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Political Corruption: A Latin American Case Study of Corruption and Its Effects on Economic Development

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Political Corruption: A Latin American Case Study of Corruption and Its Effects on Economic Development

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April 2006

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Chapter I: Establishing a Framework for Analyzing Corruption

On April 9, 2002, local trade unions and businesses in the town of Caracas, Venezuela, walked out the door of their places of work and declared an official strike in opposition of the state-run oil company Petroleos de Venezuela. The strike led to an April 11, 2002, rally of 150,000 participants and ended in a violent clash between protestors and pro-Chavez gunmen and National Guard members, which left 10 people dead and 110 injured. The next day, rumors floated that President Hugo Chavez had resigned from his post. Chavez had been taken into military custody but returned two days later. In December 2002, strikes erupted again. The December strike began a nine week long halt to oil exportation, which crippled the oil market and led to fuel shortages. Finally, in May 2003, opposition leaders responsible for the strike and the Organization of American States (OAS) crafted and signed a deal that would secure a popular referendum on Chavez and his corrupt monopolization of power. This effort received widespread media attention from around the world, and when it ended in August 2004, Chavez had won.

Meanwhile, 2230 miles north of Caracas, Mexican president Vicente Fox told hundreds of media outlets around the world that he would seek prosecution of the criminals responsible for the torture and killing of political activists in the 1960s and 1970s. Fox was elected president of Mexico in December of 2000, and remains in power to this day. Three months after his announcement to the world that he was dedicated to

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2 Ibid.
3 Ibid.
this effort, three army officers were charged for their crimes and held accountable for what they had done. Fox’s rhetoric was followed by action, and that had a resounding impact on how he was perceived by the Mexican people.

Latin America has been a volatile region when it comes to politics over the past 50 years. While some of this could be attributed to the Cold War era and the United States and Soviet Union’s meddling in the political processes of Latin America, there are reasons for government problems and instability that go far deeper than the foreign policies of two past superpowers. Some countries have experienced relatively calm political transitions, and others have experienced volatile revolutions and coups. These countries of the developing world, also known as the “Third World,” have not yet attained the industrial development that countries like the United States or western European nations now have. Many of the reasons for these difficulties lie within the countries themselves. For many countries, the barriers preventing their development seem never-ending, and many within these countries look at development prospects with despair and skepticism. William Easterly describes this in *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*: “the majority of the world’s population have not yet said goodbye to the bad old days before development. The majority of the world’s population is not as fortunate as I to be borne along on rivers of prosperity.”

Easterly’s words bring to life the popular attitudes among the people of the developing world.

Structural barriers have caused some of the severe obstacles to development. These barriers are largely caused by bureaucratic corruption in the government.

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Corruption is widespread in the Third World, and author Susan Rose-Ackerman explains why in her book *Corruption and Government: Causes, Consequences, and Reform*:

All states, whether benevolent or repressive, control the distribution of valuable benefits and the imposition of onerous costs. The distribution of these benefits and costs is generally under the control of public officials who possess discretionary power. Private individuals and firms who want favorable treatment may be willing to pay to obtain it.⁶

Rose-Ackerman goes on to outline the multiple levels of corruption and attempts to analyze the significant impacts of corruption. I intend to use Rose-Ackerman’s underlying thesis of self-interest driven politics in order to evaluate possibilities for success of anticorruption efforts in two Latin American countries. I will argue that the self-interest of the Mexican government favors a higher success rate for anticorruption measures than the self-interest of the Venezuelan government. In order to understand the role corruption plays in the development process, we need to first understand what corruption is and its widespread impact in order to determine possibilities to combat it.

**Defining Corruption**

In very broad terms, corruption can be defined as a “lack of integrity or honesty (especially susceptibility to bribery); use of a position of trust for dishonest gain.”⁷ Self-interest plays a vital role in the politics of the Third World because many of its government bureaucracies pursue policies that benefit only the members of that

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bureaucracy. This is where the term “corruption” comes from: the misuse of one’s power.\textsuperscript{8} Corruption exists in multiple levels of the public sector.

Additionally, Rose-Ackerman makes a few critical distinctions in her analysis of corruption. She divides her work into two major sections: corruption and its economic implications, and corruption with its political consequences. In her mind, and contrary to popular opinion, corruption is not confined to simply the government sector of a society. Instead, corruption infiltrates almost all sectors of society and creates a stranglehold on internal development efforts as well as prevents external actors from effectively aiding development. This has major consequences on the potential for economic growth. She expands her definition of corruption by pointing out an assumption many people make. In her words, external development groups “assume that a distinction exists between one’s public and private roles. In many societies no such clear distinction exists.”\textsuperscript{9}

One of the most legitimate fears is that monetary aid given to a destitute nation will not go to the people who really need it, but rather it will only serve the interests of the select few bureaucratic elites who perpetuate that corrupt system.\textsuperscript{10} Corruption deters third-party donations, and has a very long reach into the government, economy, and culture of the developing nations that are afflicted by it.

In the context of economic development, Rose-Ackerman crafts the definition of corruption as a problem of “dysfunctional public and private institutions” in a country that lead to “poverty, poor health, life expectancy, and an unequal distribution of income and wealth.”\textsuperscript{11} She goes on further to say that “a country is poorer overall if corruption

\begin{itemize}
\item \textsuperscript{8} Rose-Ackerman, Susan. P. 9.
\item \textsuperscript{9} Ibid. P. 91.
\item \textsuperscript{10} Ibid. Pp. 177-182.
\item \textsuperscript{11} Ibid. P. 1.
\end{itemize}
levels are high.” Rose-Ackerman designs a persuasive correlative relationship between economic disparity and corruption in the developing world. To Rose-Ackerman, corruption that transcends both public and private economic boundaries take on three common practices: bribery, patronage, and gift giving. She writes, “in the private sector, gift giving is pervasive and highly valued, and it seems natural to provide jobs and contracts to one’s friends and relations.” This natural inclination throws the door wide open to corruption at every level.

While understanding the economic problems caused by corruption is important, there is another level of society that corruption can impact heavily and that is the political sector. Larry Diamond offers some political implications of corruption in his work *Political Culture & Democracy in Developing Countries*. He cites the work of Naomi Chazan in her essay “Between Liberalism and Statism: African Political Cultures and Democracy” where she argues that the liberal democratic systems that were attempted in Africa failed because as Diamond points out “when elite politics and mass political mobilization finally arose, it was almost exclusively in the context of anticolonial struggle, with self-governance and electoral competition coming only very briefly at the end.” Furthermore, “formal democratic institutions quickly collapsed under the weight of corruption and intolerance of dissent, and state power was expanded, centralized, personalized, and corrupted.” The political implications include an inherent distrust of decentralized governments, although as we will see later in Rose-Ackerman’s work, decentralization is necessary to fighting corruption.

12 Ibid. P. 3.
13 Ibid.
15 Ibid.
While Chazan’s work focuses on mainly African countries, parallels can be drawn between the African case studies and current Latin American situations. Diamond agrees with Chazan’s analysis, and ultimately argues that fledgling democratic or liberal societies are far more susceptible to corruption than ones that have endured the span of time. This is important to remember as Mexico could be considered a fledgling democracy and the use of the referendum in Venezuela also illustrates democratic possibilities. Additionally, Chazan’s work with African countries can also be applied to Latin American countries because economic disparity and high amounts of poverty can be found in both areas of the Third World.

**Contributing Factors**

What are some of the possible causes for widespread corruption in the developing world? While it is true that some sources of corruption are relative to a particular place or system, there are some consistent sources of corruption that appear almost everywhere. There are three themes that tend to come up in development literature regardless of what country or region is being studied. Those three are: the problem of post-colonial nationalism, internal competition inside the civil society, and an overall political culture of corruption. Regardless of other innumerable causes for corruption, these three seem to be the most common in understanding and dealing with corruption on a wide scale.

The history of the region we call the developing world tells us that the countries of today’s developing world were the colonies of yesterday’s world. More specifically, the world powers of the time (Spain, England, France, Portugal, and others) had much control over the region. Imperial powers exploited on a massive scale, showing little

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16 Ibid.
17 Robert Clark, Larry Diamond, and Zehra Arat are three of many authors who comment on these themes.
concern for the welfare of the people in these regions, and today’s post-colonial nationalism in the developing world is very indicative of the bad feelings that still exist today. Colonization of the Americas began in the late 15th century. Robert Clark articulates the important role colonialism played in the development of the Third World identity we know today by stating:

Without the colonial experience, most of the nations of the Third World would not even exist; at least in the form that we know them today, indeed entire regions, such as Latin America and Indochina, would certainly carry different labels when we locate them on a map.\textsuperscript{18}

Past injustices help prop up corrupt leaders. Clark states, “many of the policy decisions made by the governments of Third World countries can best be understood as part of the very long process of undoing what was done to them by the colonial experience.”\textsuperscript{19}

Furthermore, Clark argues that this nationalism is complicated by ethnic differences that seem to be in abundance in some developing countries. He continues, “formal, legal control of the Third World...does not indicate a lessening of the tensions of ethnonationalism, the belief that people should be governed only by others of their same ethnic group.”\textsuperscript{20} Ethnonationalism not only functions as a destabilizer of developing countries in general, but it also helps lend credence to nationalistic governments that promise to stay true to the “goals” or “interests” of a specific ethnic group. Nationalism generally helps entrench corruption rather than alleviate it by securing popular support for corrupt government structures.

\textsuperscript{19} Ibid. P. 26.
\textsuperscript{20} Ibid. P. 25.
An additional aspect of colonialism that has had a reverberating effect on the developing world is the exploitation that occurred. Jan Knippers Black argues in her book *Inequity in the Global Village: Recycled Rhetoric and Disposable People*, that old tensions over colonial exploitation have fueled nationalism in some parts of the developing world, which helps enable corrupt governments that promise retribution for past injustices regardless of whether or not they can deliver on those promises. Blinding nationalism encourages the acceptance of corrupt policies because as long as popular opinion remains strongly in favor of the nationalist leader or government, there is little that can be done to fight that leader's corruption. What better way to build up popular support than to point to the past injustices inflicted on the developing world by external superpowers? It is a way to find a scapegoat in an external cause for poverty rather than putting the blame on the corrupt system.

A second major cause of abundant corruption is the civil society itself. A strong civil society can check government power and monitor government actions to prevent corrupt practices. However, what most often happens in the developing world is that the civil society is too busy fighting itself that it has neither the time, nor the resources, to fight a corrupt government bureaucracy. In fact, a corrupt government is generally so powerful in a country that it would take massive amounts of time and resources in order to effectively check corrupt policies or actions of which civil society has neither. In *Democracy & Human Rights in Developing Countries*, Zehra F. Arat focuses on one central argument for the lack of effective checks on corruption: that competition in civil

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society between demands for individual civil-political rights and socio-economic equality is giving corrupt governments plenty of room to maneuver while the overall populace continues to disagree about effective development strategy.\textsuperscript{23} Arat maintains that these conflicts are detrimental because corrupt officials have a huge interest in maintaining the conflict in order to secure their own political agenda.\textsuperscript{24}

The final major cause of corruption in the developing world is the fact that the overall "political culture" of governments within the Third World is generally one of corruption. In \textit{Political Culture & Democracy in Developing Countries}, Larry Diamond compiles essays from various authors that seem to agree on one key factor: government corruption is a characteristic of the current "political culture" of the developing world that has to be changed.\textsuperscript{25} They argue that by promoting democracy, countries will see increasing accountability for government officials as well as the existence of political scandals, which as the authors argue, is a strong sign of political maturity in the matters of politics and government.

The risk of an overly powerful executive authority seems to be a consistent problem in many Latin American countries. As Rose-Ackerman points out:

Critics of Latin American governments argue that most have overly powerful executives. Unlike the American Congress, Latin American legislatures frequently have little influence. As a consequence, incentives for rent seeking [defined as "situations where people use resources to gain an advantage in

\begin{itemize}
\item \textsuperscript{23} Ibid.
\item \textsuperscript{24} Ibid.
\item \textsuperscript{25} Diamond, Larry. Pp. 7-10.
\end{itemize}
dividing up benefits of economic activity”] and corruption is high within the executive branch."26

When the people begin to realize that they want the government to respond to their interests rather than just the select few within the government, that is a sign of political maturity, and this is one of the most significant forces against government corruption.

Impacts of Corruption

The economic ramifications of corruption deter and stall development progress from actually taking place. These ramifications can be articulated in a twofold manner: first, corruption stratifies the rich/poor gap in developing countries, and second, it increases the amount of money and resources used to carry out bribery and “gift giving” to corrupt individuals. Black argues that government corruption shares some of the responsibility for this by looking to the fact that the majority of the population in the Third World is in poverty despite the existence of a moderate amount of resources and/or revenue of the nation as a whole.27 This analysis seems to be accurate when taking into account countries like Venezuela, which has an incredibly rich supply of oil that it exports to countries willing to pay top dollar for it. Yet, Venezuela has horrible inequity between its poor and rich populations. Something has to explain that difference, and Black would argue that corruption is one of the answers to that question.

A good reason for this paradox of an abundance of resources, yet many people in poverty can be found in Rose-Ackerman’s work. She argues that corrupt individuals in power are solely concerned about their own self-interests, even if those interests are detrimental to the general populace. Additionally, Rose-Ackerman points to bribery of

26 Rose-Ackerman, Susan. P. 147
high level officials as another example of corruption. Business entrepreneurs are able to bribe government officials for business contracts that could have otherwise gone to local entrepreneurs, which can cause a negative economic impact on local economies.\textsuperscript{28} This corruption is a roadblock to the development of the local economy and its businesses. When local workers are not effectively utilized, then the overall economic situation of those workers and their families deteriorates. Not only does bribery negatively impact local workers, but it also requires the use of resources and money that could have otherwise gone to poverty reduction measures.

Rose-Ackerman points to four effects of bribery: “bribes clear the market,” “bribes act as incentive bonuses,” “bribes lower costs,” and “bribes permit criminal activity.”\textsuperscript{29} She points out that none of these effects are mutually exclusive, which means that a country could be suffering from one, two, three, or even all of these effects. Corruption has political ramifications as well. It damages the legitimacy of the electoral process as a whole, and it damages checks on government power. To say it bluntly, money buys power in politics.\textsuperscript{30} Without a legitimate political process, the results of an election or ascension of power process are illegitimate because only the candidates with the most money and most connections will win. Additionally, as Gerald A. Heeger points out, a huge reason for factionalism and regional conflict is an illegitimate electoral process.\textsuperscript{31} Or, at the very least, a process that is perceived as illegitimate will result in factionalism and regional conflict. As long as corrupt officials control the outcome of

\textsuperscript{28} Rose-Ackerman, Susan. P. 18.
\textsuperscript{29} Ibid. Pp. 9-10.
\textsuperscript{30} Ibid. P. 129-130.
elections, certain groups within that political system will not accept its outcomes, and conflicts generally can, and will, arise during those disputes.

Corruption also severely lowers systematic checks on government power. Some of the most corrupt governments in the world are also some of the most authoritarian.\textsuperscript{32} A causal relationship between authoritarianism and corruption is difficult to prove, but a correlation between authoritarianism and corruption is pretty easy to observe.\textsuperscript{33} John Rapley writes, “dictatorships or one-party regimes enjoy too much latitude to abuse their power.”\textsuperscript{34} This relationship can help explain the importance of having an effective checks and balances system in the government.

Development organizations like the World Bank have outlined government corruption as a main target for action in the development process. The World Bank acknowledges the impact corruption has on government processes as a whole, and can be partially addressed by improving the checks and balances systems in developing countries. Rose-Ackerman also discusses the importance of checks and balances. Her argument is that the legislature is where government policy theoretically comes from, and if there is a system of checks within that government branch, then the type of impact executive corruption can have on policy should be very minimal.\textsuperscript{35}

**Possible Solutions to Corruption**

With such a widespread problem of corruption, it is imperative to attempt solutions that can lower corruption in a comprehensive manner. There are two major types of solutions that can have an impact on Third World corruption. Efforts to increase

\begin{itemize}
\item \textsuperscript{32} Rapley, John, Understanding Development: Theory and Practice in the Third World, (Colorado: Lynne Rienner, 1996). P. 137.
\item \textsuperscript{33} Ibid.
\item \textsuperscript{34} Ibid.
\item \textsuperscript{35} Rose-Ackerman, Susan. P. 144.
\end{itemize}
the power of the civil society and to introduce moderate political parties and other institutional reforms into the government system are two of the top goals of development organizers. The World Bank writes:

Civil society organizations in Latin America and the Caribbean play a key role in amplifying the voices of the poorest people in the decisions that affect their lives, improving development effectiveness and sustainability, and holding governments and policymakers publicly accountable.\(^{36}\)

As stated earlier, civil society is designed to check government power and to prevent corrupt officials from abusing their power. Rose-Ackerman agrees and argues that “demands for reform” are essential to the elimination of corruption.\(^{37}\)

Development organizers also believe that increasing the number of moderate political parties and groups in the political process as well as electoral reforms is a good way to combat corruption.\(^{38}\) However, one of the main concerns surrounding major institutional reform is the threat of instability that comes with any major change in a system. Heeger points out the instability a government might face when factionalism becomes a major factor once reform has taken place.\(^{39}\) If politics can be relegated in a moderate fashion like Heeger suggests in his work, then competitive interests will not be as mutually exclusive as they are now. Additionally, the need for moderate political parties and groups becomes even more apparent when confronted with the type of policies that are produced by corrupt governments. Clark argues that policy making in the Third World needs to be focused on progressive goals rather than what often happens in


\(^{37}\) Rose-Ackerman, Susan. P. 215.

\(^{38}\) This desire for institutional reform has also fostered calls for electoral reforms, which exist in much development literature to some degree in Rose-Ackerman, Black, Heeger, and Clark.

\(^{39}\) Heeger, Gerald A. P. 52.
corrupt governments.\textsuperscript{40} If government officials pursue progressive policies that are
designed to aid the population at large, then real development can take place.

\textbf{Framework for Studying Corruption}

The authors reviewed in this work consistently suggest certain “frameworks” for
assessing corruption and its impacts on development. This present analysis is no
exception, and in order to provide deeper analysis of political corruption and the threat it
poses to economic development, I have chosen to utilize Susan Rose-Ackerman’s
framework of the role self-interest plays in Third World policymaking. There are several
reasons why I have chosen Rose-Ackerman’s analysis for this work. First, \textit{Corruption
and Government: Causes, Consequences, and Reform} focuses exclusively on political
corruption and its economic ramifications in developing countries. And second, she has
extensive experience in the fields of economics and international relations, which aids her
credibility in making claims about the political processes of Latin American countries
like Venezuela and Mexico.

Rose-Ackerman believes that complications exist between the Third World and
the organizations of the industrial world that seek to aid development processes. She
states, “the tension between the capacities of developing countries and the requirements
of international aid and lending organizations arises from sources as multitudinous as the
histories and cultures of the countries involved.” She continues, “obviously, subtle
differences in culture and basic values exist across the world. But there is one human
motivator that is both universal and central to explaining the divergent experiences of
different countries. That motivator is self-interest.”\textsuperscript{41} For Rose-Ackerman, the underlying

\textsuperscript{40} Clark, Robert P. P. 53.
\textsuperscript{41} Rose-Ackerman, Susan. P. 2.
principle behind all corruption is the natural human tendency to focus on one’s self-interest. Whether or not that self-interest is a good or bad thing depends on who you talk to. As Rose-Ackerman puts it, “critics call it greed...economists call it maximization.”

According to her, self-interest becomes a problem to the development process when it is an unchecked force driving a corrupt official’s public policy decisions. She uses Mancur Olsen’s term “stationary bandit” to describe corrupt, self-interested officials who “can act like a private monopolist, striving for productive efficiency, but restricting the output of the economy to maximize profits.” She writes further:

*We can go a good way toward understanding development failures by understanding how self-interest is managed or mismanaged.* The best understanding is provided by the archetypal competitive market where self-interest is transmuted into productive activities that lead to efficient resource use.

The worst case is war – a destructive struggle over wealth that ends up destroying the resource base that motivated the fight in the first place (emphasis added).

Self-interest is neither inherently good, nor inherently bad. It is simply a motivating force behind peoples’ actions. Rose-Ackerman claims her intent is to: “explore the interaction between productive economic activity and unproductive rent seeking by focusing on the universal phenomenon of corruption in the public sector (emphasis added).”

Venezuela’s Chavez has confronted and survived multiple attempts, including a recent coup, to remove him from power. Mexico’s Fox is currently facing a lot of internal criticism for his policy decisions as well as his close alliance with the United States. It

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42 Ibid.
43 Ibid. P. 114.
44 Ibid. Pg. 2.
45 Ibid.
will be first necessary to examine a case study of Venezuela and possible solutions to tackle that corruption. Then I will look at a case study of Mexico pointing out the recent political trends that could increase the likelihood for anticorruption success. I will also focus on how competitive self-interest has aided Mexico. Finally, I will analyze both case studies and compare the role self-interest plays in both countries.
Chapter II: Country Case Study of Venezuela

The countries of Latin and South America are some of the poorest regions of the world. Given the economic situation and political culture, it is not surprising to see the level of poverty that exists in these regions. Venezuela, on the other hand, stands out as one of the more stable so-called democracies in South America. It is “a country rich in natural resources, with one of the largest petroleum and mineral reserves in Latin America and the Caribbean.”

It has the resources and some infrastructure already in place, but for some reason, the people of Venezuela still “live in poverty, many of them in shanty towns.” A paradox of a rich abundance of natural resources coupled with an extreme amount of poverty characterizes Venezuela’s development status.

In 1998, populist candidate Hugo Chavez was elected president with campaign promises to reform the party system and eliminate corruption from Venezuelan politics. Chavez’s victory signaled a confirmation of the popular movement among the people against corrupt politics and unchecked self-interest. The hold the discredited party system had on Venezuela prior to Chavez was a major reason why Venezuela’s race to development has suffered. In fact, “most observers agree that the biggest obstacle to stable growth in Venezuela is the country’s polarized political climate.”

Current State of Development

Venezuela has one of the largest oil deposits in the world. According to the World Bank, “petroleum accounts for about 25% of the Gross Domestic Product (GDP), about

48 “Venezuela Country Brief.”
80% of exports, and approximately 50% of fiscal revenues." This is a significant advantage to Venezuela in terms of trade, diplomacy, and self-sufficiency, but it does create an imbalance in the domestic economy. A substantial amount of the economy lies invested in international investments rather than in small or local businesses that drive the domestic economy. The International Monetary Fund (IMF), using statistics provided by the Central Bank of Venezuela, issued a report that put average annual unemployment at 10.6% in 1997. The U.S. Department of State estimated that figure rose to 20% in 2003. Furthermore, the share of total labor remuneration in non-petroleum GDP was only 44.3% in 1998. Overall, according to the World Bank, the national poverty rate (calculated as the number of people living below two dollars a day) rose from 32.2% in 1991 to a staggering 48.5% in 2000. Furthermore, the number of people living in what is called “extreme poverty” (people living below one dollar a day) rose from 11.8% in 1991 to 23.5% in 2000. The poverty statistics of Venezuela illustrate that some factor has seriously stagnated Venezuela’s development process. Based on its resource wealth, Venezuela should be developing into a powerful South American country that would rival Western Europe or contemporary Asia.

Despite these shortcomings, there has been a significant amount of progress with recent development efforts. There are many areas where Venezuela has become very developed. Stable population growth, which is a very good indicator of development, was steady at 2.1% between 1999 and 2003, and the average life expectancy rate is 74 years.

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49 Ibid.
52 "Venezuela Country Brief."
Infant mortality rates were also steady at approximately 22 deaths per 1,000 births in 2002.\textsuperscript{53} Additionally, literacy rates were 93.1\% overall in 2003 with 92.7\% of all women being literate. Furthermore, 92.4\% of the country’s children are enrolled in schools.\textsuperscript{54}

Education has become a central aspect of Venezuelan culture, which is a result of development efforts in the country. Education and good literacy rates could help Venezuelans become an essential part of the civil society. A more educated and informed electorate has the capacity to demand change in their government, and are more compelling as a force against corruption than a less educated and less informed public.

Areas of technology are also dramatically improving in Venezuela. The World Bank estimated that technology access has increased. In 2003, there were 369.2 fixed lines and mobile phones per 1,000 people, 60.9 personal computers per 1,000 people, and 1.3 million Internet users out of 25.7 million people.\textsuperscript{55} This increase in technology could also be a benefit in the fight against political corruption by mobilizing support. Phone use and Internet access can multiply the amount of people who can be contacted for support as well as send messages to other citizens concerning the fight against corruption.

So what’s going on? Why are poverty rates so high when the incredible access to natural resources and its ecological benefits, the steady population growth and mortality rates, and the access to education and technology are so substantial? Part of the problem is corruption and a polarized political climate.\textsuperscript{56} Additionally, Venezuela “has suffered a prolonged economic and political crisis, high levels of crime and violence, and long-term

\textsuperscript{53} Ibid.
\textsuperscript{54} Ibid.
\textsuperscript{55} Ibid.
\textsuperscript{56} Ibid.
social ills such as extreme inequality and poverty.\footnote{57} Despite the impressive amount of development that has already taken place, there is still a lot of work to be done, and much of it will be in the political system.

A group called Transparency International: The Coalition Against Corruption publishes an annual “Corruption Perception Index” (CPI) report, which ranked Venezuela at a 2.3 on a scale of 10. The ranking system is constructed based on the amount of transparency a country has, and the lower the number, the lower the amount of transparency. When there is very little transparency, it is a good indication that corruption levels are high in that country. According to the group, the CPI:

Ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on corruption-related data in expert surveys carried out by a variety of reputable institutions. It reflects the views of businesspeople and analysts from around the world, including experts who are locals in the countries evaluated.\footnote{58}

To put Venezuela’s ranking into perspective: the group’s 2005 report had Venezuela ranked below countries like Lebanon (3.1), Iran (2.9), Libya (2.5), Colombia (4.0), Saudi Arabia (3.4) and even the Palestinian Authority (2.6).\footnote{59}

Venezuela’s history has been consumed with political conflicts and corruption. Chavez, a former army officer, promised to eradicate corruption and reform the public sector given this long history. His promise to reform the public sector is important to note because he did pass widespread reforms, but they were not the kind of reforms that some

\footnote{57} Ibid.
\footnote{59} Ibid.
of the people in Venezuela had in mind. In fact, those reforms are what eventually ignited
the most recent round of political instability and a coup attempt in Venezuela.60
Unfortunately for the people, the end to corruption in Venezuela has not come. The
reform controversy began in November 2001 when Chavez bypassed the National
Assembly and passed 49 reform laws that changed the public sector and the overall
economic system.61 These reforms were intended to: create a controlled economy, fix
exchange rates, force companies wishing to import products to purchase foreign currency
through a government agency, and to implement more state control over the economy.
Consequently, the Bolivar (Venezuela’s national currency) plummeted 25% against the
U.S. dollar in February 2002 largely due to the reform policies Chavez pushed through.62
Many businesses resisted these new reforms because they drastically centralized state
power of the economy, which as we saw with Rose-Ackerman’s argument, generally
makes a government more susceptible to corruption.63

The first major clashes occurred in April 2002 when trade unions and business
associations severely limited oil production.64 Subsequently, the oil market responded
with concern for the future of oil prices internationally. The devaluation of the Bolivar
just five months prior to the oil strikes exacerbated the effects of the oil strike felt in
Venezuela. There were 150,000 people involved in the April protest that eliminated all
oil exports from Venezuela for two months. This protest was an engine for the attempted
coup that ousted Chavez from power for a very short period of time. The coup attempt
and the multiple protests represent conflict in popular opinion of Chavez.

60 “Country Profile: Venezuela.”
61 Ibid.
62 Ibid.
63 Rose-Ackerman. P. 144.
64 “Timeline: Venezuela.”
After the failed coup attempt and multiple protests, an effort to force a referendum through on Chavez’s rule was attempted three times. In May 2003, the government and opposition groups signed a deal brokered by the Organization of American States (OAS), which mandated that opposition groups obtain three million signatures from the general populace in order to prove good cause for holding a referendum. Opposition groups successfully gathered those three million signatures, but the petition was rejected because Chavez claimed fraud. A second petition was circulated and opposition groups obtained 3.4 million signatures, and Chavez again contested it.\textsuperscript{65} However, the OAS accepted the authenticity of the petition, and the referendum was held. The persistence of the opposition groups to go out and collect three million signatures \textit{again} with an additional 400,000 signatures illustrates how strongly opposed these particular groups were to Chavez as well as a significant amount of political polarization. In the end, Chavez beat the referendum in August 2004 with 59\% of the popular vote.\textsuperscript{66}

\textbf{Tackling Corruption}

These events have signaled to the World Bank, as well as many other development organizations, that something needs to be done to reform the administrative sector in Venezuela. When Venezuelans elected Chavez in 1998, they were doing so under the impression that the new government would tackle the political corruption in their system. Chavez did come through with his promise to pass reforms; however, these reforms did nothing to address executive authority and the potential for continued corruption. Additionally, as Kurt Weyland reports in \textit{Foreign Affairs}:

\textsuperscript{65} Ibid.
\textsuperscript{66} Ibid.
In his first year of office, he [Chavez] engineered a new national constitution that significantly strengthened presidential powers. The new constitution also abolished the Senate, creating a unicameral National Assembly with limited oversight of the president’s decision-making.\(^{67}\)

Whatever the intent was, the new constitution has allowed Chavez to operate with less public scrutiny. As Weyland points out, “Chavez has used this weakening of the checks and balances of executive authority to his advantage, notably by using military promotion for political gain.”\(^{68}\) Regardless of the person in power, Venezuela’s current political system grants an incredible amount of power to the presidency. Currently, Chavez represents the “stationary bandit” that Rose-Ackerman references when describing the destructive self-interested individual.

The World Bank outlines five avenues to tackle corruption: increasing political accountability, strengthening civil society participants, creating a competitive private sector, developing institutional restraints on power, and improving public sector management.\(^ {69}\) Each of the five guidelines outlined by the World Bank can improve the political and cultural situations in Venezuela in order to foster anticorruption efforts.

Increasing political opposition in the National Assembly can help increase political accountability of every leader. Weyland states, “in the July 2000 elections, parties friendly to the president captured 60 percent of the seats in the National Assembly. Opposition parties and movements are now divided and confused.”\(^{70}\)

\(^{67}\) Weyland, Kurt, “Will Chavez Lose His Luster?” *Foreign Affairs*, Vol. 80, No. 6 (Nov/Dec 2001), P. 73.

\(^{68}\) Ibid. Pp. 73-74.


\(^{70}\) Weyland, Kurt. P. 74.
of opposition is one of the reasons why corruption has remained largely unchecked. The World Bank claims that one way to ensure a fair representation of political opposition parties is through party funding reform. Establishing and maintaining transparency can also be very effective because it can help monitor public officials by “opening sessions of the parliament, government, and the courts to the public; registering lobbying activities; and publishing the voting records of parliamentarians, annual reports of government bodies, trial records, and the decisions of judges.”71 The World Bank’s emphasis on political accountability and transparency is very important because it can give anti-corruption workers an idea of where to begin when tackling corruption.

Increasing and strengthening the role of the civil society in the political system is emphasized by the World Bank as well as Rose-Ackerman. The World Bank suggests that strengthening the civil society in Venezuela would give “stakeholders a greater voice, promote public sector accountability and transparency through increasing pressure for good governance, and promote public consensus and local support of reforms.”72 It claims that one of the best ways to increase the civil society’s place in Venezuelan politics is through media. Currently, state-run media news services are the dominant news resources for the people of Venezuela including a weekly program of Chavez speaking about government policies. Independent media is a good way to keep the population informed about possibly corrupt actions of the government, and it monitors the actions of the government in order to discourage corruption.73

71 “Anti-Corruption.”
73 Ibid.
Another way to provide the civil society a place in politics is to create organizations like Ukraine’s People Voice Program. This program gave the Ukrainian people the ability to monitor the government’s corruption and take necessary courses of action with that information to keep the government in check.\textsuperscript{74} A similar alternative could be beneficial for Venezuela. Additionally, the civil society can be strengthened by “developing innovative ideas and solutions as well as increasing local participation in finding solutions to local problems.”\textsuperscript{75} Empowerment of the people through these multiple avenues can help check destructive self-interested policies.

A competitive private sector could also be very influential in the fight to tackle corruption in Venezuela. The integration of economic and public policy is central to Venezuela’s political environment because as David Eugene Blank argues, “Venezuela’s fundamental development goal has been to create an autonomous economy and a socially just and integrated society.”\textsuperscript{76} This integration can be accomplished through encouraging competition in the private economic sector. Rose-Ackerman writes: “if the state runs the railroads and the telephone system it may set monopoly prices, restricting supply to maximize rents,” which is especially true of oil-dominated economies in an oil-thirsty world.\textsuperscript{77} This can, in turn, harm business confidence and investment essential to economic development. Weyland reports on other factors eroding business confidence like “poor policy decisions and his [Chavez’s] economic mismanagement.”\textsuperscript{78} Economic liberalization decreases the control the government has over the economy. With less

\textsuperscript{74} Ibid.
\textsuperscript{75} Ibid.
\textsuperscript{77} Rose-Ackerman, Susan. P. 115.
\textsuperscript{78} Weyland, Kurt. P. 79.
control comes less of an ability to pursue corrupt goals and adverse self-interested agendas. This is the reason why corrupt officials are generally averse to taking these steps. In combination with the other regulatory policies, economic liberalization can decrease the distortion that economic interests play in Venezuelan politics.

Perhaps a more powerful, but less likely, way to combat corruption is through institutional restraints on power. The World Bank outlines the five steps of this reform: “an independent and effective judiciary, anticorruption legislation, independent prosecution and enforcement, audit organizations, and legislative oversight.”\(^79\) The judicial reform could be the most beneficial to Venezuela. Without it, the government would be able to ignore the rule of law passed through the legislature and remain corrupt. This should be coupled with economic liberalization because “the legal system is one of the fundamental pillars of a market economy whose role as arbiter of the law encompasses both the formulation and implementation of public policy (emphasis added).”\(^80\) If the judicial reform is combined with anticorruption legislation and legislative oversight, there will be two separate systematic checks on executive authority.

While reforms of the private and public sectors are needed in a largely state-run country like Venezuela, reforming the administrative sector is also important in tackling corruption. The World Bank states, “throughout Latin America and the Caribbean (LAC), citizens are demanding more efficiency, accountability and honesty from government.”\(^81\) The reforms necessary for this are: “upgrading or creating financial management systems; strengthening the capabilities of regional and municipal governments, the units

\(^79\) “Anti-Corruption.”
\(^80\) Ibid.
of government that citizens deal with most frequently; and reforming judicial systems.\footnote{Ibid.}

This is a realistic goal in Venezuela because, as Weyland writes, “now that the meager results of the government’s ill-designed and badly executed economics and social policies have begun to erode the president’s popularity, his room for maneuver has become even more limited.”\footnote{Weyland, Kurt. P. 83.}

**Obstacles in Tackling Corruption**

Chavez’s economic reforms have been in place for several years now, and he remains quite committed to them despite their dismal record. As Weyland argues, Chavez has moved to eliminate any opposition by “debilitating, marginalizing, or taking over major interest groups that might otherwise oppose him, notably trade unions and business associations.”\footnote{Ibid. P. 74.} He would most likely oppose the institutional reforms over anything else as those reforms would significantly decrease his power. Liberalization of the economy will also be difficult considering that Chavez worked to socialize it, which illustrates an ideological opposition to economic liberalization.

Additionally, the lack of independent media in Venezuela is a significant problem. Chavez has been repeatedly “accused of creating a hostile and intimidatory climate for journalists.”\footnote{“Country Profile: Venezuela.”} Granted, corruption existed prior to Chavez, but the fact that the media has not changed is a big problem that Chavez has yet to solve. One of the reasons for this could be that it is not within his interest to do so. As Rose-Ackerman continually argues, if a policy decision would be against the interests of a corrupt leader, that leader probably will not pass the policy. Independent media serve as a check on
government authority and often act as a “watchdog” over government policies. Until a large popular demand for independent media occurs, the Venezuelan government will continue to run the media in the country.

**Prospects for Success**

Despite the problems articulated above, there are some prospects for success; one being the decline in popularity of the current government. Despite Chavez’s victory in the August 2004 referendum, the dismal performance of his social and economic reforms has limited the power his charisma once had. James Menendez, a BBC correspondent in Caracas, argues that the referendum signaled a “crossroads” for Hugo Chavez. The mere occurrence of the referendum illustrates a weakening of the faith the Venezuelan people have in the current government. Enough opposition exists in the country to effectively challenge the current state control of the public and civil society sectors if the opportunity arose.

Another factor in the prospect for success is the signing of the Free Trade Agreement of the Americas (FTAA) by the United States and other Latin American nations. While it is true that Venezuela, and its ally Brazil, were fiercely opposed to the FTAA, other Latin American countries still signed it in January of 2004. Participation in the FTAA will require a more liberal economic policy than the one currently in place in Venezuela. Hopes for economic liberalization are more realistic with this free trade agreement in place in other parts of Latin America because in order for Venezuela to

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become more competitive in this new trade bloc, it will need a competitive private sector as well as increased business confidence in the country.

Rose-Ackerman points to the necessity of a strong private sector: “the strength and growth rate of the private sector should help determine the ease of reform; reform occurred when the government became a large organization in absolute size while remaining small relative to the private sector.”\textsuperscript{88} Her main contention is that the best prospects for success come when the government is large enough to implement the reforms, and at the same time, small enough in the private sector so this sector can build up enough pressure to check the government.

A final prospect for success is the significant amount of literacy and education in the country. This means that the people are more than capable of overseeing government practices and mobilizing efforts to combat government corruption when they see it. The ability to strengthen civil society depends on education and literacy, and they have both. This means that the population can pressure the government for the necessary reforms to combat corruption if their demands are strong enough.

Conclusion: Ending Corruption in Venezuelan Politics

Venezuela is an interesting case study in the developing world because it has the natural resources necessary to develop into an industrial world country, yet it has not achieved that. Overall living conditions are pretty good for those who are not living in extreme poverty. However, those living in extreme poverty, and most of those living in “normal” levels of poverty, experience destitute living conditions despite some of the progress Venezuela has made in overall economic development. This is not the fault of the government of Hugo Chavez alone, but he has continued the potential for political

\textsuperscript{88} Rose-Ackerman, Susan. P. 219.
corruption in Venezuelan politics by radically centralizing and strengthening executive power in the Venezuelan government. Without the demand for reform from the people, corruption will continue, and hopes for a better living condition for the 48% of Venezuela’s population living in poverty today will not be realized.
In December of 2000, Vicente Fox of the National Action party began his presidential term, which was the first time an opposition candidate had held the post in the more than 70 years since the Institutional Revolutionary Party (PRI) had dominated and controlled Mexican politics. Fox began his term committed to fighting crime and rampant corruption in every sector of Mexican society. Fox’s victory and presidential term has been seen as an extension of the opposition party’s victory in the 1997 parliamentary elections when they won more seats than the PRI. Prior to the 1997 elections, Mexico was effectively a one-party system, which as we saw with Venezuela, hampers development. In their work *Opening Mexico: The Making of a Democracy*, authors Julia Preston and Samuel Dillon state: “It took three decades of pressure, protest, finagling, and occasionally violence for Mexicans to pry open the authoritarian system that had held their country in thrall since the 1920s.”

That day in July signaled more for the people of Mexico than simply another president. It signaled a possible change from the authoritarian, and often corrupt, government they had endured for over 70 years. Fox’s victory signaled the beginning of a multi-party system that could also serve as an independent check on executive power, and possibly prevent a stranglehold over Mexican politics akin to the one Chavez currently has over Venezuelan politics. Given Rose-Ackerman’s analysis earlier about the possible consequences of a political leader’s self-interest, it is imperative that an executive

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authority, regardless of how well-intentioned that person seems, face internal and external checks on power.

Current State of Development

Like Venezuela, Mexico has significant oil deposits within its geographic boundaries. It is estimated that nearly one-third of government revenues come from its oil exports and oil business alone.\(^{90}\) It is a large supplier for the United States, and the World Bank estimates that in 2003, Mexico exported $18.1 billion worth of oil.\(^{91}\) Given that its total exports in 2003 amounted to $164.2 billion, oil constituted over 11% of its total exports.\(^{92}\) Unlike Venezuela, Mexico enjoys a more balanced economy with agriculture and manufactured goods making up significant parts of its exports as well. Additionally, its GDP in 2003 was $626.1 billion, which was a 35.6% increase over 10 years (in 1993 it was $403.2 billion). Not only did Mexico drastically increase its GDP over 10 years, it also decreased its debt from $32.4 billion in 1993 to $22.6 billion in 2003, a 30.2% decrease.\(^{93}\) With these economic numbers, it is easy to see why Mexico is known as one of the most developed Latin American nations, and why it has the highest per capita income in Latin America.

Despite the promising numbers in GDP, debt reduction, and the monetary value of its exports, Mexico does suffer from a large rich/poor gap with many Mexicans attempting to illegally immigrate into the United States. The World Bank estimates that “in 2002, half the population in Mexico was living in poverty and one fifth was living in


\(^{92}\) Ibid.

\(^{93}\) Ibid.
extreme poverty.\textsuperscript{94} However, there has been much social advancement in Mexico, which is promising for development prospects. For example, the general life expectancy is 75, and child malnutrition is under eight percent of the total population. The World Bank also estimates that “at the national level in 2002 the rates for access to electricity, water and sanitation were 98, 90, and 80 percent, respectively.”\textsuperscript{95} Additionally, illiteracy rates are under nine percent, and access to improved water sources is available to 88% of the population. Infant mortality is estimated at 24 children per 1,000 live births.\textsuperscript{96}

The Gross National Income, or GNI per capita, is $6,770.\textsuperscript{97} These economic statistics indicate a desperately needed shift in the prosperity of Mexico. The fact that Mexico’s situation is gradually improving means the time is ripe for continued improvements. One of the most positive signs of economic improvement in Mexico in recent years is the fact that between 1996 and 2002 “extreme poverty decreased by 17 percentage points to 20 percent.”\textsuperscript{98} While having 20% of the population living in extreme poverty is still very high from a development standpoint, the World Bank claims this is very significant because it indicates general progress towards development goals.

Rose-Ackerman ties economic development to political development, so it is important to examine the recent political history of Mexico, which has a long history of revolution and instability beginning in 1910 with what is commonly known as the “Zapata Revolution,” named after Emilio Zapata, who was responsible for much of the

\textsuperscript{95} Ibid.
\textsuperscript{96} Ibid.
\textsuperscript{97} “Mexico at a Glance.”
\textsuperscript{98} “Poverty in Mexico – Factsheet.”
revolutionary activities in Mexican politics from 1910 to 1919 when he was killed.\textsuperscript{99} In 1911, the Mexican dictator Porfirio Diaz was overthrown and replaced with Francisco Madero. Madero decided to institute land and labor reforms, but was murdered in 1913.\textsuperscript{100} These events ignited almost a decade of political unrest and conflict, which contributed to the revolutionaries' views about Mexican politics. After Madero was killed, a general named Victoriano Huerta took power, but he resigned in 1914 after the United States alleged that Huerta was a German sympathizer. Venustiano Carranza took over after Huerta until he was murdered in 1920. During the revolution, the U.S. invaded Mexico in order to pursue a guerilla fighter named Francisco "Pancho" Villa, but withdrew in 1916 after failing to kill Villa.\textsuperscript{101} After Carranza's murder in 1920, civil war began in Mexico. During this state of near political anarchy, the power vacuum remained unfilled until the National Revolutionary Party was formed in 1929.\textsuperscript{102} The National Revolutionary Party (renamed the Institutional Revolutionary Party or PRI in 1946) represented a component of stability desperately needed in the Mexican political process.

The new president of the PRI, Lazara Cardenas, began a program of oil nationalization, land reform, and industrial expansion in 1934. Cardenas' presidency saw a period of less violence and fighting in Mexican politics until the Chiapas rebellion in 1994.\textsuperscript{103} During the 60 years between the revolutions, the PRI enjoyed an absolute dominance over Mexican politics. In the 1960s, unrest developed about unequal wealth distribution and the overall rich/poor stratification that had become entrenched in Mexican society. This unrest culminated in the 1968 student demonstrations in Mexico.

\textsuperscript{99} "Timeline: Mexico."
\textsuperscript{100} Ibid.
\textsuperscript{101} Ibid.
\textsuperscript{102} Ibid.
\textsuperscript{103} Ibid.
City during the 1968 Mexico City Olympics. Hundreds of protesters were brutally suppressed by Mexican security forces, and many were killed.\textsuperscript{104} The suppression illustrates the corruption that had taken a hold of the Mexican government authority.

In 1976, the government found huge oil deposits in the southern state of Chiapas.\textsuperscript{105} This discovery was huge for the Mexican economy, and paradoxically also fueled a rebellion that finally ignited in 1994. In 1994 the Mexican government moved again to brutally suppress a rebellion by the Zapatista National Liberation Army, which was violently opposed to the North American Free Trade Agreement (NAFTA).\textsuperscript{106} This rebellion and subsequent suppression kicked off another bout of political chaos in the Mexican government that included: the election of PRI candidate Ernesto Zedillo Ponce de Leon after Donaldo Colosio, a previous candidate, was murdered, a stock market plunge, the devaluation of the Mexican peso, and the exiling of a former president, Carlos Salinas, after his brother was connected to Colosio’s murder.\textsuperscript{107} This political instability led to the 1997 election victory for the opposition party, which set the stage for Vicente Fox’s presidential victory in 2000. More significantly, as Julia Preston and Samuel Dillon write in \textit{Opening Mexico: The Making of a Democracy}, “the day’s events [July 2, 2000]…marked the first time in its history that Mexico had achieved a peaceful transfer of state power from the rulers to the opposition by means of free elections with full suffrage.”\textsuperscript{108} These changes signal the first steps from Mexico away from rampant corruption and into a world of political accountability.

\textsuperscript{104} Ibid.
\textsuperscript{105} Ibid.
\textsuperscript{106} Ibid.
\textsuperscript{107} Ibid.
\textsuperscript{108} Preston, Julia and Samuel Dillon. P. 31.
What is it about Fox’s July 2000 election victory that is so significant for the economic development of Mexico? Why were the people of Mexico willing to endure the uncertainty and instability normally associated with an opposition party candidate? Preston and Dillon argue that the oppressive hold the PRI had on Mexican politics and its continued indifference to social problems plaguing the Mexican people had a lot do with its downfall in the political system. They write, “despite its revolutionary name, the PRI system was often harshly indifferent to the poor. Driven increasingly by corruption and patronage, the PRI became a huge upward-drawing funnel for the public’s money.”

This falls right in line with Rose-Ackerman’s argument that if left alone long enough, a government bureaucracy will become more and more detached from the people it is supposed to serve, and it will instead engage in destructive “rent seeking” and other politically corrupt practices.

### Tackling Corruption

Unlike Venezuela, Mexico has taken some successful steps towards battling corruption. Preston and Dillon would argue that recent events have signaled the possible end to a corrupted authoritarian regime that ruled Mexico after the revolutionary period of the early 1900s, though it is important to note that it may be too soon to predict the political future of Mexico. Whatever the case may be, recent political events illustrate a current check on the PRI’s past executive authority. Still, the road for Vicente Fox and his opposition party has not been without its bumps, and the World Bank does have additional suggestions as to what Mexico can do to continue strengthening its anti-corruption activities. Transparency International ranked Mexico in 2005 as a 3.5 on a

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110 Rose-Ackerman, Susan. P. 147.
scale of 10.\textsuperscript{111} At first glance, this does not seem to be significantly higher than Venezuela’s rank of 2.3. However, upon examination of the number of countries between Mexico and Venezuela, there were 66 countries separating them on Transparency’s scale.\textsuperscript{112} While there is certainly a difference in Mexico’s corruption index over Venezuela’s, there are still measures Mexico can take to increase its success.

Fox’s election victory was sure to, and did, face many difficulties after the honeymoon period was over. But, as Preston and Dillon point out, “in any nation, dismantling an authoritarian system and erecting democratic institutions to take its place is an extraordinary undertaking.” More specifically:

It soon became obvious that his [Fox’s] victory would not bring prosperity, equality, and justice overnight. During his first years in office many Mexicans began to question the depth of the change he represented. But nobody questioned the essential vigor of the democracy Mexicans had constructed.\textsuperscript{113}

With this in mind, the World Bank proposes that an overall strengthening of the civil society in Mexico could help anti-corruption efforts and strengthen the democratic trend that took hold after the 2000 election. The World Bank reports that “with the deepening of democracy and political decentralization, Mexico will face new institutional challenges for effective development.”\textsuperscript{114} Its strategy to promote that particular type of development is twofold: first, to train civil servants in order to increase citizens’ confidence in Mexico’s political institutions; and second, to increase the efficiency of the

\textsuperscript{111} Transparency International.
\textsuperscript{112} Ibid.
\textsuperscript{113} Preston, Julia and Samuel Dillon. P. 503.
independent judicial system. By enacting the suggestions of the World Bank, Mexico can continue to push for democratic governance.

Perhaps the most significant action already directly taken by Fox in combating corruption are the efforts he made in 2001 to ensure the military officers responsible for the brutal suppression of student protests in 1968 were brought before a court of justice and tried for their crimes. With their indictment, Fox took direct action against the corruption and authoritarianism of the previous Mexican government. This occurred very early in Fox’s presidential term, which could possibly signal a self-interested action taken by Fox to convince the electorate that he was serious about his campaign promises, thus increasing his popular support.

Additionally, decentralization of power is necessary in order for anti-corruption efforts to work. The World Bank recently completed the “Mexico Decentralization Project” in 2001, which “increased the transparency and public accountability of the tax system and public finance in the region and municipalities and imposed hard budget constraints on the federal funds provided to lower tiers of government.” In addition the World Bank suggests a strong independent judiciary could also aid decentralization efforts in the interest of decreasing state monopolization of power.

Perhaps most importantly, the establishment of a more independent judicial system can help increase the likelihood of improving the clarity of the written laws. Clear laws are more difficult to twist around to fit one’s self-interest. Rose-Ackerman articulates the importance of clear laws and regulations:

115 Ibid.
116 "Mexico Country Brief."
117 Rose-Ackerman, Susan. P. 151.
An honest government administration will be difficult to establish if the judiciary is venal. Victims of corrupt officials have no place to turn, and the unscrupulous can bribe officials with impunity. The risk of engaging in high-level corrupt or fraudulent deals is significantly reduced if the court system itself is corrupt, incompetent, and lacking in independence (emphasis added).  

The administration of justice is also vulnerable because those involved in it may be very inexperienced and/or corrupt. Rose-Ackerman states “judges may have little experience or training in resolving the legal problems arising out of private business deals and in applying new regulatory and taxation statutes (emphasis added).” When this happens, citizens will not trust the judiciary to do its job, which can actually decrease the number of people who will turn to it in for help. Rose-Ackerman writes, “if the law on the books does not mean much and the judicial system operates poorly, people will avoid bringing disputes before the courts unless they are certain to be the high bribers.” There are two implications of the people avoiding the court system: first, the court system is rendered ineffective because it will not be acting on issues necessary for it to battle corruption; and second, people will find their own means of solving the issue, and this can take the form of bribery, internal conflicts, and even violent confrontations.

While the World Bank suggests that increasing the efficiency of the judicial system would be beneficial for Mexico’s anticorruption efforts, it is really Rose-Ackerman who offers a clear idea of what actions need to be taken in order to achieve that goal. She states:

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118 Ibid. P. 157.  
119 Ibid. P. 152  
120 Ibid. P. 153.
One study of the Latin American judiciary, for example, concludes that improvements in the court system could be accomplished through better case-management techniques including increased computerization, the creation of additional courts, and the establishment of a more uniform administrative system.¹²¹

Increasing the efficiency of the case-management abilities of the judicial system could decrease the chances for error, mismanagement, and abuse. Additionally, by increasing the number of courts in the system, judicial overstretch will be less of a problem.

Increasing the number of courts in the system can also increase the availability of the institution for the people to use.

Obstacles in Tackling Corruption

Despite the immense possibilities for development that Mexico currently enjoys, it will face political, judicial, and economic challenges to the World Bank’s suggestions for reforms. Currently Vicente Fox is experiencing the political turmoil that was expected after his opposition party swept to victory. Politically, Fox has some vulnerabilities that could come back to haunt his party in the upcoming election. Julia Preston and Samuel Dillon make it clear in that while he enjoyed much national goodwill and even avoided a predicted economic collapse, his popularity generally began to decrease as social conditions in Mexico did not improve right away. Preston and Dillon write:

Within weeks of Fox’s inauguration it was clear that he would not be able to deliver on many of his extravagant campaign pledges. He enjoyed a healthy popular mandate but held less power than any modern President, mainly because

¹²¹ Ibid. P. 155.
the PRI still had a slight plurality of congressional votes. His own limitations became apparent.\(^{122}\)

Preston and Dillon even go so far as to say “as a president, he often seemed inept, dithering, and too eager to appease the defenders of the authoritarian past.”\(^{123}\) These factors combined to hurt Fox’s credibility with the Mexican people.

Not only does Fox face political scrutiny due to his failure to deliver on the promises he made during the 2000 election, but he has also been connected to corrupt practices akin to the PRI’s actions. Preston and Dillon write:

Midway through Fox’s first year, reporters scrutinizing the presidential budget discovered that many of his advisers were being paid exorbitant salaries and that his family quarters at Los Pinos had been outfitted with four-hundred-dollar towels and thirty-eight-hundred-dollar bed linens.\(^{124}\)

While Fox was not accused of any criminal activity in this incident, the publicity surrounding it enraged the Mexican people and his popularity fell. Distrust of Fox’s policies afterwards began to take hold in Mexico’s working classes and Fox has been fighting this distrust since.

Judicial complications exist as well. In addition to discussing the benefits of an honest and independent judicial system, Rose-Ackerman discusses two possible complications that could arise with judicial reforms. The first is that an independent judiciary could be ineffective at checking corruption if it is widespread; and second, an honest judiciary could actually help entrench corruption in the political system. She

\(^{122}\) Preston, Julia and Samuel Dillon. P. 506.
\(^{123}\) Ibid.
\(^{124}\) Ibid. P. 506.
writes, “establishing an honest and independent judiciary is not sufficient if corruption is commonplace. Deeper reforms in the political system are necessary.”

Furthermore, Rose-Ackerman describes an interesting paradox involving the reinforcement of corruption that could result from judicial reform. She writes:

An honest judiciary can help maintain a corrupt system under certain conditions. Suppose that private individuals and firms engage in secret corrupt deals with public officials. Private actors are willing to make payoffs because they are confident that the procurement contracts, concessions, and privatization deals they obtain will be upheld by the honest, impartial judicial system.

Corrupt practices could actually be upheld by an honest and independent judiciary, which would be counterproductive to reform efforts. Rose-Ackerman argues that this is a real possibility in Latin American countries.

Finally, the economic crisis beginning in 1994 and ending in 1995 has shaken confidence in the Mexican economy. The World Bank estimates that the crisis thrust “millions of Mexicans into poverty.” The crisis began when newly elected president Ernesto Zedillo suddenly devalued the peso. This sudden move sent shockwaves through the Mexican economy, and many Mexicans still remember the move today. This could present some complications in overall development goals beyond mere anticorruption efforts in Mexico. Even though anticorruption efforts will not do much to solve the economic repercussions of the crisis, the future of those efforts will still be adversely affected by the events of 1994 and 1995.

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125 Rose-Ackerman, Susan. P. 158.
126 Ibid. P. 157.
127 “Mexico Country Brief.”
Prospects for Success

It could be argued that these possibilities enjoy more of likelihood for success than anticorruption efforts in Venezuela. Despite some of the scandals and disappointments associated with Fox’s rule of Mexico, his opposition party looks good to win the presidential elections in the upcoming summer election because its main competition, the PRI, has been floundering in its campaigning. James M. McKinley, Jr., wrote in the New York Times on February 26, 2006, that “the Institutional Revolutionary Party, or PRI, is deeply divided after a bloody, internal fight for the presidential nomination.”128 This division has been enough to thwart the PRI’s supposed comeback even if the disenchantment over Fox is taken into account. McKinley continued, “most polls show that the chosen candidate, Roberto Madrazo, the former governor of Tabasco and the party boss who engineered recent victories, appears to be floundering in third place in a three-way race.”129 The article discusses Madrazo’s polarizing attitude and how it is fragmenting the PRI when, like the Democrats in the 2002 and 2004 U.S. elections, it needs to remain united in order to win the upcoming election. Madrazo also lacks charisma and has what McKinley calls a “tough-guy” attitude, which may harm his appearance to voters in a free election.

In addition to political prospects for success, Mexico’s judiciary could also benefit because of the current administrative changes occurring right now. Though this area of reform may be the most difficult to obtain success in, right now is the time to attempt the proposed reforms. Fox’s anticorruption initiatives on the administrative level

129 Ibid.
have made it possible to strengthen the judiciary in Mexico if it is coupled with future personnel changes. Fox is the most limited president in recent Mexican history and much of that has to do with the competition between the interests of the PRI and Fox.

Finally, the economic outlook in Mexico was very dreary in 1994 and 1995. However, the World Bank indicates that it undertook the “Second Decentralization Project” between 1996 and 2000 in order to reduce the extreme poverty that was created by the economic crisis. It claims that the project:

Provided basic infrastructure to rural and indigenous communities in eight of Mexico’s poorest states. This was done by installing supplies of clean water and raising access to water from 48 to 63 percent, building serviceable roads and rehabilitating 15,600 kilometers of existing roads, repairing schools, and providing technical assistance on projects aimed at helping local people set up trades and businesses.¹³⁰

Economic recovery initiatives have been in place since the crisis occurred, and the World Bank estimates that it is very likely that Mexico has recovered for the most part and is now ready to move down the path of development.

Conclusion: Ending Corruption in Mexican Politics

While Fox is by no means the perfect model of an uncorrupt leader in Latin America, his election victory and subsequent rule of Mexico symbolize the beginning of a shift in Mexican politics. In fact, Fox and his opposition party are merely the beginning of anticorruption efforts in Mexico, and it will be up to the people of Mexico to seize the momentum towards fighting corruption in the government and continue pushing towards

¹³⁰ “Mexico Country Brief.”
development and government accountability in Mexican politics. The possibilities for success in its current anticorruption efforts make this an exciting time. While Mexico is generally referred to as a “middle income” Latin American nation, many Mexicans are still victims of extreme wealth stratification and widespread poverty. Living conditions in Mexico are generally better than they are in other areas of Latin America; however, conditions could be dramatically improved. In order for that to happen, anticorruption efforts must continue and be strengthened in order to secure the economic development possibilities currently awaiting them.
Government corruption has been a constant barrier to economic development prospects across the world. It is not unique to Latin American nations like Mexico and Venezuela. Rose-Ackerman comments on the prospects for success in government corruption projects by stating, “once these organizations [World Bank, IMF, etc.] publicly acknowledged the problems of corruption in Eastern Europe, the former Soviet Union, and China, it has proved difficult for them to ignore the issue elsewhere in the world.”\textsuperscript{131} So far, “it [the World Bank] has begun making loans designed to reform regulatory authorities, taxation agencies, the judiciary, and other public institutions. The Bank frequently advises countries on the privatization process.”\textsuperscript{132} These current measures have only begun, and with a further emphasis on the importance of the privatization process as described by Rose-Ackerman, the Bank can take concrete steps in aiding Venezuela and Mexico in anticorruption efforts. Overall, a comparison can be drawn between Rose-Ackerman’s political thesis and Adam Smith’s economic “invisible hand” theory. By minimizing the monopolization of power the government has, or in Smith’s case the economy, competing political interests will produce the best result similar to the benefits produced by competing economic interests in a market economy.

Throughout the two case studies, one glaring difference can be spotted, and that is the effort both countries have taken to initiate anticorruption measures and decentralize state power. While the election of opposition party candidate Vicente Fox signaled a shift in Mexican politics, the referendum win of Hugo Chavez signaled the entrenchment of a

\textsuperscript{131} Rose-Ackerman, Susan. P. 183.
\textsuperscript{132} Ibid.
powerful executive authority and very little chance of a serious reform effort to be undertaken anytime soon. Why is it that two countries with similar political backgrounds of instability and corruption, similar access to natural resources, and similar experiences with strong executive authorities are different in government reform? What is it about Mexico that has enabled it to begin the reform process whereas Venezuela has not? While one single explanation would be far too limited to fully explain the difference between the two countries, it is possible to point to an underlying factor that Rose-Ackerman addresses in detail near the beginning of her work: the role of self-interest in government policies. Many of the problems associated with corruption in Mexico and Venezuela have been a result of powerful executive authorities pursuing self-interested policies that have been destructive to the political system. The imbalance of self-interests has disproportionally favored the elites over the people. Remember that Rose-Ackerman claims “we can go a good way toward understanding development failures by understanding how self-interest is managed or mismanaged.” Self-interest is apparent in both leaders’ actions; however, Fox’s self-interested actions have been beneficial to anticorruption efforts in Mexico whereas Chavez’s self-interested actions have entrenched the longstanding government power monopoly in Venezuela.

**Mexico’s Anticorruption Efforts**

Mexico is unlike Venezuela in the sense that it has actually taken the initiative to combat corruption and implement checks on the executive authority. Preston and Dillon discuss how Fox’s campaign platform was anticrime and anticorruption, and how that was very much in his interest as it helped him appeal to the voters of Mexico who were

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133 Ibid. P. 2.
tired of the PRI's authoritarian corruption. By appealing to the desire for corruption reform within the electorate, he was able to win the presidential election in 2000 by distinguishing himself from the PRI. This type of self-interest could be classified as "good" self-interest according to Rose-Ackerman's definition because it enabled the Mexican people to engage in democratic changes aimed at releasing the state of Mexico from corruption and authoritarianism. Fox was able to utilize the public's unrest with the PRI establishment and use it for his own purposes and at the same time deliver the political system of Mexico into the beginnings of a democratic system with a focus on anticorruption efforts. Fox's election was simply the catalyst that ignited the change that was already coming to Mexico. Preston and Dillon write:

So powerful was the sense of impending transformation that even many capitalists who had built fortunes in the shadow of the PRI system began to acknowledge in private that it would not be such a bad thing for the PRI to lose the presidency. No one followed this shift more closely than Lino Korrodi, Vicente Fox's fundraiser (emphasis added).

Preston and Dillon describe Korrodi as a close friend of Fox's, and his work in observing current political trends helped Fox to capitalize on the desires and concerns about corruption reform currently popular with the Mexican electorate. Fox's campaign advisors, including Korrodi, knew this and used it to their advantage.

The campaign promises Fox used to win the election illustrate the role self-interest has in all political processes regardless of how sincere, or insincere, a candidate really is. Preston and Dillon point out that Fox made very grandiose claims during his

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134 Preston, Julia and Samuel Dillon. P. 478.
campaign and term that he knew would appeal to the electorate. For example, "he had
vowed to resolve the conflict in Chiapas in 'fifteen minutes,' and once he took the oath of
office he proceeded as though he believed his own rhetoric."136 These were the types of
claims, like his campaign promises, that Fox was unable to fully deliver on. However,
this did not entirely shake the belief of the Mexican people in the election of Vicente Fox
and his opposition party.

So how does one draw the line between so-called "good" uses of self-interest and
"bad" uses of self-interest given that self-interest is neither inherently good, nor
inherently bad? The common theme in Rose-Ackerman's work is the distinction between
progressive and detrimental consequences of self-interested policies. The misuse and
abuse of power that can lead to detrimental results of self-interest are best avoided
through embracing the "invisible hand" type of government Rose-Ackerman envisions.
This distinction can help in analyzing the two case studies of Mexico and Venezuela
because the two uses of self-interest can be seen quite clearly in the two countries. Fox
utilizes the public's attraction to anticorruption efforts and interests. However, Chavez
utilizes access to natural resources for his own interests. Rose-Ackerman would argue
that while self-interest plays an obvious role in both leaders' policymaking decisions,
only one has been potentially beneficial for the economic and social development of the
country, and that would be Fox's administration in Mexico.

Venezuela's Anticorruption Efforts

Perhaps one of the greatest ironies in Latin American history can be found in the
election of Hugo Chavez in 1998. Chavez, a populist candidate, ran on an almost
identical platform as Fox's in 2000. Ironically enough, the very same anticorruption and

136 Ibid. P. 506.
reform platform Chavez ran on is claimed by opposition groups to be the motivation that
drove them to push through the referendum to remove Chavez. Additionally, the
centralization of power that occurred at Chavez’s request can be seen in the violent
clashes that took place during the entire referendum and coup processes when opposition
groups and protestors were engaged by military members. The reasons for the recent
political unrest in Venezuela can be seen in the controversial reforms Chavez passed in
late 2001. Reversing the reforms would most likely harm Chavez politically, and it was in
his interest to appear steadfast in what was widely perceived as an attempt to eliminate
corruption from Venezuelan government. This is the type of case that Rose-Ackerman
refers to as self-interest with negative implications for economic development and
stability. The reforms significantly damaged the growth and stability of the Venezuelan
economy, but it was Chavez’s self-interest that won the day rather than the immediate
future of the Venezuelan economy.

Additionally, it could be argued that the reforms Chavez passed were oriented
towards strengthening executive power rather than combating corruption in the
government. Socializing the economy through the reforms Chavez passed actually gave
the state more power instead of less, and as Rose-Ackerman points out, “corrupt officials
distort public sector choices to generate large rents for themselves and to produce
inefficient and inequitable public policies.”137 When the state has the type of control that
the Venezuelan government does, they can use it for their own corrupt interests. For
Venezuela, this possibility is even more likely given the large oil revenue produced in a
time when oil prices are currently very high.

137 Rose-Ackerman, Susan. P. 38.
The economic publication *Bloomberg* indicates that oil prices have hovered around $60 a barrel for quite some time and will probably remain the same for the foreseeable future.\(^\text{138}\) The current oil shortages produced by the war in Iraq as well as greater instability in many oil-producing countries have constituted greater economic prospects for Venezuela’s oil market. However, it also constitutes a greater amount of revenue that can be exploited by the largely state-owned economy produced by Chavez’s 2001 reforms. Ironically, the reforms actually undertaken by Chavez greatly increased the power of the state to be abused by corrupt officials and even Chavez himself. While he promised anticorruption strategies and overall reform of the political system during his campaign, what he enacted were “reforms” that actually increased the potential for corruption in the Venezuelan government.

**Analysis: Self-Interest and Corruption in Politics**

It is no secret that self-interest plays a role in every political system around the world. The fact that it has such a prominent place in Latin American politics should come as no surprise. Nor should it be the scapegoat to explain why corruption is so prevalent in most Latin American nations. Even nations considered to be “middle income” countries by the World Bank like Venezuela and Mexico are struggling to combat corruption and the roadblock it poses to economic development. Self-interest certainly plays a prominent role in the explanation for such widespread corruption, and competition between differing political interests could enable these systems to check corruption.

The two case studies undertaken in this work help to illustrate the distinction Rose-Ackerman claims to exist between “good” self-interest and “bad” self-interest in politics. The self-interested policies of Hugo Chavez and the bureaucracy underneath him

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have helped prevent the social and economic development of Venezuela. Alternatively, while still suffering from corruption, Mexico has seen a dramatic shift in the political mindsets of the people with the election victory of Vicente Fox and his focus on anticorruption and crime fighting in his administration for the past five years. Mexico has taken the first steps towards successful government reforms whereas Venezuela has taken steps back and away from anticorruption efforts. In the meantime, the respective governments of each country pay large sums of money to local officials and bureaucrats with very little accountability to the very people that they rule. Instead, self-interest drives officials and bureaucrats to simply look after “number one” rather than devoting resources, time, and energy towards tackling poverty and other social problems. Instead of focusing on policies that could benefit the people, corrupt officials will generally focus on maximizing their profits and will pass policies that are beneficial to them and detrimental to the greater goal of economic development.

Conclusions: The Future for Venezuela and Mexico

The case studies of Venezuela and Mexico illustrate two Latin American countries that are very similar in geography, access to natural resources, wealth distribution, and political culture; yet they also illustrate two countries that have recently taken quite different approaches to government corruption. Both countries have had a long history of corruption and political chaos, which makes them very interesting case studies when analyzed from a comparative standpoint. The big question that comes to mind is why the difference in the current approaches to corruption? What is it that turned one country towards initiating anticorruption efforts whereas the other actually took steps away from government reform? The Mexican case study shows us that while Fox’s
election victory cannot be pointed to as the sole cause of the political shift in Mexico; it
definitely was the catalyst that ignited the current efforts against corruption today. This
political trend is one that also exists in Venezuela, but not on the same scale as the one in
Mexico. The opposition groups responsible for the referendum and coup efforts a few
years ago represent the same type of unrest with Chavez as that of the Mexican people
under the PRI’s rule. It may be said that the people of Venezuela have not yet reached the
same level of frustration with their government as the people of Mexico had. Whatever
the case, a possible explanation for the reason why Venezuela has not only failed to take
steps towards government reform, but has actually taken steps towards corruption, is
because the people of Venezuela have not yet become as frustrated with their system as
the people of Mexico were by the time of the 2000 elections. The case study of Mexico
illustrates that a political transition in the people is necessary to enforce the check on
executive authority necessary to force actual reform through the system.

The nations of the so-called “Third World” face incredibly large amounts of
poverty and wealth stratification and overall development of these countries will be a
very complex and multi-step process. Each step is necessary for the other steps to work,
and eventually the countries of Venezuela and Mexico must turn their attention towards
other problems of development besides political corruption. If the officials responsible
for enacting anticorruption programs are simply driven by their own self-interest rather
than being held accountable to what the people desire and need, it is very unlikely such
programs will be enacted unless it could somehow serve the interests of those officials.
Tackling political corruption is only one of many steps necessary for overall development
goals, but it is certainly one of the more important steps to be taken. The big question to
ask in studying anticorruption efforts from organizations like the World Bank is how to open up a political sector to the kinds of reforms they are suggesting. Rose-Ackerman makes it clear that the best way is to pit political interests against each other in a type of “market based approach” to politics. That way, the interests of political leaders, whether they be self-interested or not, will have to survive in a competitive atmosphere with the people of the country serving as the judge of what policies serve them and which do not.
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