

POLI 437: International Relations of Latin America

^T Note. These Rivers are
both of them Navigable, and all
the Cannon and Stores for Acapulco
are Carried from the North to the
South Sea by them.



This week

**Corruption and the
Odebrecht Scandal**

**Can transparency reduce
corruption?**

Ex-Louisiana Congressman Sentenced to 13 Years

By **David Stout**

Nov. 13, 2009



See how this article appeared when it was originally published on NYTimes.com.

WASHINGTON Former Representative William J. Jefferson, a New Orleans Democrat whose political career once seemed to hold high promise, was sentenced Friday to 13 years in prison for using his office to try to enrich himself and his relatives.

The jury concluded, after a six-week trial, that from 2000 to 2005 Mr. Jefferson sought hundreds of thousands of dollars in bribes from companies involved in oil, sugar, communications and other businesses, often for projects in Africa. In return, prosecutors said, he used his post on the House Ways and Means trade subcommittee to promote the companies' ventures without disclosing his own financial interests in the deals.

Corruption is an **everywhere** problem

GOVERNMENT
EXHIBIT
20-45C
1:07CR209



Part of the \$90,000 found in then-Congressman William Jefferson's freezer during a law enforcement search of his residence; this particular bundle was wrapped in aluminum foil and concealed inside the pie crust box at right.

Roasted at Mardi Gras



But what is it, exactly?

Corruption is...

“Behavior which **deviates from the formal duties** of a public role because of **private-regarding...gains**” (Nye, 1967)

“The **improper** use of public office in exchange for **private gain**”
(Treisman, 2000)

Murky concept

Frozen-solid 90k in cash is pretty clear

What about when “private gain” is more indirect?

A **political lobby** gives money to a politician’s reelection campaign; is this “corruption”?



Part of the \$90,000 found in then-Congressman William Jefferson's freezer during a law enforcement search of his residence; this particular bundle was wrapped in aluminum foil and concealed inside the pie crust box at right.

Laws & Regulations

► CRIME & FRAUD

SEC & REGULATOR

CYBERSECURITY

LAWS & REGULATIONS > CRIME & FRAUD

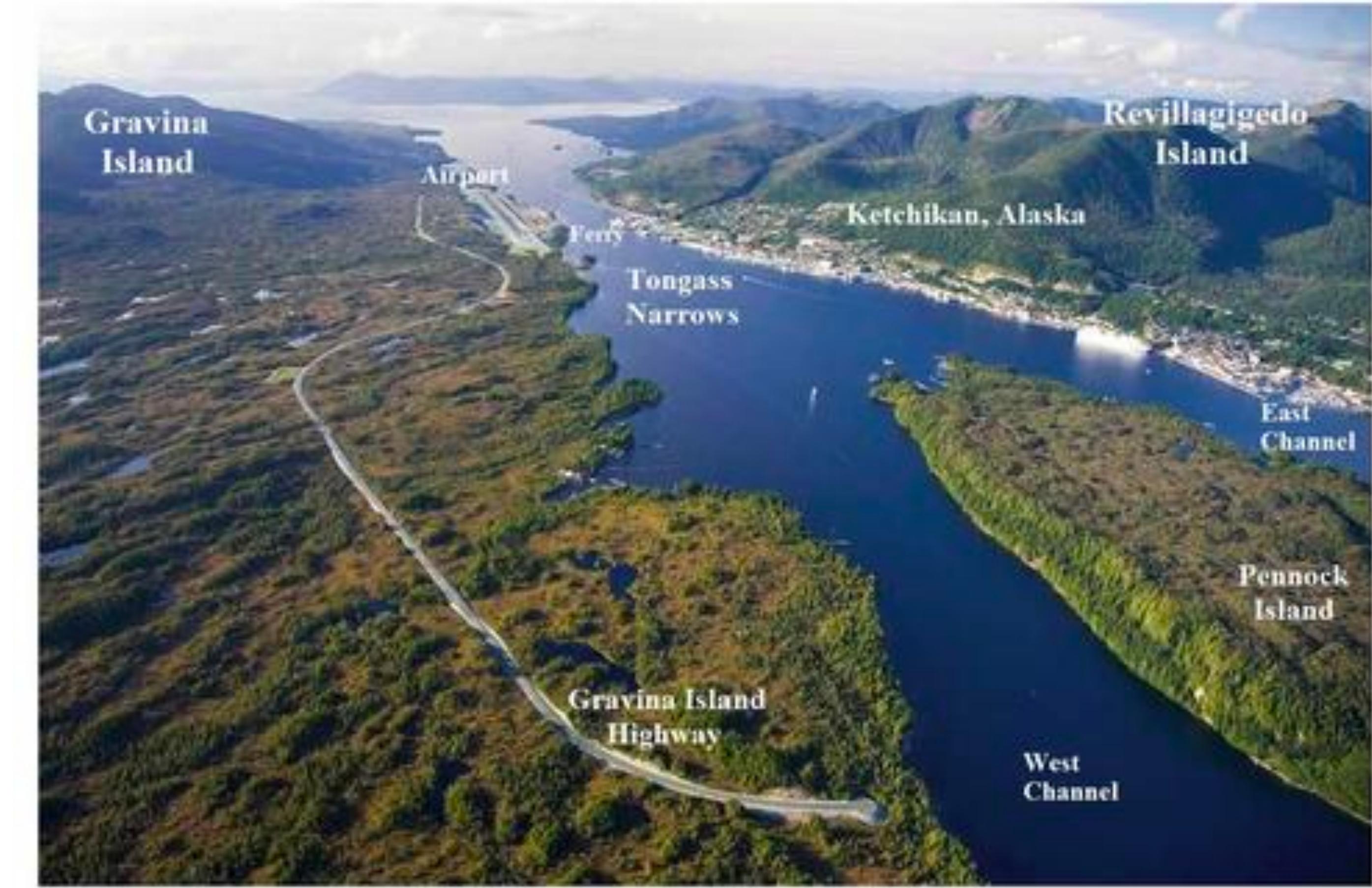
Bribery vs. Lobbying: What's the Difference?

KEY TAKEAWAYS

- Lobbying is the organizing of a group of like-minded people, industries, or entities to influence an authoritative body or lawmaking individual, often through financial contributions.
- Bribery involves the payment of something—either money or goods or an intangible favor—in subversion of normal practices, for gain or special treatment, or in order to get an advantage.
- In the U.S., lobbying is legal, while bribery is not.
- Bribery is an effort to buy power, while lobbying is just an effort to influence it—but admittedly, the distinction between the two can be opaque.

**\$398 million earmarked for
a bridge connecting an
island of 50 residents**

Pork barrel spending trades support for localized spending, benefits only their constituents; is this “corruption”?



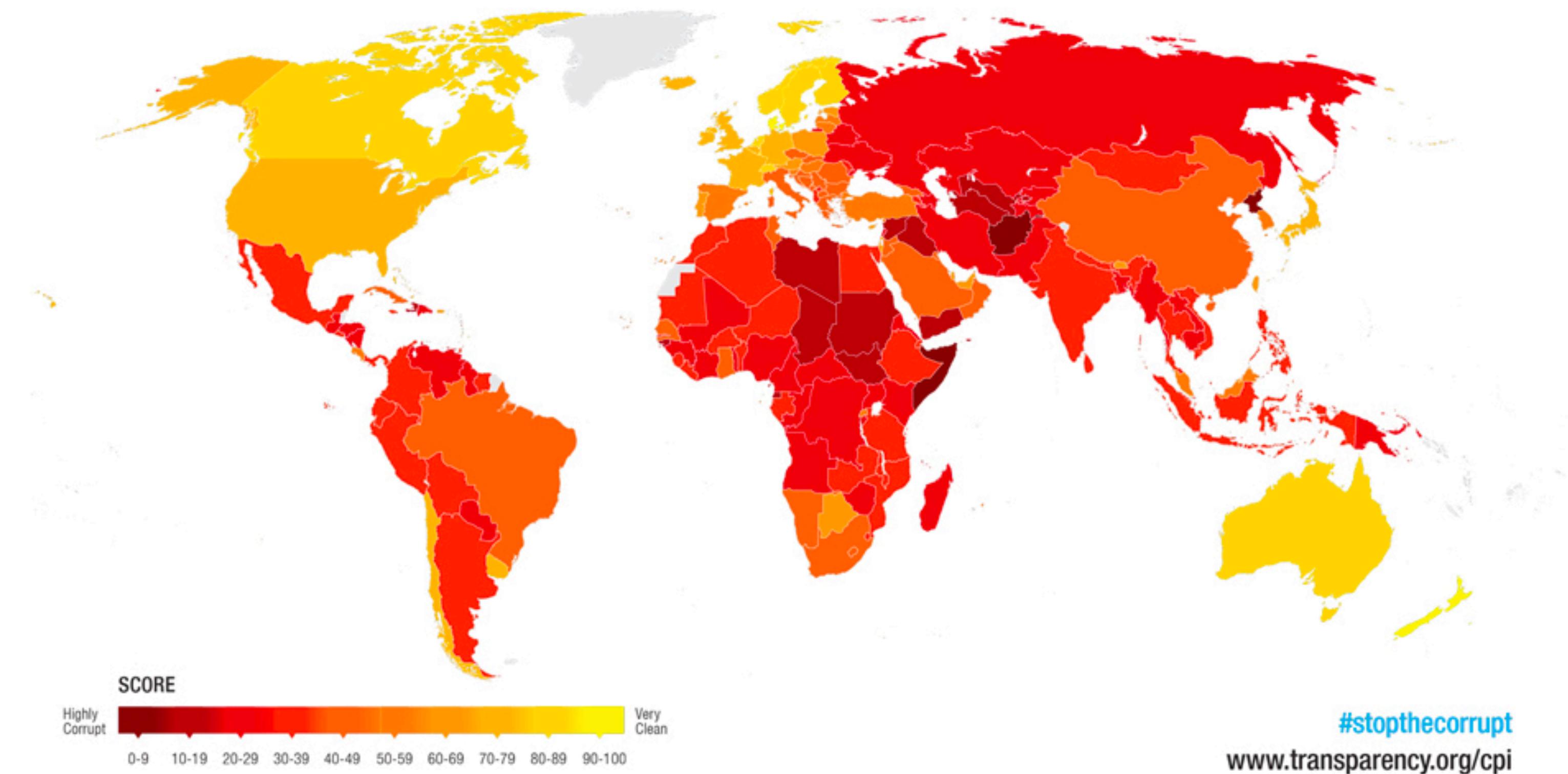
“Gravina Island Highway, Alaska”

Private gain is a key part of the recipe

But norms surrounding **appropriate behavior** is also key

But what if corruption is the norm?

Why does corruption vary?



Bit mysterious: development, quality of institutions, inequality, but what's the direction of causality?

In Latin America the influence of
organized crime can't be understated

Homework for this week!

Costa Rica, Chile, Uruguay = low
organized crime, low corruption

Mexico, Colombia = high organized
crime, high corruption

But doesn't explain everything
(Argentina?)

Corruption is a **big** topic of discussion in
Latin America

And not without reason...

82		Alberto Fujimori Fujimori (1938–)	July 28, 1990 – April 5, 1992 (1st term) April 5, 1992 – January 9, 1993 (1st term cont.) January 9, 1993 – July 28, 1995 (1st term cont.) July 28, 1995 – July 28, 2000 (2nd term) July 28, 2000 – November 21, 2000 (3rd term)
(82)			
83		Valentín Paniagua Corazao (1936–2006)	November 22, 2000 – July 28, 2001
84		Alejandro Toledo Manrique (1946–)	July 28, 2001 – July 28, 2006
81		Alan García Pérez (1949–2019)	July 28, 2006 – July 28, 2011
85		Ollanta Humala Tasso (1962–)	July 28, 2011 – July 28, 2016
86		Pedro Pablo Kuczynski Godard (1938–)	July 28, 2016 – March 21, 2018

Human rights abuses, money laundering, bribes, phone-tapping; in jail

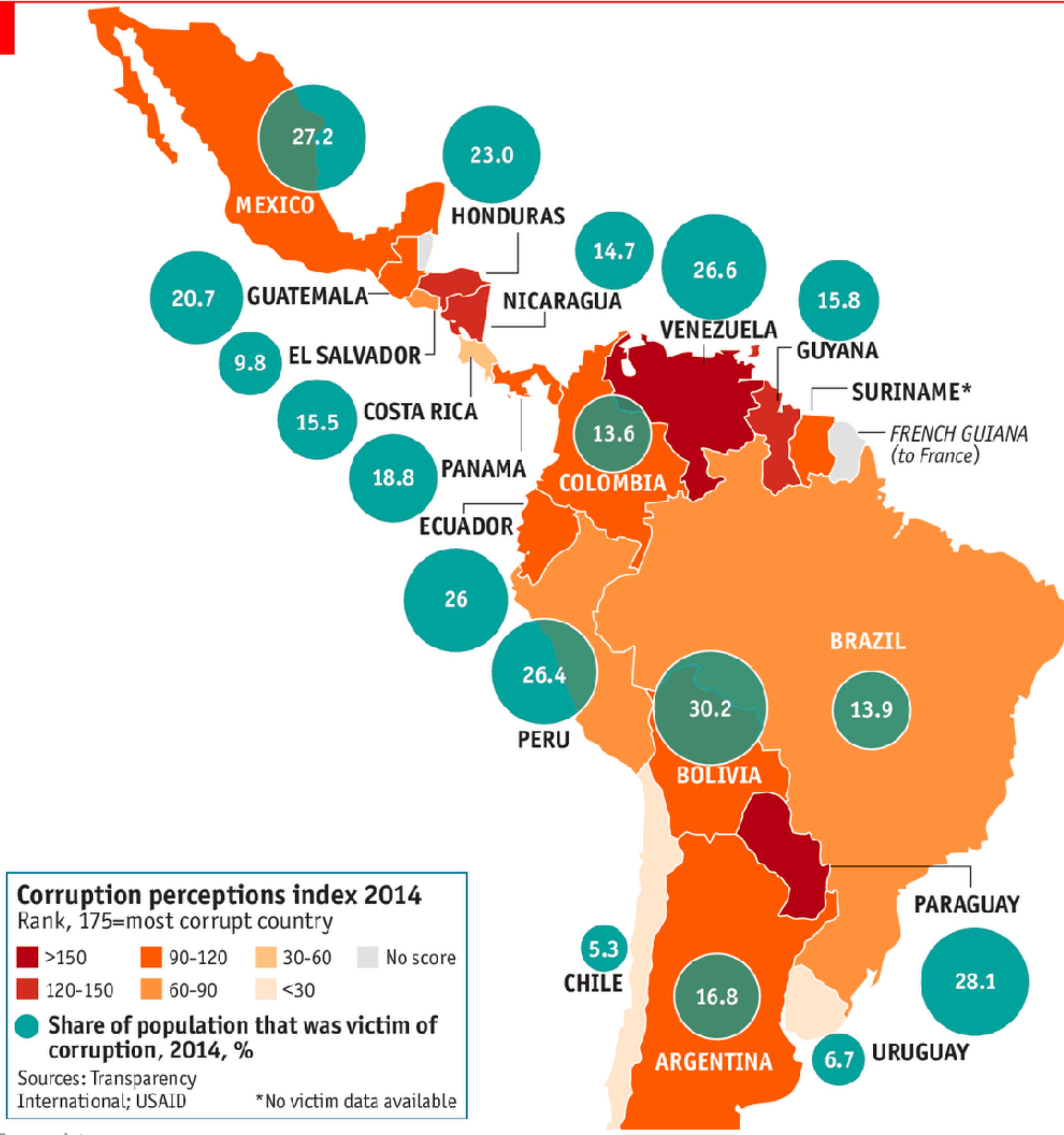
Interim president...

Odebrecht scandal; fighting extradition from US

Odebrecht scandal; suicide

Odebrecht scandal, money laundering; jail

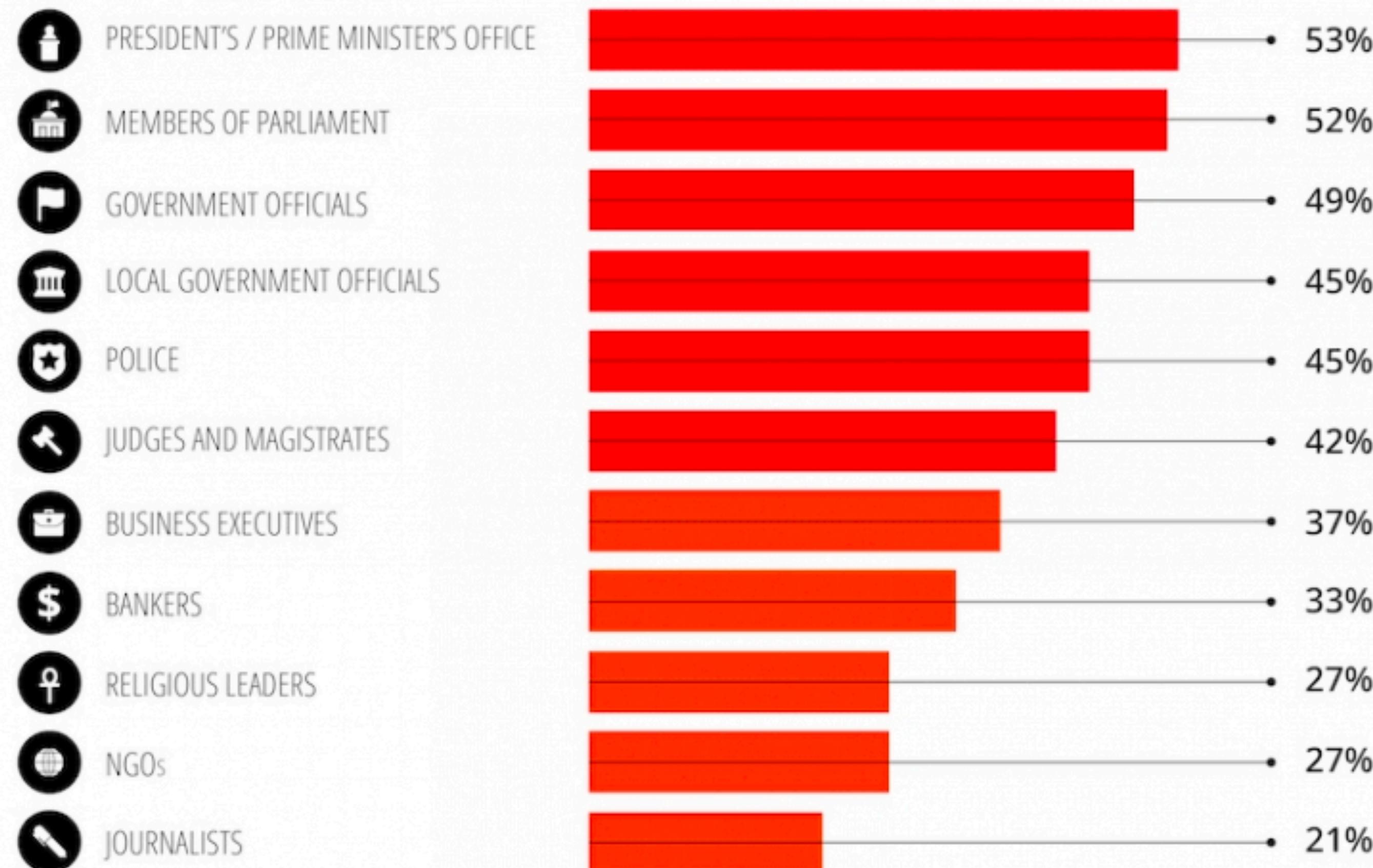
Odebrecht scandal; pretrial detention



Hard to measure!
Lots of “perceptions”!

CORRUPTION BY INSTITUTION*

* Percentage of citizens who think most or all people in the following institutions are corrupt.

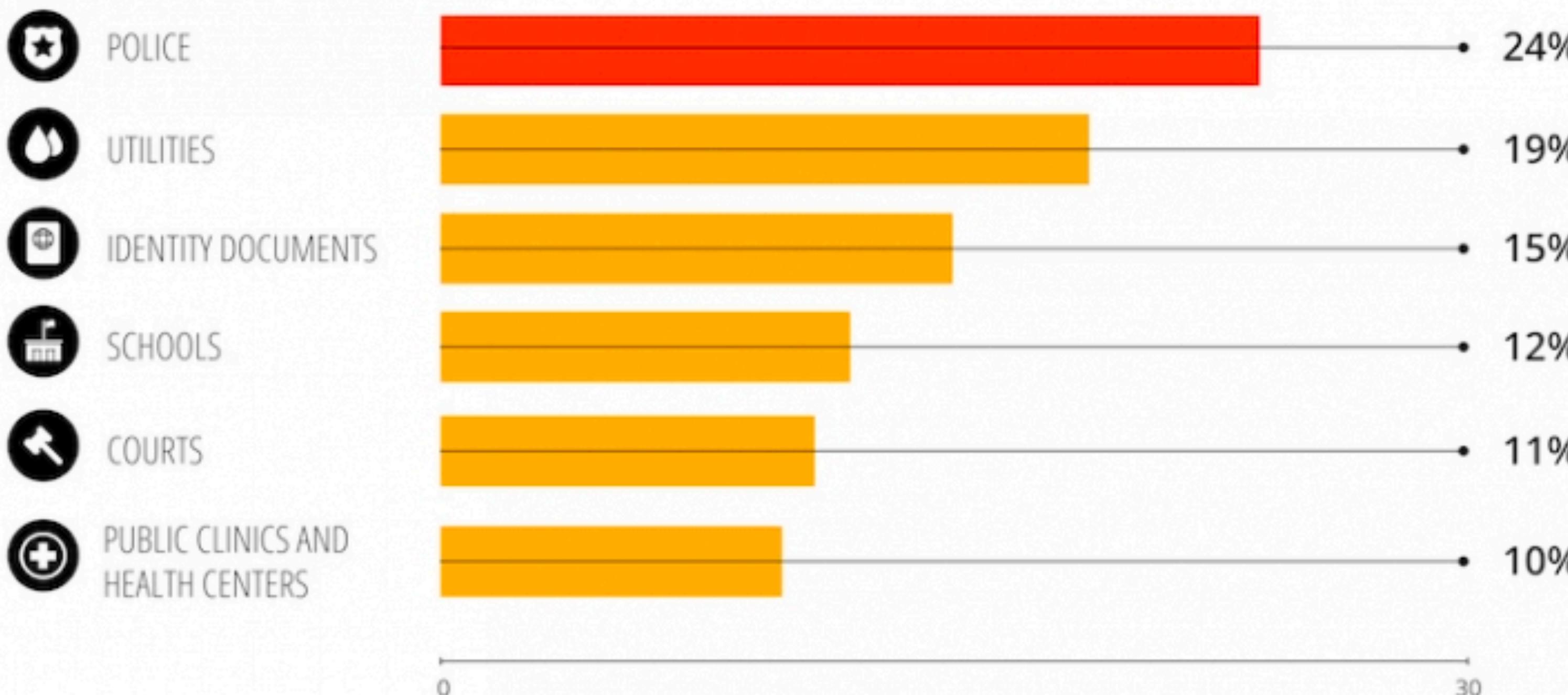


Perceptions center on national govt

Corruption frequent at both the
national and local level

BRIBERY RATES BY SERVICE*

* Percentage of people who used these services and paid a bribe in the previous 12 months.



Bribes are not uncommon, in Venezuela
close to 2/3 report bribes

Bribes are most direct way citizens interact with corruption, but they're complicated:

Can be “extortionary”: if you want your water turned back on you have to bribe me

Can be “for advantage”: give me X amount and you get out of this parking ticket

Are these really different things? If so, how?

Interesting (but insane) study

CORRUPTION AND INEQUALITY AT THE CROSSROAD

A Multimethod Study of Bribery and Discrimination
in Latin America

Brian J. Fried
Yale University

Paul Lagunes
Yale University

Atheendar Venkataramani
Yale University,
Washington University

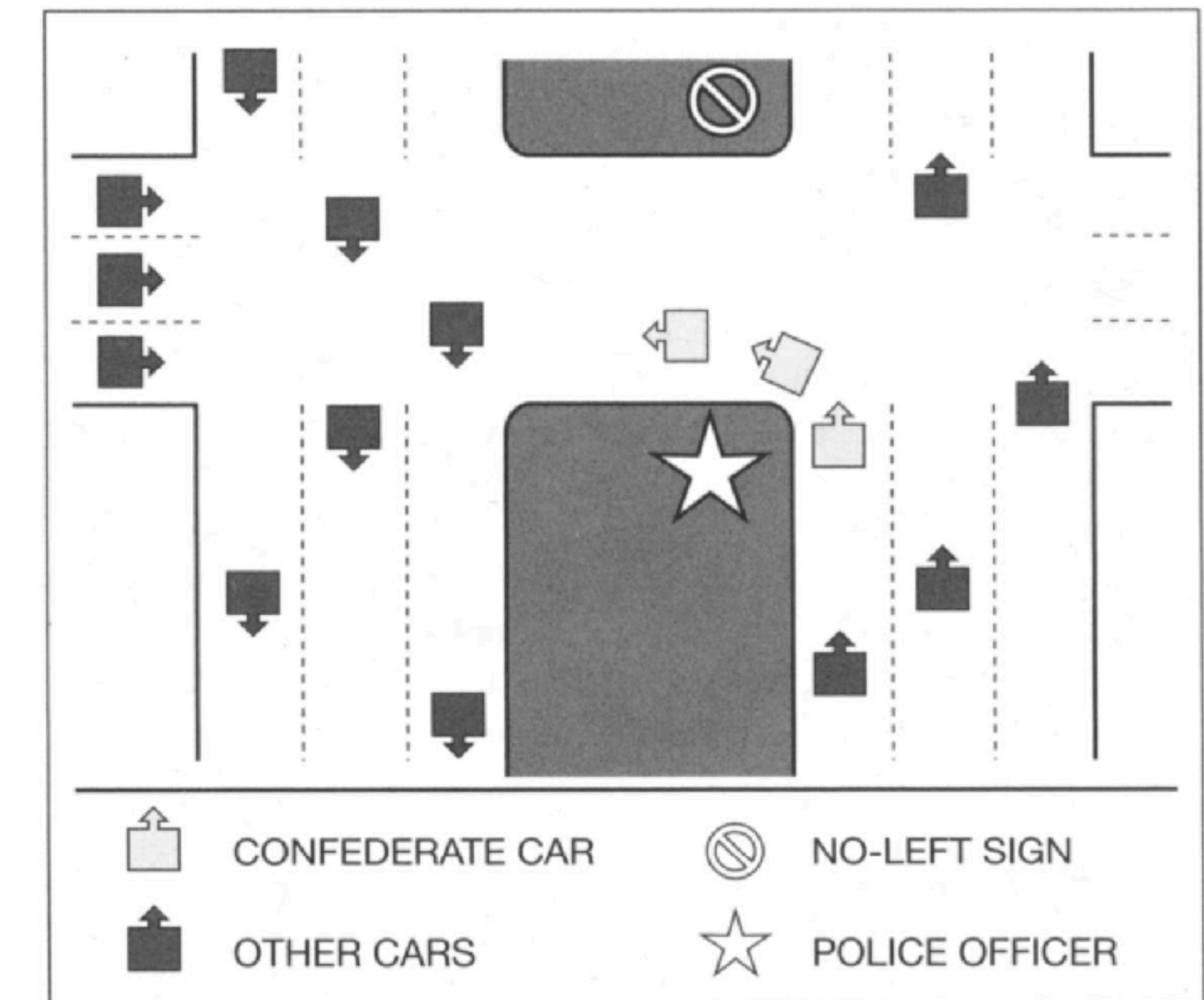


Figure 1 Crossroad Schematic

Note: Authors' illustration; depicts one of the traffic patterns commonly encountered.

Researchers break law in front of police,
measure bribe incidence

Vary whether law-breaker appearance connotes
“low” or “high” class

Both **stopped** at equal rates

But lower class driver more likely to be
asked for bribe (“*mordida*”)

Interviews suggest police fear
retaliation from higher-class citizen

Study gets at a crucial element of how corruption is viewed in Latin America

Corruption lets politicians self-enrich instead of govern

Or lets powerful stand “above” the law

The Odebrecht Scandal



EXPLAINED

Bribery Division: What is Odebrecht? Who is Involved?

Bloomberg Businessweek

June 12 — June 18, 2017 | bloomberg.com

DEAR
BRAZILIAN
GOVERNMENT,
THANKS FOR
THE CONTRACTS

There's graft, and
then there's the graft
machine perfected
by Odebrecht,
one of the world's
biggest construction
companies

p48

▲ Featured in *Bloomberg Businessweek*, June 12-June 18, 2017. Subscribe now. PHOTOGRAPHER: CAROLINE TOMPKINS FOR BLOOMBERG BUSINESSWEEK



And many more

Begins in 2014 with *Lava Jato* (“car wash”) anti-corruption operations in Brazil

Involves corruption in **public works contracts** and a complex web of offshore shell companies
(remember week on taxation!)

Odebrecht construction company implicated in paying > \$780 million in bribes to win \$3.34 billion in benefits

Odebrecht was a huge scandal but **corruption in public works contracts** is common and old as time

Mayor wants a bridge built somewhere, but
doesn't build bridges

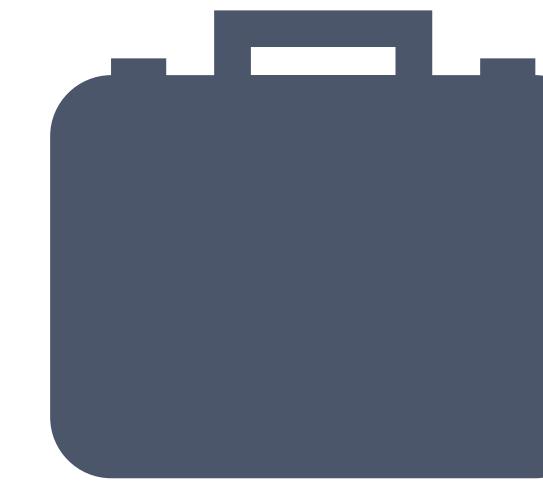
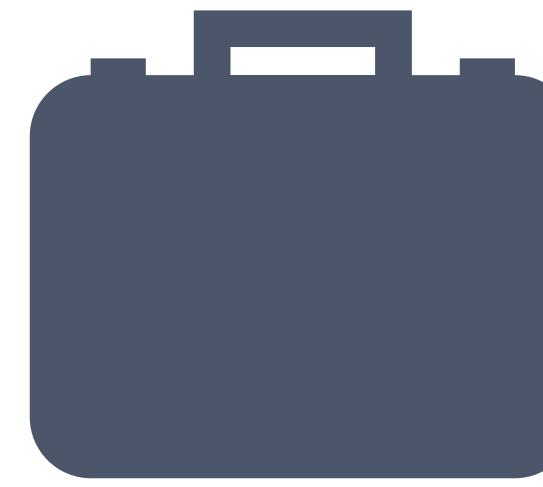
Companies make proposals including **cost**



Competition should drive down cost, increase
quality

Corruption in public works typically involves
avoiding competition

One approach is to offer side-payments (bribe) to mayor to win bids



Worth it if $\text{value of contract} - \text{bribe} > \text{value of contract under competition}$

Takes advantage of discretion surrounding cost-quality tradeoff

Construction companies also collude to “take turns” winning contracts



Company A’s “turn”:
A presents bid at X
B, C, D present bid at $X + 1$

Easier with fewer companies or in more localized projects

This means taxpayers **overpay** for public goods, and the **quality** of public goods suffers

Chinese Blame Failing Bridges On Corruption

August 29, 2012 · 4:00 AM ET

Heard on [Morning Edition](#)



[4-Minute Listen](#)

[+ PLAYLIST](#)



Eight bridges have collapsed around China since 2011. Here, government investigators examine a recently built entrance ramp that collapsed last week in the northeastern city of Harbin, killing three people. Local residents believe government

Consequences

Corruption:

Undermines citizens' stake
in the political process

Is normatively bad

Produces worse public
goods

Influences electoral politics

Also places a premium on candidates' ability
to signal “honesty” or “incorruptibility”

Jimmy Morales

Former President of Guatemala



Jimmy Morales is a Guatemalan politician, actor and comedian who served as the 50th president of Guatemala from 2016 to 2020.

[Wikipedia](#)

“Ni corrupto, ni ladron”

Opinion

Jimmy Morales, a President Against Democracy in Guatemala

The expulsion of the anti-corruption commission from the Central American nation will clear the way for corruption and impunity.

By Francisco Goldman

Mr. Goldman is a novelist and journalist who has covered Guatemala for decades.

Jan. 17, 2019



Voters may incorrectly perceive corruption as a personal failing rather than a systemic issue

Next time:
Efforts to end corruption



23 marzo de 2020

COMUNICADO A LA OPINION PUBLICA.

El Bloque Cordoba de las autodefensas gaitanistas de Colombia les ofrece un cordial saludo a todas las comunidades nacionales quienes pretendemos darles a saber todas estas personas que se encuentran en el departamento antes mencionado. Que por motivos de proteccion a nuestros campesinos de nuestros municipios no queremos que ninguna persona entre y salga de los lugares donde se encuentran ya que queremos evitar que esta pandemia COVID 19 O CORONAVIRUS se extienda ni llegue a nuestros municipios y veredas. Ahora que sabemos que hay mucha gente ignorante que no creen en este virus y por personas como estas la pandemia se extiende dia a dia.

Exigimos acudan a nuestro llamado de buenas manera o nos veremos obligados actuar en contra de los que esten desacantando esta orden.

- A partir de el dia 23 de marzo a las 7:00 PM hasta el dia 13 de a abril a las 7:00 PM del año 2020. Habra toque de queda obligatorio en todo el departamento. Todo el que este deambulando en las calles no responderemos por sus vidas.
- Solo podran transitar los profesionales de la salud (medicos, enfermeras, celadores, ambulancias, farmaceutas, camioneros, transportadores de alimentos, brigadas de salud y traslado funebre).
- Todos los comerciantes deberan tener sus negocios cerrados excepto los supermercados y farmacias (se prohbe la compra y venta de bebidas alcoholicas).

Contamos con la presencia en cada uno de los municipios del departamento de Cordoba y sus fronteras para garantizar el cumplimiento de las medidas adoptadas en este comunicado. (Sahagun, tierralta, Iorica, Monteria, cerete, san carlos, canalete, ayapel, Buena vista, chima, chinu, cienaga de oro, cotorra, moñitos, planeta rica, Valencia entre otros...)

Evitemole males a nuestros seres queridos por las buenas o por las malas...

Desde las montañas de Colombia

BLOQUE CORDOBA

Detour

How will coronavirus affect LA
in particular?

India put 1.3 billion people in lockdown. Now it needs to help of them survive

PUBLISHED WED, MAR 25 2020 4:56 AM EDT



Saheli Roy Choudhury
@SAHELIRC

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KEY POINTS

- India needs to ensure that workers in its informal economy, as well as small business owners, have sufficient cash flow during the 21-day lockdown period.

Ferale said.

As lockdowns kill jobs, Africa's informal workers suffer

MARCH 25, 2020 AT 2:07 AM

Share



A member of security forces inspects a permit allowing a woman to leave her home, after a health state of emergency was declared and members of the public ordered to a home confinement in

Most Popular

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[UW Dr. Rabinowitz: worst part of the](#)

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Indonesian informal workers lose work in coronavirus outbreak

Income support needed for many on the lower rungs of the economy

JUN SUZUKI, Nikkei staff writers

MARCH 21, 2020 15:23 JST



Indonesian ride-hailing startup Go-Jek has created millions of informal jobs that are vulnerable to the coronavirus pandemic. (Photo by Ken Kobayashi)

When it rains it pours...



2020 RANGER
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Carolina Ford Dealers

OIL

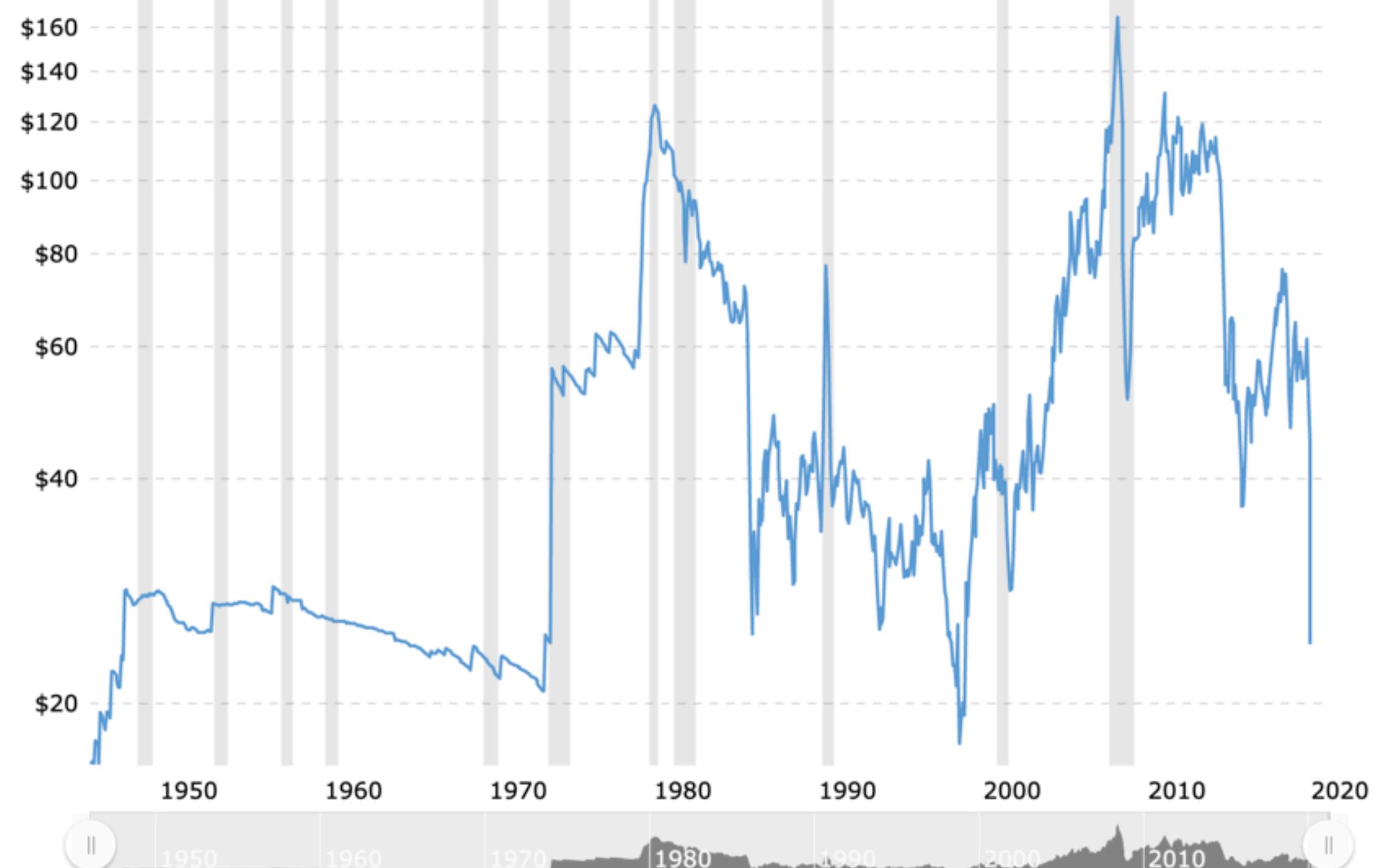
US urges Saudi Arabia to ‘rise to the occasion’ and end its oil price war with Russia

PUBLISHED WED, MAR 25 2020 10:41 AM EDT

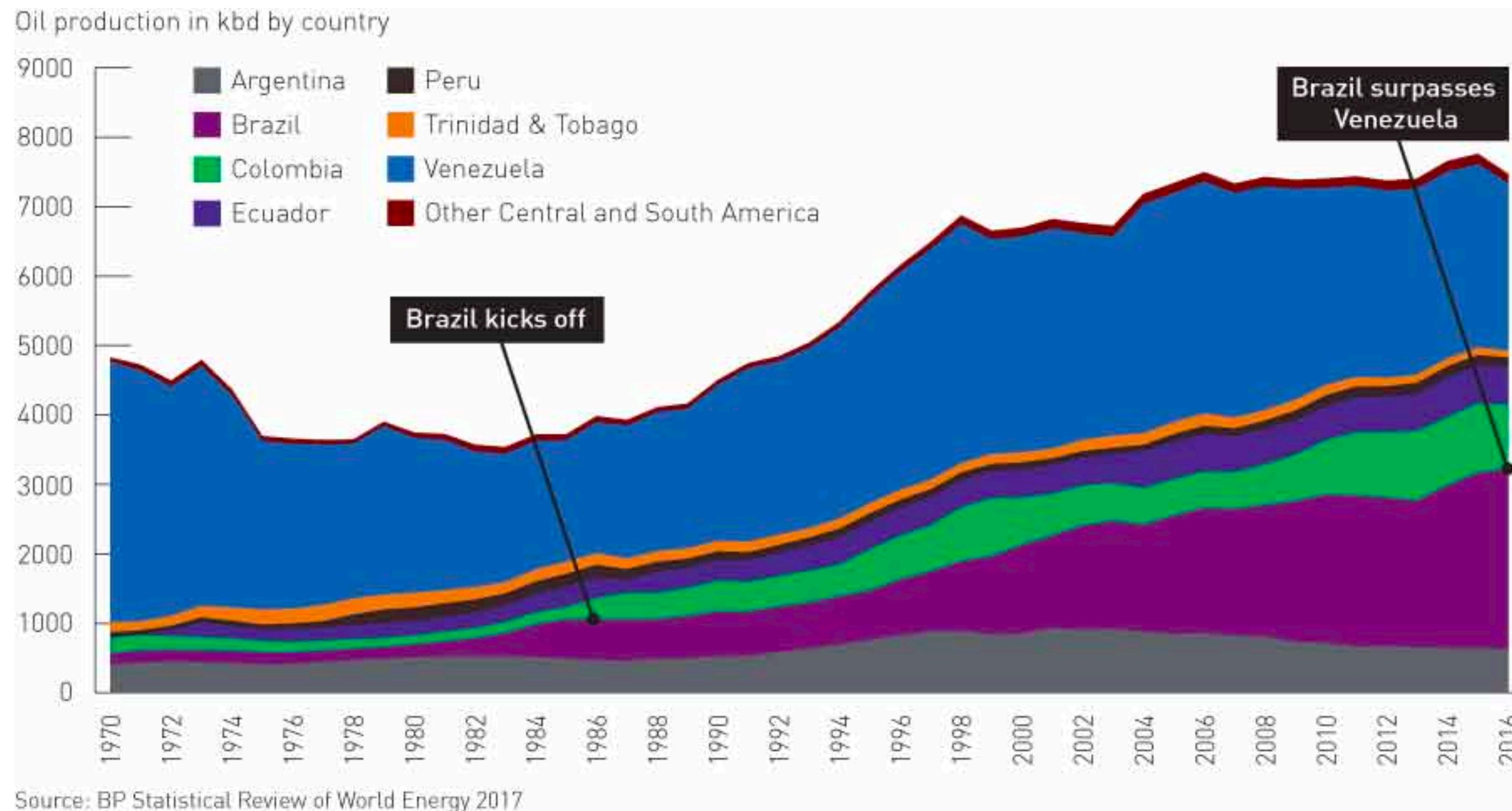


Sam Meredith
@SMEREDITH19

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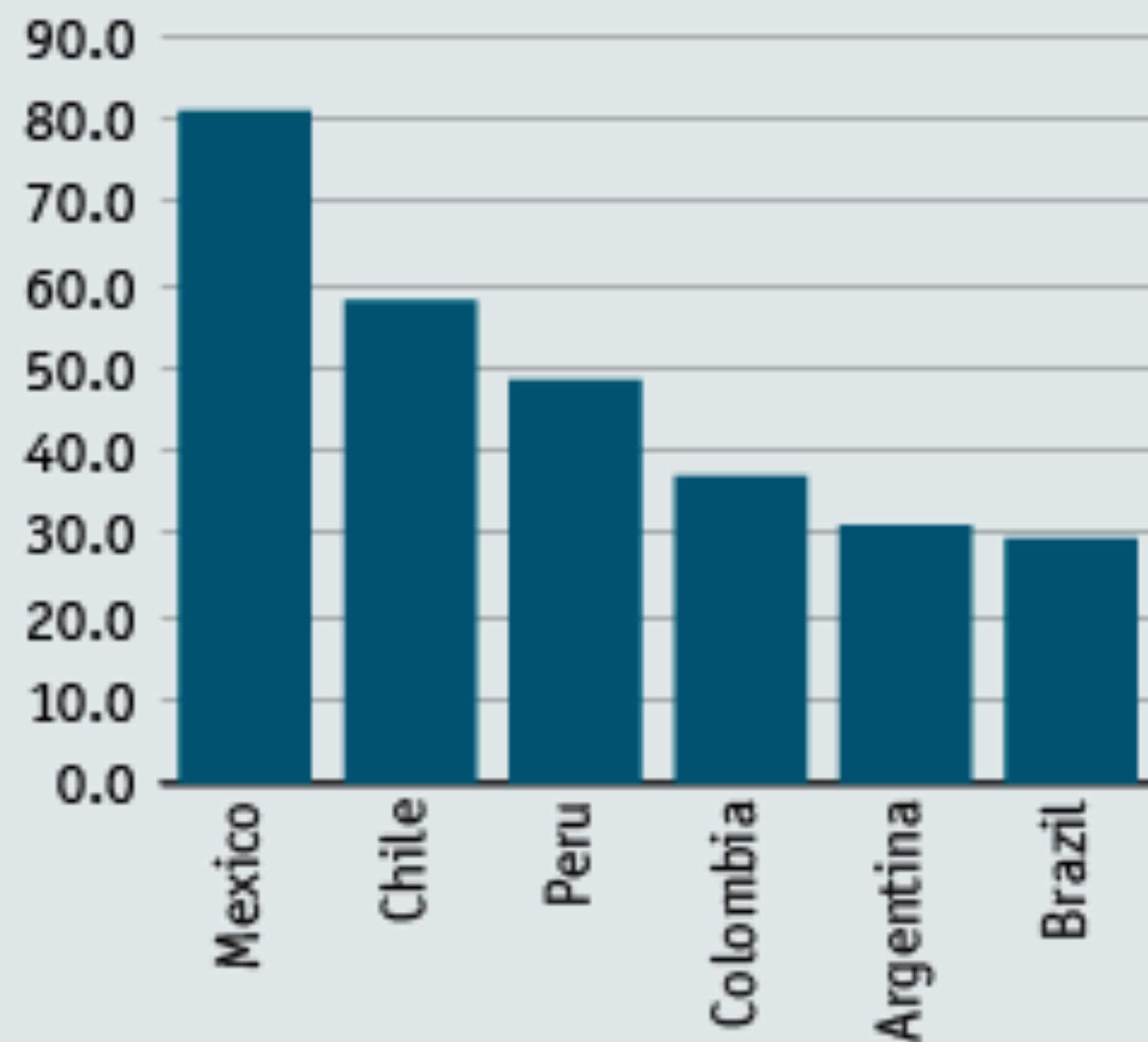


Public spending going up



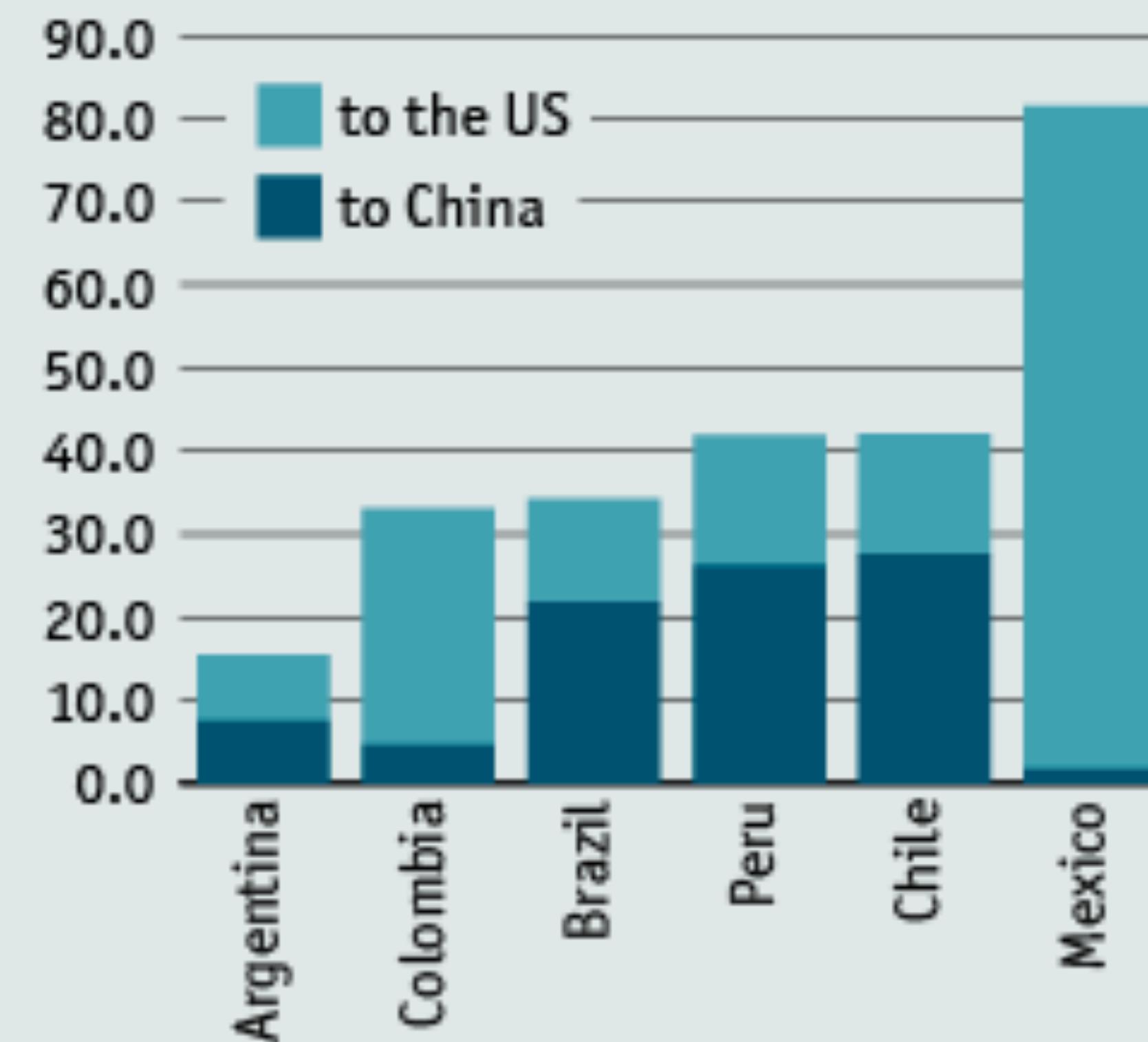
State revenue going down

Trade as a percentage of GDP (% of GDP; 2018)



Source: The Economist Intelligence Unit.

Exports to the US and China (% of total; 2018)



Sources: IMF, *Direction of Trade Statistics*; The Economist Intelligence Unit.

This week

**Corruption and the
Odebrecht Scandal**

**Can transparency reduce
corruption?**

FIGHTING CORRUPTION

Elections as tools to **filter** and **discipline** politicians

Effective judicial and **prosecutorial** institutions

We think corruption in part a function of
discretion + lack of oversight

Most efforts aim at reducing **discretion** and
increase oversight

THE BRAZILIAN CASE

Brazilian government is highly
decentralized

Every year, cities receive millions of dollars
from federal government for public goods

Mayors have little oversight over spending,
corruption is rampant

Paid for but unfinished public works



Mustafa Quraishi / AP

Construction material lies scattered outside the newly inaugurated Jawaharlal Nehru stadium, one of the venues renovated for the upcoming Commonwealth Games in New Delhi, on July 27, 2010

Substitute cheap material, pocket difference

Hire “phantom firms” for fake projects

**CRACK DOWN ON
PHANTOM FIRMS.**

Ensure information
about who owns
companies and trusts
is made public.

ONE

one.org/scandal

A black and white photograph of a man in a three-piece suit and tie. He is looking directly at the camera with a serious expression. A large, solid black rectangular box is placed over his eyes, obscuring them completely. The background is a dark, textured surface.

List experiments

List 1:
1. Political groups orchestrated campaigns sites in your area of voting.
2. Once a week you searched online about candidates' campaign.
3. You volunteered to assist a campaign for a politician of your choosing.
4. You spoke about the campaign to the campaign leader.

Task 2: Vote-buying in Latin America

Task 1: List Experiment

List 2:
1. Political groups orchestrated campaigns in your area of voting.
2. Once a week you searched online about candidates' campaign.
3. You volunteered to assist a campaign for a politician of your choosing.
4. You spoke about the campaign to the campaign leader.
5. You were received benefits if you cast a vote to the politician.

Ceiling and floor effects make list experiments challenging

Corruption and norms



Other approaches: **over-invoicing** of goods
and services, **diverting funds**

The point is the mayor was given money to
build a bridge, but:

No one **checks the bridge was built**

Citizens unlikely to detect, lack **information**

MONITORING AND AUDITING

People are good. But if you monitor them, they are better.
[Juan Domingo Peron]

BRAZIL'S AUDIT LOTTERIES

Beginning in 2003, Brazil announces they will **audit** 60 munis chosen by **lottery**, every 2-4 months

Office of Comptroller General gathers info on **federal transfers** for chosen munis, sends auditors

Produce report of **irregularities**, publish publicly, sent to Courts/Police

Do Government Audits Reduce Corruption? Estimating the Impacts of Exposing Corrupt Politicians*

Eric Avis[†]
UC Berkeley

Claudio Ferraz[‡]
PUC-Rio

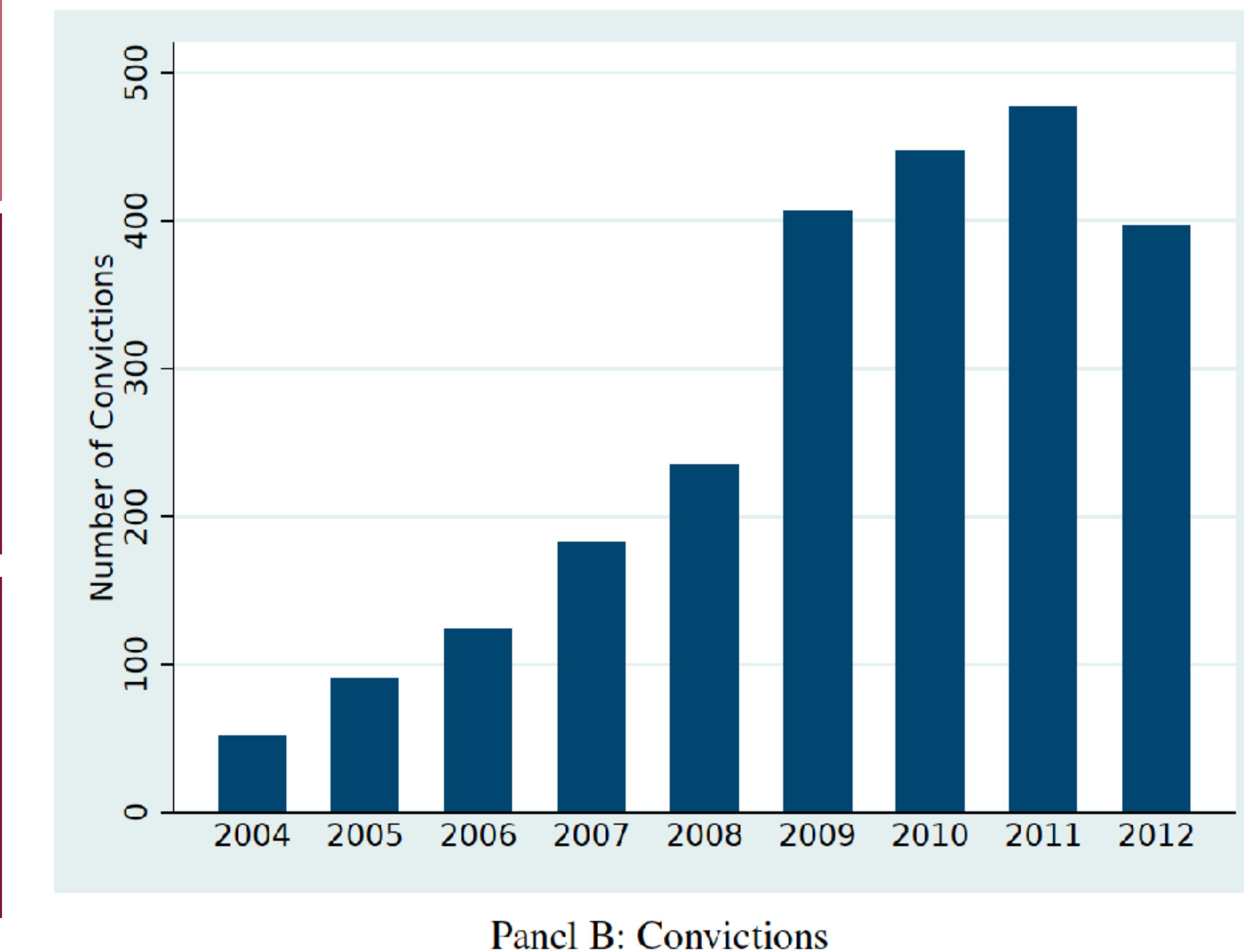
Frederico Finan[§]
UC Berkeley

July 2016

Since lottery is random we have
a nice **natural experiment**

Compare corruption in munis
audited for **first time** versus
munis audited **a second time**

Audits **reduce corruption,**
increase legal proceedings
against mayors



THE ROLE OF WAGES AND AUDITING DURING A CRACKDOWN ON CORRUPTION IN THE CITY OF BUENOS AIRES*

RAFAEL DI TELLA
Harvard University

and

ERNESTO SCHARGRODSKY
Universidad Torcuato Di Tella

ABSTRACT

We study the prices paid for basic inputs during a crackdown on corruption in the public hospitals of the city of Buenos Aires, Argentina, during 1996–97. We find a well-defined, negative effect on the measures used to capture corruption. Prices paid by hospitals for basic, homogeneous inputs decrease by 15 percent during the first 9 months of the crackdown.¹ After this period prices increase, but they are still 10 percent lower than those prevailing before the crackdown. Relative to the precrackdown period, higher wages play no role in inducing lower input prices when audit intensity can be expected to be maximal (during the first phase of the crackdown) but have a negative and well-defined effect when audit intensity takes intermediate levels (the last phase of the crackdown). Controlling for fixed effects, we find that

Prices go down following audits = likely sign of over-billing

LIMITATIONS

Big, expensive, need capacity

Need **political willpower** (i.e., Brazilian officials *chose* to do these audits)

Transgressors might **adapt** in the long-term

Monitoring Corruptible Politicians[†]

By GUSTAVO J. BOBONIS, LUIS R. CÁMARA FUERTES, AND RAINER SCHWABE*

Does monitoring corrupt activities induce a sustained reduction in corruption? Using longitudinal data on audits of municipal governments in Puerto Rico, we show corruption is considerably lower in municipalities with timely audits—before elections. However, these municipalities do not exhibit decreased levels of corruption in subsequent audits, even while mayors in these benefit from higher reelection rates. Our results suggest that audits enable voters to select responsive but corruptible politicians to office. Audit programs must disseminate results when they are most relevant for voters—shortly before an election—and ensure that these programs are sustained, long-term commitments. (JEL D72, H83, K42, O17)

Study from Puerto Rico suggests audit effects may not last

Working Paper

Social Audits and MGNREGA Delivery: Lessons from Andhra Pradesh

(not great) evidence from India suggests move from easy corruption (ghost projects) to hard corruption (fudging record-keeping)

“Big data” approaches

Digitizing property records in **rural India, Colombia**

Digitized contracts in **Chile** allows comparison of cost of bids to services purchased by government

Social audits: train people to identify, report malfeasance

No guarantee identifying corruption will remove
public official

This is why so much emphasis on publicizing
corruption

ELECTORAL ACCOUNTABILITY

In democracies, citizens elect officials that design
and implement policy

Corruption/incompetence punished at the ballot box

Desire to stay in office prevents corruption, **even
when opportunity exists**

How does this story break down?

CAN CITIZENS EVEN OBSERVE CORRUPTION?

*The functionaries of every government have propensities to command at will the liberty and Property of their constituents. There is no safe deposit for these but with the people themselves, nor can they be safe with them without information. **Where the Press is free, and every man able to read, all is safe.**" (THOMAS JEFFERSON)*

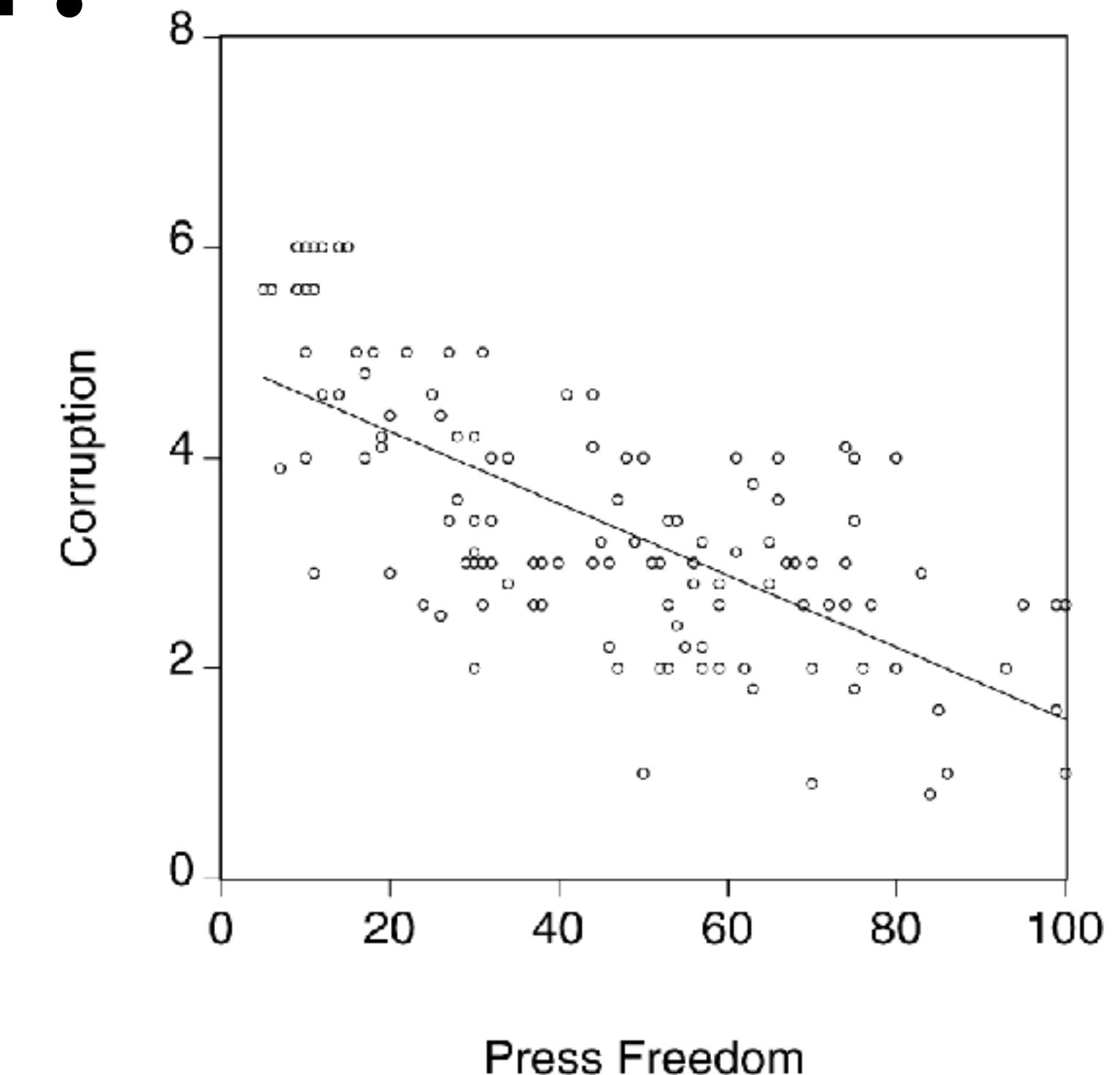
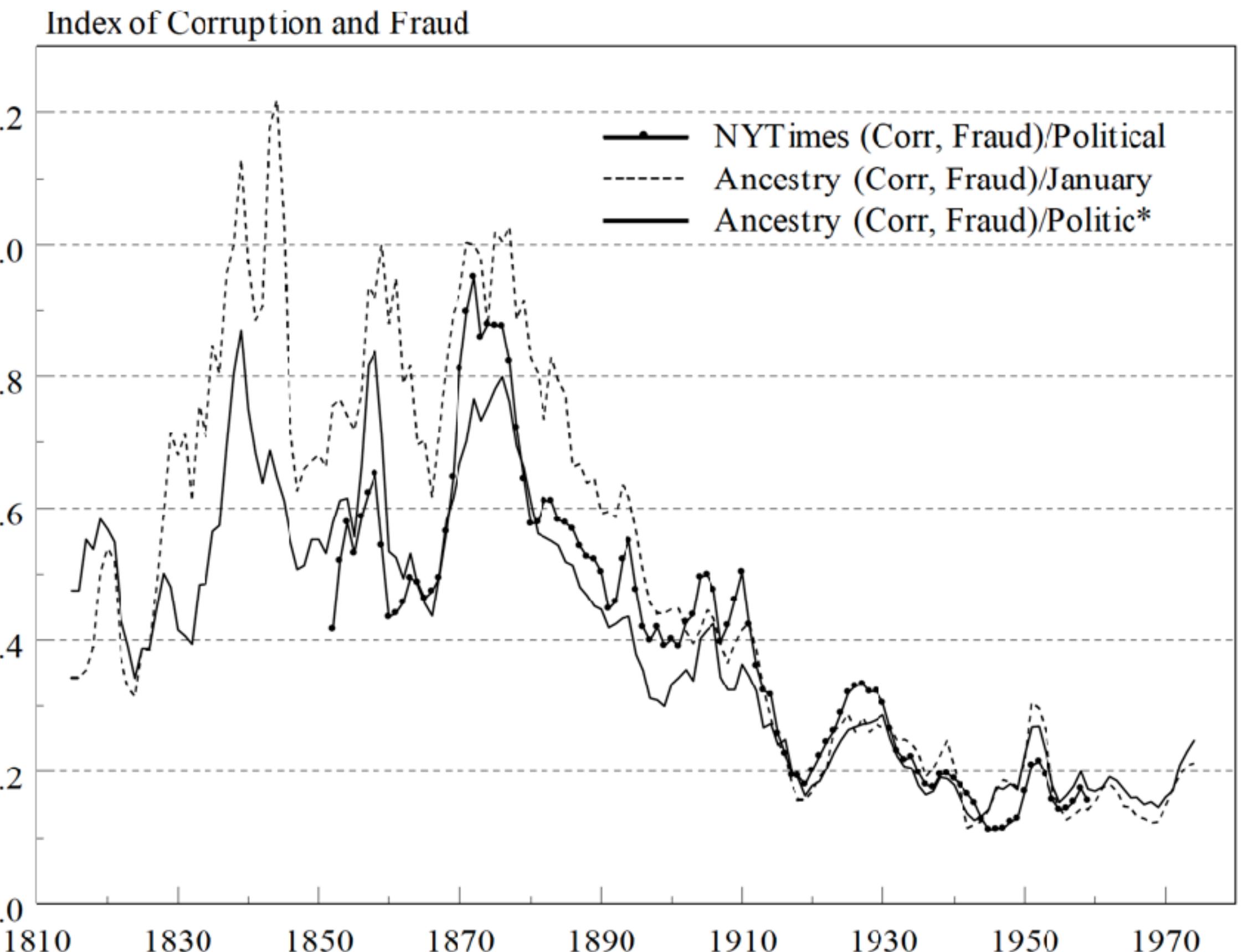


Fig. 1. Corruption and press freedom. Note: corruption index ranges from 0 (highest corruption) to 6 (lowest corruption), index of press freedom ranges from 0 (highest press freedom) to 100 (lowest press freedom).

Citizens learn about corrupt behavior via media

USA about 5 times more corrupt in
1870 than 1970***



We think drop in corruption = political competition +
active media + independent judiciary

Corruption pretty hard to identify from citizen perspective, especially **who is to blame**

Identifying which candidate will **best battle corruption is also difficult** (every candidate claims to be incorruptible!)

Effects of corruption awareness → vote outcome are unclear

The Pavao reading

Why does it seem elections
don't hold politicians
accountable?

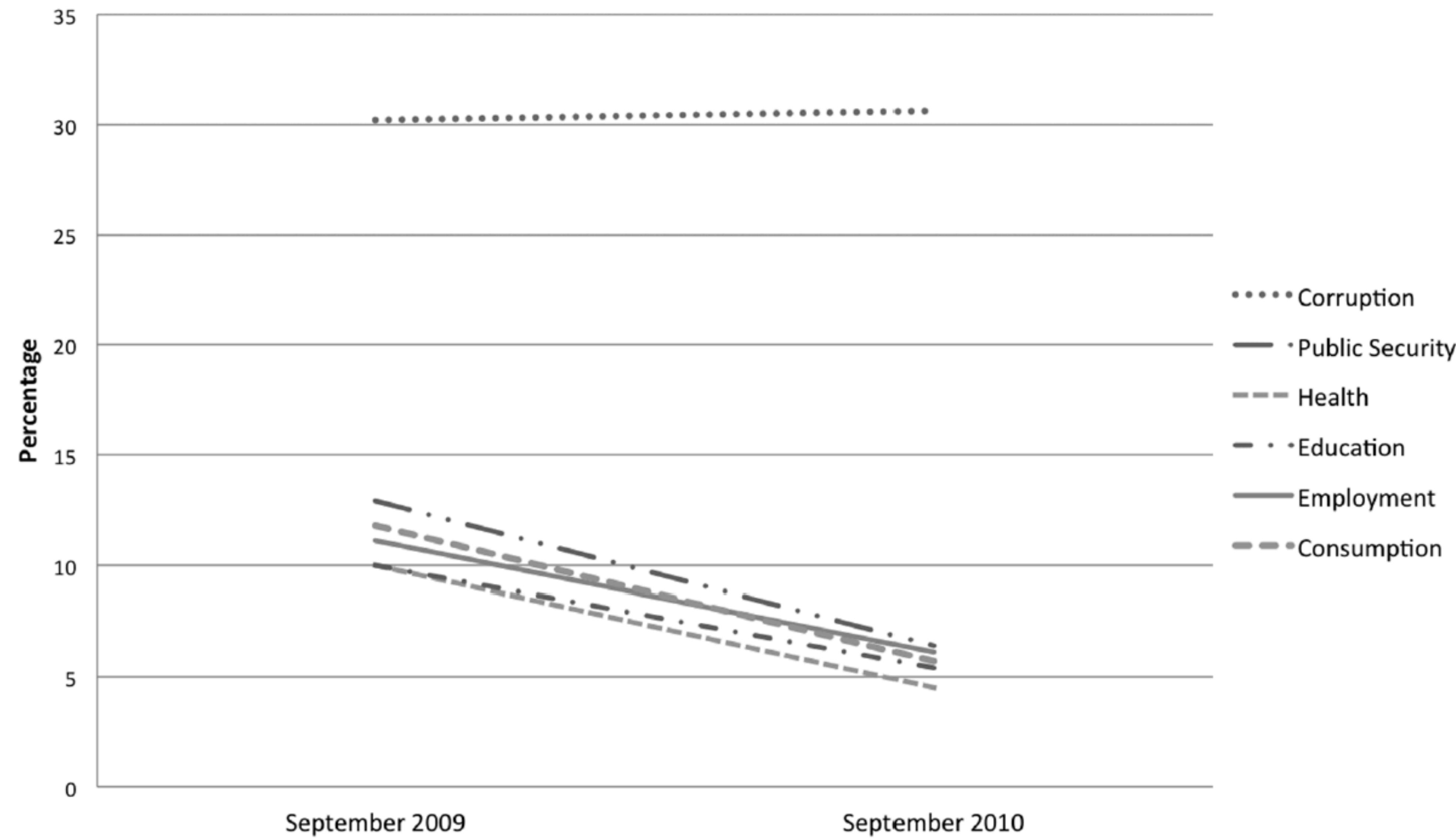


Figure 1. Percentage of respondents who believed no candidate was capable of dealing with corruption versus other issues, 2009–10. Source: Instituto Análise.

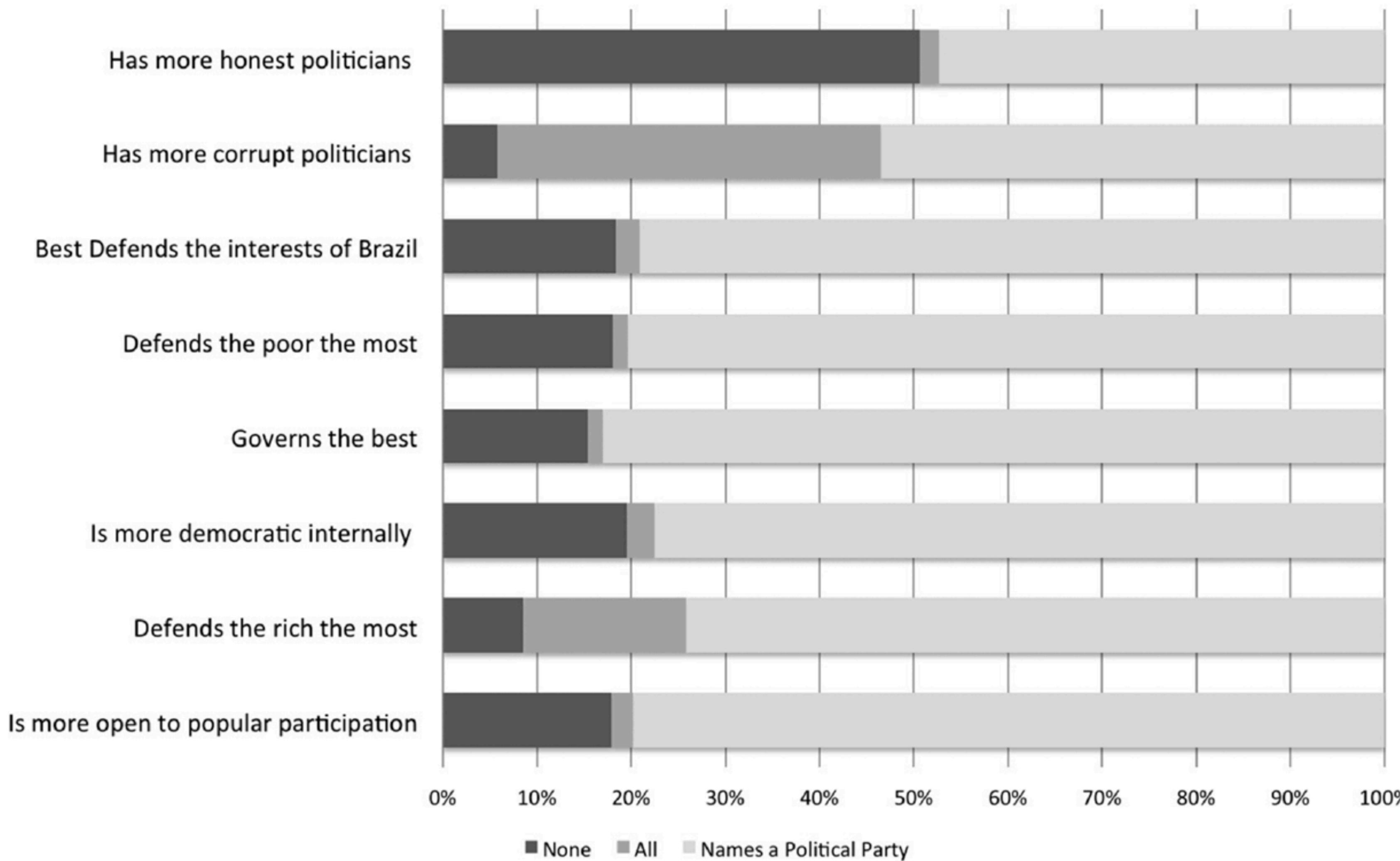


Figure 2. Attitudes toward political parties. Source: Fundação Perseu Abramo, 2012

The following interaction between two participants serves as a good example of the two different views of corruption that were observed in all the focus-group sessions. After one respondent said

has always been

immediately corrected him by saying “we cannot say that corruption is widespread, it [corrupt politics] When they get

When encouraged to think further about whether all politicians are really corrupt, some participants took back their initial generalization. However, their answer to the follow-up question “what happens to the clean candidate if he gets elected?” further confirmed their skepticism: “then he becomes corrupt, like all the rest.”¹² Focus-group participants reinforced the idea that politics corrupts people and that governing and honesty are incompatible terms. “A really honest person would not even consider entering politics,” one participant concluded.¹³

Corruption as a constant

Voters may (incorrectly?) believe corruption is equally distributed across all parties/candidates

Voters become cynical, base vote less on corruption and more on other issues

What are some implications of this?

CONCLUSIONS

Two places to “push” on corruption

Increased monitoring/accountability

Increased public pressure/electoral pressure

Corruption never goes to 0! Is there an
“acceptable” level of corruption?