than having blockades, paralysis and having people stealing around (Former MIR minister and legislator 2005b)

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14This revelation happened by chance during, after the recorder was turned off when my first interview was interrupted by a phone call. Subsequently, almost all interviewees confirmed the story, always off the record.
Figure 3: Bribes and Government Resources in Bolivia

Notes: Government Resources is proxied by the share of the GDP accounted for by public companies, computed by the Instituto Nacional de Estadísticas. Bribes are proxied by the Gastos Reservados expenditures obtained from the National Accounting Office. See web-appendix for details.
The interviews provided plenty of evidence that during the period of democracia pactada executives had to rely more on individual legislators and patronage, and less on parties to keep legislative coalitions together. While having requested no cabinet positions to support Estenssoro, Bánzer requested, and received, half the cabinet to support of Paz Zamorra 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.” (Former MNR minister and legislator 2005b). Relative to the first ADN-MIR coalition under Paz Zamorra, by the time of the second ADN-MIR coalition, under Bánzer, 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 (Former ADN minister and legislator 2005).

Along the same lines, those that participated in both Sánchez de Lozada governments would frequently 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 the only force behind the coalition between the MNR, UCS and the MBL (Former MNR minister and legislator 2005a).

During Goni’s 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, leading to many regrets by MIR members (Former MIR minister and legislator 2005b). In this scenario, with discipline faltering, bribes became the essential glue holding coalitions together (Former MIR minister and legislator 2005a). While even former officials from the MNR admitted that more or less regular payments were made to legislators during Goni’s first term (Former MNR minister and legislator 2005a), 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]” (Former MNR legislator 2005). According to this same former official, this happened most within the UCS, but also within the MNR itself. It seemed to be a general consensus that the leader of the UCS was particularly prone to extracting more resources from allies, and was described as saco sin fondos that would ask for something new every day, and to withhold support in important votes to extract more resources (Former MNR minister and legislator 2005a).

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 Former MBL
minister and legislator (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” knew that gastos reservados were used to bribe legislators, but that there was very little accurate information on the topic. Caretaker president Veltzé Rodríguez announced, during his short period in government, 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 2005 general elections by almost 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 drug production and trafficking. According to this former head of the Ministry of Government (Former MNR minister and legislator 2005b), the size of the Gastos Reservados increased because of renewed coca eradication efforts, and not because of increased handout to legislators. To check whether this claim had any empirical support against the majority opinion, I regressed the yearly amount of Gastos Reservados on the previously mentioned proxy for president’s resources, controlling for 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. These results are compatible with the idea that bribes were used as a substitute for dwindling government resources.

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14 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 5: Determinants of *Gastos Reservados* in Bolivia: 1990–2004

<table>
<thead>
<tr>
<th></th>
<th>OLS (Lag-DV)</th>
<th>AR-1 (Coch-Orch)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gvt Resources</td>
<td>-0.31</td>
<td>-0.47</td>
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<tr>
<td>SE</td>
<td>0.10</td>
<td>0.17</td>
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<tr>
<td>p-value</td>
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<td>0.02</td>
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<tr>
<td>Lag D.V.</td>
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<td></td>
</tr>
<tr>
<td>SE</td>
<td>0.14</td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>Coca Eradication</td>
<td>-0.01</td>
<td>0.13</td>
</tr>
<tr>
<td>SE</td>
<td>0.22</td>
<td>0.24</td>
</tr>
<tr>
<td>p-value</td>
<td>0.95</td>
<td>0.58</td>
</tr>
<tr>
<td>Const.</td>
<td>13.66</td>
<td>9.95</td>
</tr>
<tr>
<td>SE</td>
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<td>3.51</td>
</tr>
<tr>
<td>p-value</td>
<td>&lt;0.01</td>
<td>0.02</td>
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<tr>
<td>N</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.80</td>
<td>0.48</td>
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<tr>
<td>Autocorrelation</td>
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<td>&lt;0.01</td>
</tr>
<tr>
<td>Durbin-Watson p-value</td>
<td>2.09</td>
<td>1.87</td>
</tr>
</tbody>
</table>

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.

6 Conclusion

Corruption is by no means new. However, the direct bribing of legislators in exchange for support is different, and places corruption in the heart of executive-legislature relations. Thus, beyond traditional views of corruption for personal gain, or even the more sophisticated version of corruption as geared towards financing a political party (Gingerich 2006), bribing legislators for support is a new form of coalition building that has been developed in the post reform period.

This paper argued that bribing legislators in exchange of support is one way executives have to cope 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 sparse, but 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 shows the link between bribes and legislative support, and in Bolivia there is evidence that *gastos reservados* played the role of substitute of more traditional forms of patronage that were dwindling.
This argument — even if taken with a grain of salt — raises interesting normative questions. Executives have long traded many different political goods for support so, in sense, the direct cash payment to legislators is not *that* different from past practices. In fact, in some way it might be a more cost efficient solution. 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.

If 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 usually does benefit citizens, even if indirectly. In contrast, bribery probably leads to more efficient allocation, as the values are smaller, but is also less likely to benefit ordinary citizens.

Finally, one should also 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.

Parliaments are supposed to be arenas in which to pacifically mediate between different interests, exchange ideas, choose priorities, and compensate losers. 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 facts in Bolivia, Brazil and elsewhere have shown, comes at the cost of the credibility of the legislative branch. This might well just be capitalism entering uncharter waters, and structuring yet another market, but we should ponder about what is being lost. After all, “there are certain things that money can’t buy...”

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