

Political and Administrative Corruption: A Comparative view of their Organization and Development .

**José Alberto Garibaldi
ITAM / FLACSO
Ave Toluca 700 · 1307
México C.P. 01780
indicons@netservice.com.mx**

Abstract

This paper argues for understanding corruption as progressively developing governance structures, encompassing both private and public sector institutions and organizations, that profit from undermining institutions conducive to growth. It argues that these structures develop in weak institutional settings, and replace these weak formal institutions with informal, but effective institutions. This paper seeks to apply such an approach to the study of political and administrative corruption, employing cases collected from Mexico and Peru.

Political and Administrative Corruption: A Comparative view of their Organization and Development .

This paper argues for understanding corruption as progressively developing governance structures, encompassing both private and public sector institutions and organizations, that profit from undermining institutions conducive to growth. In this context, corruption results in a governance structure itself. Combating it implies requires effective control, but also a clear typology of corruption forms and a framework to understand its evolution. This paper seeks to apply such an approach to the study of political and administrative corruption, employing cases collected from Mexico and Peru.

The paper develops this argument dividing it in five sections and a conclusion. The first criticizes the modernization literature on corruption arguing it leaves little room for effective diagnostic and control measures. The second develops a governance approach, arguing that predatory teams can create effective institutions to rule corrupt transactions. The third examines the organization and evolution of administrative and political corruption, using examples taken from the Mexican Federal Administration and the Peruvian Government. The fourth examines more in detail specific cases to illustrate the model developed. A final section sums up the argument and concludes.

1. The Need for a better understanding of corruption.

The most common approaches to corruption in Latin America have been inspired by the modernization literature in political science. This literature argued that corruption was a byproduct of modernization: it appeared as a result of the changes to traditional rules that new “political men” brought about when entering into the political arena with new expectations and mores. Upon this basis, Huntington (1968), Scott (1972), Heidenheimer (1978) and others examined corruption in countries undergoing modernization processes, arguing for instance that the US and England underwent periods of high corruption at the end of the last century, when they were suffering radical modernization processes in their governments and societies. In a similar vein, Leff (1964) and others argued that corruption could provide a number of benefits, by facilitating fruitful exchanges that otherwise would have not taken place, or by accelerating transactions between the private and the public sector, so as to avoid delays and uncertainties unfavorable to productive investments. Corruption results from a specific set of interactions between society and government, generated by a misbalance between the capacity of government to process social change and social mobilization needs. As Morris (1991) notes, this can happen either by the government being incapable of processing social change, or by it being the only road to insure it.

That approach centers the analysis on variables such as the mobilization capacity of civil society, the capacity of the state to process citizens' demands, or the articulation of the political parties with the administration. However, it is lacking in a number of crucial areas. Foremost, it does not consider the organizational aspects of corruption, a key in understanding its origin and internal arrangements. In this same vein, it does not distinguish between political and administrative corruption, and neither does it analyze its interaction. In contrast, this approach insisted that corruption was just the result of a political system, claiming erroneously that a political change would eliminate the organization it engenders.

The consequences of these shortcomings have not been slight. The academic treatment of corruption has emphasized its links to the political system, at the expense of the study of the organization and evolution of concrete forms of corruption. As a result, this approach left no ground for the understanding of different forms of corruption, a detailed examination of the costs and profits of those involved in illicit practices, or the development of policies and instruments tailored to specific forms of corruption. In this sense, the data produced by diagnostic tools requires an interpretative framework to understand its sense. This framework must provide guidelines to follow the different stages of corruption development and examine a typology of corruption forms. Thus, it can help precise the situations in which different diagnostic tools would be useful, and help fit its results within an orderly explanation of the already known stylized facts about corruption. This can also help put together a set of policies and specific instruments that can adapt to this changing character.

2. Organization theory and a governance approach.

The theory of agency is the basis of the standard literature on corruption organization. Banfield (1974), Becker (1968) and Klitgaard (1988) have developed detailed analysis of the impact of different organizational settings in administrative corruption from this viewpoint. They argued that corruption could be understood by a triangular structure. In it, a principal sets the rules and incentives the agent faces, the agent delivers them to client in exchange for licit (or illicit, in the case of corruption) payment, and the client pays for them and provides information to the principal. Corruption arises due to the fact that the incentives the principal and the agent are not always equal, and furthermore, that the principal faces an asymmetric information situation *vis a vis* the agent.¹

¹ In this same line, Rose Ackerman (1978) developed an analytical framework to analyze different forms of bureaucratic corruption. Following a similar, although more action oriented approach, Klitgaard (1988), examines several case studies of administrative corruption. Rose Ackerman (1997) presents a typology of bribes, and in the same vein, Shleifer and Vishny (1993) distinguish between collusion (when both a public servant and a user benefit from corruption, at the expense of the state) from extortion (when the public servant benefits at the expense of the user). They also present a model of corruption in which corruption can develop from a monopoly (the least bad case) to a "free competition" in which there are no barriers to entry into the corruption market (the worst case scenario). Following a similar approach, Mauro (1995), Clague (1993), and

This literature has several key common characteristics. They all define corruption in a similar way, arguing it is the misuse of public office for private gain. Moreover, they argue that corruption is a problem of systems and organizations: Skewed incentives, organization, and asymmetric information are key in creating an environment conducive to corruption. Monopoly, discretion, and lack of accountability are seen as its components. The level of honesty is an important variable, but the context in which corruption appears should not be confused with the individuals' moral characteristics. These developments have been accompanied with attempts to delineate different corrupt practices.

The advantages of this approach can be substantial. Rather than examining corruption from the perspective of the political system, which leaves little room for action in the short -and even medium- term, their focus on the internal organization of corruption allows to pinpoint corruption problems, improve diagnostic techniques, and advance and develop particular control measures which might be effective within specific organizations.

In spite of these advances, this approach also has some shortcomings. In the first place, its definition of corruption frames it as an exclusive public sector phenomenon. Actually, corruption is frequently a private sector - public sector clandestine transaction, which requires the active collaboration of representatives of both sectors to succeed. Finally, these models seldom consider systematically the context in which corruption takes place, which is a key element from a policy perspective to understand its causes and effects.

3. Group Cohesion, leadership, and conflict: corruption as governance

To somehow overcome these deficiencies, an approach based on governance can be followed. This can explain within a single framework not only how corruption arises within an otherwise healthy organization, but also the operation of corrupt arrangements themselves. As Williamson (1975) would argue, a firm can be seen as governance structure. It is an organization with objectives, resources, information, authority, rules for decision-making and incentives. This structure can be seen not only as formal one, but as informal as well, and thus encompass corruption within it.

The way this organization appears and develops is one of the least understood aspects of social science. As Garibaldi (1999) argues, the emergence of primitive forms of mafias provide in a sense a "governance structure" capable of policing the behavior of the individuals that are their members. While various models tend to explain group cohesion in terms of agency, the issues of expansion, size and

explain corruption with multiple equilibria models, arguing that it can be found in organizations either in small amounts or developed to the extent that it includes most of the organization.

leadership need to be better explained. As Charap and Harm (2000) explain, one way to envisage the formation of groups from an anarchy situation is that the winner of a “combat” situation within one does not subjugate the loser, but rather offers integration to fight under his leadership in the future. As he assumes the resulting leadership position within the group, he increases the proceeds he obtains from the emerging predatory group, both because his superior “combat skills” as well as from the willingness of other group members to accept a smaller share of the gains in exchange for the leadership skills of the combat leader. The probability of a successful attempt to topple him depends on the surplus being extracted by the leader, and the part of it that he redistributes among his gang. Attempts to subvert the leader’s position require any contestant to convince potential allies that their participation on the gains under the contestant’s position would be better. Thus, it is in the interest of the leader to provide members with a competitive share of the proceeds he is receiving. Furthermore, the attempt to topple the leader is risky for any contestant, as the party rejecting the contestant’s position will actively engage with the leader in opposing him.

3.1. Corrupt governance within informal hierarchies

As Findlay argues (1996), this same argument can be extended to competing predatory teams. Instead of subjugating the losing group, the winning one can integrate the former in a subordinated position within a hierarchical relation. As Charap and Harm argue, this can be accomplished by reducing the size of the losing team below its optimal level. As several authors note, it is key to achieve this that in the resulting arrangement the superior hierarchy position is better off than the inferior one, and that the superior hierarchy has a stronger control authority than the inferior one. In this arrangement, the leaders can increase the gains from corruption, while at the same time controlling any attempt to topple their leadership through the redistribution of the resources they get. The net result is an informal but stable and effective organization composed of various layers of hierarchical relations.

It can be noted in this context that the strength of this organization can be increased if the members of such a multilayered hierarchy are operating formal hierarchies themselves. As Goude and Stasavage (1995) note, corruption in the upper levels of the organization can extend faster to the lower layers, as formal hierarchy can be used as a dissemination mechanism. Thus, those in a leadership position can force the cooperation of reluctant groups either through the mechanisms provided by the formal hierarchical structure or through the informal arrangements they control. In fact, they can increase the scope of their organization by taking control of the production and enforcement of the formal rules that regulate the interaction between public groups in society, and use them

to help strengthen the organization.² In this context, those leading the organization can increase their gains while simultaneously increasing their capacity to police the inferior levels of the organization.

3.2 Corruption patterns and governance structures.

These predatory governance structures operate interacting with the political setting in which they develop. Most frequently, it is assumed that the character of the formal governance structure will result in specific and different kinds of corrupt parallel governance forms. In this context, predatory hierarchies associated with weak formal governance structures occupy the middle ground in Shleifer and Vishny's (ibid) spectrum going from the "free-for all" corruption.³ of situations closer to that of anarchy, to the monopolistic corruption of autocrats outlined in Pradhan (1997). It should be noted, that as much as these predatory hierarchies can result from (weak) formal governance structures, they can also result in formal political arrangements themselves.

To better use the advantages that occupying a position within a formal hierarchy can provide, it is key to insure that those involved can retain those positions. The higher the position, the higher the benefits that can be obtained from it. As Cartier - Bresson (1997) shows, the repetition of the games between the same actors located in formal positions can create informal rules regarding their interaction, as well as mutually beneficial hostage contracts developing from the transactions they have engaged in. Whilst strong public institutions can be effective bulwarks against attempts to develop informal and effective property rights over formal positions, weaker institutions may not be able to resist the manipulation that results from trying to insure permanent control by the parallel hierarchy of the formal organization. The result is the integration of an informal, corruption structure operating within the context of an otherwise formal hierarchical structure.

The rules defining the interaction between the public and the private organizations will not only provide embedded incentives, but also define the complexity, frequency, and parties in the transactions that will take place and from which

² From a rule of law perspective, this amounts to taking control of organs involved in making, enforcing and administering law, namely, congress, judiciary and the security forces.

³ Partial evidence from current research in Guatemala suggest the country could provide multiple examples of decentralized corruption. The legal framework of the public sector is lacking in several key aspects, with a poor definition of civil servants law, an extremely limited definition of corruption crimes, and poor judicial enforcement mechanisms. Furthermore, as CIE (2000) notes, the recent advent of democracy coupled to the poor salaries paid in the public sector, makes it frequent to have a high level of rotation within public servants. It seems reasonable to argue that in this context, unlike the other cases mentioned below, there is not an horizon long enough to insure the development of stable hierarchies devoted to organized corrupt activities. In this context, corruption would be characterized by extortion and bribes collected by civil servants, with a rotation of the groups involved in collecting them. Thus, this combination would make it easy for a decentralized, free for all setting of corruption to appear.

corruption will benefit. The structure of agency relationships and of information flows, the efficiency of the control mechanisms within the formal organization and the prevailing organizational culture are key in allowing corruption to develop within an organization.

This development can be seen at its most extreme forms as an attempt to subvert public organizations and the private sector entities linked to it, as well as the rules that link their interaction, and turn them into a self serving arrangement. Taking control of this arrangement -by involving not only a set of agents, but also clients, suppliers, and principals- is a potent motor in corruption's development. This creates rules and organizations parallel to the official, but nevertheless capable of operating with the benefits that formal rules and hierarchies provides.

3.3 The Polarization of corruption: lock-in mechanisms

This evolution of corruption from simpler forms to more complex and extended forms is coherent with the view provided by multiple equilibria models. As Mauro (1995), Clague (1993), and others would argue, once appeared, corruption can be subject to perverse cycles that reinforce it. Corruption at the interior of organizations tends to be polarized: it either spreads to the whole organization or reduce itself to just a limited area or structure of the public administration. These would explain why seldom exist "half way" corrupt organizations.

Clague presents an argument that is typical of these models. Agents will engage in corruption if its individual benefits outweigh its costs. Benefits include the gains from corruption, while costs include the sanctions, a function of the probability of detection and the agent's level of honesty. If honesty is heterogenous, control resources scarce, and per capita costs to pursue individual corruption cases constant, multiple equilibria will emerge. Let's suppose that in a certain organization the number of corrupt individuals exceeds the resources available to detect and punish all. Corrupt agents that get away with illicit activities result in a diminished expected detection rate. This lowers the expected sanction and gives incentives to the agents with a lower degree of honesty to engage in illicit activities. As total and per capita control resources are constant, corruption control becomes less effective in the next cycle, and a lesser number of corrupts will be detected and punished, thus turning into a vicious circle. The end result is an organization with generalized corruption.

Once these happens, it may be added that institutional inertia and rent seeking can reinforce a stable, albeit perverse equilibrium, in which the rules and values of the organization are subverted and the possibilities of progressive change for the better are severely diminished. Agents within the organization will have to participate in the new corrupt environment, accept it, or leave the organization.

Once fully developed, corrupt parallel organizations can operate as profit maximizing firms within perfectly assembled hierarchical structures, capable of defending themselves from those willing to eliminate it. If there is outside action to topple the leadership and/or its organization, the participation of suppliers, clients or other relevant third parties will help insure that aspects crucial to the operation of both the official and the parallel organizations will be maintained.

This approach stresses the need to define corruption in a more encompassing and precise manner, to include not only the activities of the public sector. In this approach, the distinguishing note of corruption would include three elements: the violation of a rule, the misuse of a position to do so, and the pursuit of profit. This combination of activities results in creating a corrupt governance structure that undermines institutions conducive to common growth. It encompasses both the private and public sector, is hostile to open markets and is based primarily on hierarchies. Thus, we argue here to define corruption as the “violation of a duty by a decision maker, to obtain a benefit that does not pertain functionally from the position he occupies”. This definition can include within its scope all those involved in these networks, whether they work in the private or the public sector.

4. A Governance view of corruption: insights from empirical research

Examining specific examples from countries which might have situations resembling the situations mentioned above might help in obtaining a better view of the theory outlined in the previous section. In this regard, this section will present cases taken from Mexico and Peru. The Mexico case is presented as a situation in which there are various predatory hierarchies operating independently, while the Peruvian case is presented to outline a case of monopolistic corruption.

The variations of corrupt arrangements can be numerous and change continuously as detection systems are developed. This increases the difficulty to examine systematically and completely actual corruption cases, to find out whether this framework will be reliable. Instead, a dual strategy can be followed. To overcome this difficulty this section will use various examples taken from real life cases, trying to identify the main elements that explain its development following a very simple principal-agent-client structure. On the one hand, this approach can be used as a framework to identify the evolution of corruption; on the other, actual corruption cases discovered and reported can be checked against it. Thus, a more nuanced view of corruption’s evolution and typology might be gained.

Mexico:

The modernization approach has been dominant in the attempts to explain corruption practices in Mexico . Cruz (1991) and Brandenburg (1964) argue that immediately after the Mexican Revolution, (1910-1920) corruption was employed as a mechanism to coopt rival parties, substituting violence with bribes. Krauze

(1993), Cornelius & Craig (1991) and many others argue that corporatism followed between 1920 and 1940, creating a structure in which politicians, rather than militaries, were coopted and corruption turns into the gear train of the Mexican political system. The economic bonanza that characterized the “mexican miracle” allowed the system to prosper. However, as Bailey (1986), Wiarda (1988) and Morris (1992) note, its crisis in the final sixties caused a crisis of corruption as well: as the economy’s growth contracted, the amount of resources available for corruption purposes diminished.⁴ This resulted in a political opening and a series of campaigns to counter corruption in the mid eighties.

As Zaid (1996) notes, this opening also led to a loosening of control from a central hierarchy. Zaid argues that this led to the splintering of the former monopolistic structure in various groups operating in different realms within the public sector. The cases collected below seem to confirm this view. The cases are taken from a sample of corrupt practices discovered by internal control organs in the Mexican Federal Administration, presented by Garibaldi (1999) and Lopez, Diaz, Garibaldi, et al (1998). Placing them in a simple principal-agent-client perspective can help illustrate this evolution. The cases were collected employing a questionnaire that was sent to a selected group of 16 of the major control organs within the Administration, asking them to outline what to their knowledge where the most relevant cases they had discovered, regardless of the final result of their actions against them. They were asked to select one case of corruption in service delivery and either one case of internal corruption, or one case of corruption in government procurement.

While these cases were not randomly collected, and the extent and completeness of the cases vary greatly, they do provide an interesting view of the increasing degree of complexity of corruption, and how different policies can be arranged to effectively control them. The sense of their evolution can be made easier if we examine them from an spectrum that goes from simple to complex. Simple cases would include those that follow a basic corruption scheme, in which an agent gets involved in corruption practices without coordinating actions with others. Complex cases would include those in which the principal is himself corrupt, and the agents are pressed to serve him with or against their will, or to abstain from doing anything. Between these examples, intermediate examples could be found: agents colluded only among themselves, or including also clients or suppliers. It is plausible to say that when there is corruption in an organization, the principals are either ignorant of what’s going on, or are afraid to fully act, or are involved.

⁴ Morris argues that the reduction in the size of the state and its resources base would have diminished the capacity of the state to coopt opposition movements and weakened its role as a social mobilization mechanism. In the same vein, the changing role of the unions and the private sector would have made them less of a part of the corporatist regime, as an increased number of workers and private sector organization would have increased the difficulties in using them as an effective tool of government control. Closing this picture, the increasing participation of opposition parties in congress and other control organs, and a more plural press, would have made it more difficult to leave unnoticed corruption cases.

4.1.1 Initial stage: only agents are corrupted

In the most simple cases, corruption settles at the agent level. Examples of this kind of corruption are numerous. In a variation of a type first reported by Shleifer and Vishny (1993), various of the cases collected were similar in that they involved cashiers of public agencies (from the education and transports sectors) that issued receipts to the public after receiving payment, but nonetheless did not enter the payment into the agency's system: instead, they retained it. As a result, the customers involved were deemed delinquent in their payments by the agency, and eventually denied the services they had already paid for. At this time, customers would complain against these measures, showing their receipts, and arguing that they had indeed made their payment: denying them a services was thus unfair. This action put the cashiers on the spotlight: if the customers had a legitimate receipt, how come its payment was not registered by the agency? This cases resulted in the cashier sanctioned and expelled from the agency. This, however, did not prevent one of the cashiers from cashing in more than US\$200,000 in a year of operations.

4.1.2 Intermediate development: agents and clients become involved

As the cases above show, it is crucial in order to avoid detection to have mechanisms that benefit affected third parties, so that they do loose the incentive to complain about the practice involved. Having this third parties involved requires extending corruption one step more. These can result in a scheme in which if they collaborate, they benefit; If they deny their collaboration, they risk being extorted. Some of the cases followed this pattern.

In one of them, the agents of a tax collection agency offered taxpayers a scheme to pay less taxes unlawfully, asking in exchange a participation in the illegal savings. To insure the scheme will go unreported, they involved other agents, both at the computer systems department of the agency as well as in the banks where payments were made. Thus, no receipts nor records were left behind that might incriminate any of the parties. Furthermore, the benefits third parties received not only involved benefited them, but also made them accomplices to a criminal scheme, thus preventing them from denouncing the case. These cases, however, where discovered and prosecuted as auditing procedures discovered there were taxes missing from the agency involved.

If the third party denies its collaboration, the situation can result instead in an extortion attempt. This happened in other of the cases collected. In a school building agency, a group of agents reportedly offered a construction company that had won a bidding process a loose treatment of any overcosts the company might run, in exchange for a participation in them. When the company refused to participate, the agents started a campaign to harass its activities, expecting to

force it to make an illicit payment to the agents. The company, however, presented a formal claim against the agents to the federal comptroller, thus uncovering their scheme.

4.1.3 Corrupt Governance structures fully developed

As these examples show, corruption can increase its complexity and organization as a mean to increase its capacity to deliver services and avoid detection. Although the cases presented here have involved mostly agents, with the principals not only not participating, but also actively combating it, it can also happen with the them being the corrupt party.⁵ In this cases, corrupt organizations parallel to the official ones appear, and act in their own best interests at the expense of the mission and objectives of the official organization. This kind of corruption can be very damaging since it distorts the internal incentives of the organization, promoting behavior that favors the corrupt organization and punishing those that act against it.

Two of the cases collected reported were in this category. In a case at the procurement unit of the CFE, a public entity in charge of providing electricity, it was reported that one of these parallel governance structures had appeared. It was led by the chief of the procurement unit of CFE. Through subordinates, he would contact the organization's suppliers asking for a percentage of the profits that a deal would make. A repeated number of these transactions allowed for stable relationships between the suppliers and the unit to develop, thus helping fix the terms in which these transactions would continue.

The arrangement was discovered as the civil servants involved significantly increased the illegal fees they collected. As the unit's chief was about to retire from the public sector, he tried to shifts his activities to private sector side, by asking his associate suppliers an important share of the stock of their businesses. He asked others for agricultural land, and even real estate. As his pretensions increased, his worried associates presented claims against him to the federal control organ, which proceeded against him, unraveling the governance structure that had developed there.

The second case was similar, and was reported at the Tourism Secretariat. The case is still being processed. In this one, the Secretariat created a number of trusts

⁵ The principals can also seek illicit benefit only for themselves, independently of their collaborators. In this "white collar" corruption, the lower levels of the organization do not participate. Thus, for instance, in one of the cases reported, the mayor and his second in command in one of the town councils were involved in a scheme to divert money from the city governments coffers from the banks where they should have been deposited, to a stock trading agency, that paid much higher interests for it, but at a higher risk. To avoid detection, they made the operation the same day, so that the dates of the bank deposits would not be altered. They did this operation as a matter of routine for almost a year. The case was discovered as the mayor started reporting properties he could not account for. An ensuing auditing uncovered the details of the operation.

to promote tourism, which were headed by relatives of the civil servants involved in creating them. These trusts additionally operated with a number of irregularities, and failed to provide complete reports regarding their tax status. The case was discovered by the internal control organs, and has resulted in those involved being processed.

4.2 The Mexico City Police Case

Mexico city's police has usually been considered one of the most corrupt in the country since the early 1980s. However, little was known of its internal organization. The research described here coincides with the main findings outlined in this paper: a key component of the corrupt forces was the operation of a parallel governance structure within the force, including its own rules, resources, and control mechanisms. These permeated the whole organization, and affected assignments, promotions, the availability and quality of the resources needed for rank and file and middle policemen, and their overall operation *vis a vis* the public. The parallel structure extracted resources from the everyday activities of the police, thus forcing its members to engage in a constant and relentless petty corruption in its dealings with the public. While the police still contributed to fight against crime and many forms of organized delinquency, it was also engaged in various forms of illegal activities.⁶ This resulted in a generalized mistrust from the general population.

Part of the difficulties in examining the situation of the police lied in its closed and relatively secretive character. While there were frequent claims against the police, these failed to provide an accurate picture of the operation of the corrupt structure. Furthermore, a shoppers program would be mostly ineffective, as the policemen tend to move frequently, thus making it difficult to track them down. The remaining alternative was a survey: it would allow to get information from many different sources simultaneously, providing a picture of the operation and characteristics of policemen and their organization. Following this insight, the federal government prepared a survey applied to more than 1000 policemen between 1996 and 1997.⁷ The survey had as a purpose to evaluate the relation between income and expenses, the perception of policemen about their work, and identifying

⁶ In other parts of the country, however, the police seems to have been engaged in major forms of organized crime. Thus, in the state of Morelos during 1998 and 1999 it seems to have constituted a formidable force engaged in kidnappings and other forms of organized crime. This research does not cover the PGR, or the Federal Crime prosecuting agency, which is also claimed to be permeated by forms of organized crime. However, this research would point towards the existence of organized forms of control in all of these cases.

⁷ See the documents "Encuesta Aplicada a Policías del Distrito Federal en Diciembre de 1996" Subsecretaría de Atención Ciudadana y Contraloría Social, Secodam, January 1997; and "Principales Resultados de la Encuesta aplicada a Policías de la Zona Metropolitana del Distrito Federal" Subsecretaría de Atención Ciudadana y Contraloría Social, Secodam, January 1997. The results of these studies were presented at the 20th National Meeting of State – Federal Comptrollers, Mazatlán, Sinaloa, May 1999, organized by SECODAM, the Federal – State Comptrollers Commission, and the World Bank.

weaknesses in the administrative procedures supporting the organization. To achieve this objectives, it asked questions about their personal characteristics, their location, equipment and responsibilities and their income, both through direct and life standard questions. Additionally, questions were asked about the relations of policemen to their colleagues and superiors, and about the careers within the force. It was applied to all three forces of regular police, including traffic, auxiliary and business protecting police (these three forces are separate entities in Mexico city), to policemen found in the streets, other working environments (businesses etc.) and in their own quarters.

The operation of the parallel governance structure.

While the application was not stochastic, due to the difficulties in preparing a sample of that characteristics, the result were nevertheless astounding. The results showed that there were clearly defined parallel channels for almost all administrative processes within the organization. These included the provision of working materials (from uniforms to patrol cars), the decisions regarding assignments and promotions, and the amount of money a policeman could make. Almost 60% said they had to pay to get uniforms, pistols, bullets, bulletproof vests, and cars. They also had to pay to be assigned to different locations. Additionally, the survey found that while their formal income was roughly the same (around US\$ 3000 *per year*), they had significant differences in expenses according the level of equipment they had. Thus, those policemen which had patrol cars had higher living standards than those which were on foot, and those located in key areas in the city had even higher standards of living as measured by various indicators.⁸ However, this equipment had to be rented: policemen reported in the open question about their working environment that renting these cars cost between US\$ 150 and 200 monthly, and that the going rate for motorcycles was between US\$ 50 and 100. Around 60% of those surveyed also reported that they had to pay for the vehicles' maintenance from their own money. Something similar happened with positions: the survey says that 82% of the policemen said there was corruption within the police. Further questioning brought them to argue in open questions that to get promoted to certain position a single payment had to be made, while for a supervisory position (in charge of a sector) a monthly payment of US\$ 1,000 had to be made.

Corrupt governance: the pyramidal structure

This data gives standing to the argument that there was a parallel pyramidal structure in cascade operating within the police: those in the lower levels had to make payments to their superiors to get equipment, which in turn allowed them to make better income with which to make the payments. Entry into one of the

⁸ These measures including the characteristics of the house they lived in (number of rooms and lightbulbs) and of their alimentation.

midlevel positions required an entry fee, while those collecting payments regularly at a supervisory level were expected to make regular monthly payments to those in top of them.⁹ It could be argued that these payments were financed by funds collected from the illegal activities and extortions that file and rank policemen were involved at, as well as those from midlevel policemen. There should be strong incentives to comply within the policy: it was expected from policemen to pay: once they started doing so, they would in turn be financed by the other levels of the corporation. If they did not comply, they could be sanctioned by minor violations, or temporarily sent to jail with common delinquents, with the threats this implied. This last alternative was also reported in the sample.

This structure would additionally give some light as to the roots of the illegal activities of the police in the airport: they would operate in the same pyramidal manner, while the source of their income most likely would have been the extortion of passengers and the smuggling of persons and merchandises. Probably, there were also arrangements operating to share the revenue generated by these activities. It should be noted that in all of these cases, this structure would operate alongside the formal structure of the police, replacing the administrative processes that the formal governance system was unable to deliver, and providing its own means of revenue.

In December 1997 an opposition party took control of Mexico city's government. The incoming administration replaced the upper levels of the police, and started a policy to try to replace the midlevel structure of the police forces. Additionally, a significant effort was made to improve the administrative capacity of the police as well as some improvements in the salary structure. However, in spite of some advances in certain areas, there still seems to be an important amount of work needed to overcome this deficiencies. As this lines are being written, there is a strike by rank and file auxiliary policemen in Mexico, claiming that midlevel supervisors are taking 50% of the income they make while working extra hours. The preceding discussion should have made clear the purpose and intent of this request, and what it tells about the state of the police.

4. 2 Peru: The Montesinos Predatory Hierarchy

The recent seizure of almost 2,500 videos recording corrupt transactions by Vladimiro Montesinos, the Fujimori's government chief of intelligence, provides an unusual glimpse into the emergence and operation of a parallel predatory structure. Combining these videos with both the recent research on the internal

⁹ While policemen said these payments were made up to midlevel senior management, it could be the case that additional payments had to be made to the higher levels, but these were no reported as there was no evidence about this from the policemen in the lower and midlevel positions that were interviewed for the survey.

structure of the Fujimori government, and the proceedings of the Peruvian Congress on this matter, allows outlining its expansion and development within a single framework, task that is not possible in the other cases due to the fragmentary evidence that can be collected.

This case coincides with the other above in that it also appeared within a formal hierarchy. However, contrary to the Mexican cases outlined above, the Peruvian one shows the eventual dominance of one predatory hierarchy among others. This resulted in the consolidation of a system of monopolistic corruption, which –as we argued above– can coexist with economic growth. As Rospigliosi (2001) argues, one of the key aspects of this organization was to employ formal institutions to police internal members of the organization, insure its expansion, and advance the goals of the organization itself. While the cases outlined above show the expansion of hierarchies from the lower levels of an organization to the upper levels of it, in this case the opposite is true: the eventual leader of the hierarchy sought control of the upper levels of the formal organization to reinforce his informal position. Additionally, this helped reinforce the informal hierarchy itself through formal means. Finally, the videos also show that it had clearly defined rules to distribute the profits obtained, as well as an interest in preventing attempts to topple the leadership by insuring shares in the gains the organization made.

4.2.1 The development of a Predatory Hierarchy

This predatory hierarchy emerged within the first term (1990 – 1995) of the government (1990-2000) of Alberto Fujimori, in a context of extreme crisis in Peru. After the hyperinflation the country suffered between 1988 and 1992 (which reached around 400% monthly in mid 1991), and the war waged against the Peruvian state by the Shining Path guerrilla movement, the institutional and political tissue of the country was severely weakened. As Tanaka (1999), Jochamowitz (1994) Vargas Llosa (1995) and others have shown, the party system in the country had collapsed and had resulted in a situation close to anarchy. In this context, the nascent presidency of Fujimori, elected without a significant party support of his own, coupled to the institutional weakness of the country, made the role of the military a key element to insure the governance of the country.

Vladimiro Montesinos, an Army Captain that had been expelled from the army in the late 1970s, got access to the President and positioned himself as an intermediary between the army and the President.¹⁰ In this he showed

¹⁰ As Peruvian history has shown and Rodriguez Beruff (1983) has argued, the capacity of the Peruvian Congress to control the country's armed forces has been extremely limited. In the context of the crisis, as Loayza (2001) shows, the Military regulations concerning promotions and careers were modified by the Government, opening the door for the Chief of the Security services to maneuver to remove the Generals leading each of the Army regional divisions and replace them with military addicted to himself. By 1997, all the Generals leading each of the army's regional divisions either had been classmates of Montesinos, or were his relatives. Thus, he was in fact a key intermediary between the army and the president.

considerable “combat skills” offering those groups he defeated a participation in the gains obtained in the next struggle if they joined the informal hierarchy he was forming, thus helping him consolidate his position. After the closing of Congress and the Judiciary in 1992 and its reorganization in 1993, this arrangement resulted in allowing the head of the Intelligence service to participate in a triumvirate government formed by the Head of the Army, the head of the Intelligence system, and the President. As Rospigliosi (2001) and De Gregori (2001) show, in this context the head of the intelligence service was in charge of policing the hierarchy of support for the government, as well as the use of formal institutions –and particularly, the controlled Judges within the intervened judiciary- to discipline opposition groups, police supporters, and insure access to resources.

4.2.2 Corruption as a developing public – private governance structure.

It is a common trend in the transcripts of the videos seized by the Peruvian Judiciary to see attempts to control the opposition through the formal institutions that had been controlled by the informal predatory hierarchy. This included particularly the media, both written and printed. During Fujimori’s second term (1995-2000), opposition groups in control of TV channels lost via a judicial proceeding started by groups addicted to Government, corporate control of the companies that owned the channels. While this was presented as a private matter between shareholders, the transcripts of the videos show a frequent interaction between the head of the intelligence service and judges. Furthermore, there is evidence of a contract between the head of the intelligence service and the shareholders that resulted in control of the channels, as well as evidence of payments to them in exchange for a position favorable to the government.

Furthermore, the transcripts show the interaction between the head of the intelligence service and several other leaders of business groups, both from the country as well as from the region. In these transcripts, the parties exchange opinions on how specific business issues should be addressed within the judiciary and with the government. In several of them, the head of the Intelligence service then offers his services to solve the problem. While individual parties are free to comment on how to solve a government problem, it is obvious the head of the intelligence service should not be involved in this, and much less offer his services to do so.

In a similar vein, the proceedings of various of the cases currently being processed in the judicial system give certain evidence that there were a number of intermediaries that dealt between the head of the intelligence service and those wishing to obtain his services.

4.2.3 Corrupt structures fully developed.

As section 2 should have made clear, for a multilayered hierarchy to consolidate, the higher level hierarchy should be in control of the lower levels, and it should also be better off. Furthermore, to avoid attempts to topple it, there should also be some sort of share of the proceeds from corruption between those in the higher level of the hierarchy to those in the lower levels of it.

This case also provides partial evidence on this regard. In his declaration to congress after the demise of the Fujimori government, the last prime minister of the President stated that he had been offered by the head of the intelligence service an additional US\$ 25,000 to the US\$ 5,000 he was already receiving as a Minister, and that he had accepted such amount. The head of the intelligence service also claimed that other ministers had been paid the same sum. The judiciary is currently examining whether this is true. Additionally, the transcripts of the videos show payments between the head of the intelligence service and at least one congressman. The conversation shows that these are made in exchange for his vote. If these exchanges are truthful, it would show that a hierarchical structure was in place, and that resources were employed to insure the loyalty of those within the lower levels of the hierarchy.

What is more interesting in this same declaration, is that the former prime Minister says that after the video showing a payment to a congressman was made public, the president ordered him to instruct the head of the intelligence service to resign. The head of the intelligence service responded instead that the primer minister was his employee -he was paying him, he argued- and that an agent could not fire a principal. Furthermore, he claimed that without him the Fujimori government could not be maintained. In fact, it is a fair question to ask in this context who was actually running the government. Whatever is the answer, nowadays both the congress investigative committee and the Judiciary have already confirmed almost US\$ 250 million in accounts either directly held by Mr. Montesinos or by people closely linked to him.

5 .Conclusion: Factors that promote organization

These examples seek to show that corruption requires some level of coordination by those involved, to execute a variety of actions that can be done either independently or in a team. In fact, corruption's progress can be understood as an improvement in its scope, logistics and coordination. It can be argued that corruption organizes to fulfill four objectives:

1. Improve the collection of illegitimate revenues. A first motive to organize corruption is to assure the revenue from illegitimate sources. Corrupt organizations develop to benefit either from a large volume of small transactions, or from only a few large scale ones. The repetition of these transactions provides a potent incentive to develop stable institutions and

governance structures, which its members can profitably employ in their own benefit. Furthermore, maximizing this revenue intake promotes a further organization in the future.

2. Guaranteeing the compliance of accords. A crucial element for corruption to work is the compliance of agreements, which is to say that a deal conceived illegitimately must be complied with by the parties both inside and out of the formal organization. In corrupt organizations, “good business” requires that the different actors involved keep their part of the deal. If the service delivered by the corrupt requires the participation of more than agent within it, then some mechanism must be devised to insure their compliance. These enforcement mechanisms can range from orders given through the formal structure of the organization, to veiled or explicit threats and incentives delivered from the corrupt one. In its dealings with external third parties, a mixture of them with a sense of “honor” and “honesty” can also appear – as Gambetta (1993) argues in a different setting when examining mafia type organizations.
3. Insuring the distribution of profits. For stable forms of corruption to develop, the effective and orderly distribution of corrupt profits becomes central. Effective rules are needed to delineate the expected duties and rights of those in the different layers of the corrupt organization, as well as to insure a consequent distribution of profits. These rules usually develop from the basis provided by the formal structure of the official organization, as well as from the enforcement mechanisms related to the parallel one. The resulting structure thus resembles aspects of both. Thus, for instance, in surveys made to assess corruption in Mexico City Police in 1996, it was discovered that formal positions were auctioned, with buyers then collecting the amount they paid from the illegal proceeds the positions provided. Something similar happened with the resources provided employed by policemen, including patrol cars, guns, and even patrol locations.¹¹
4. Evading the measures designed to fight corruption. Whoever gets involved in corruption seeks to pass undetected, and elude administrative punishment, or legal prosecution. Organizations can be helpful in these tasks. It can provide means either to prevent detection or attacks from the control organs, or to defend organization from the later if they are discovered. This might even lead to the paradox of having clandestine organizations operating publicly, as in the case of Mexico City business inspectors between 1994 – 1996, studied by Lopez, Diaz, Garibaldi et al (1998). Here though it was known that the

¹¹ See Lopez, Diaz and Garibaldi et al (1998), and Proceso # July, 1998. The case of Mexico City International Airport between 1984-1995 outlined below can also help to show how the creation of corrupt parallel structures inside a legal organization can contribute to insure the distribution of corrupt profits.

inspection system was crooked, it was difficult –but not impossible, as the same study shows, to act against them, due to their internal organization.

As these examples show, corruption prospers under the aegis of its own governance structures. These encompass both the public and private sector, and profit by undermining institutions conducive to growth. It can be defined as the violation of a duty by a decision-maker, to obtain a benefit that does not pertain functionally to the position he occupies. While political changes can help to boot out corrupt leaderships, effective eradication of administrative corruption should not rely on political measures alone: it is imperative to eliminate the structures that allow these forms of corruption to flourish. Combating it requires an effective diagnostic, a clear framework to interpret results and act, and a systematic and coherent set of policies to carry them through.

Bibliography

Bailey, John; "The Impact of Major Groups on Policy-making Trends in Government-Business Relations in Mexico", in Ai Camp., Roderic (comp.), *Mexico's Political Stability: The Next Five Years*, Westview Press, Colorado, 1986.

Banfield, Edward; *The Moral Basis of a Backward Society*, The Free Press, New York, 1958

Becker, Gary S; "Crime and Punishment: an Economic Approach", *Journal of Political Economy* num. 76, March-April 1968.

Brandenburg, Frank; *The Making of Modern México*, Prentice-Hall, New Jersey, 1964.

Cartier Bresson, Patrick, Political Corruption, in Special Number on Corruption, *Journal of Political Studies*, 1997.

Charap, Joshua, and Christian Harm, Institutionalized Corruption and the kleptocratic state, in Claude Menard Ed.

Clague, Christopher, "Rule Obedience, Organisation Loyalty, and Economic Development", *Journal of Institutional and Theoretical Economics*, vol. 149, num. 2, 1993.

Cornelius, Wayne and Ann L. Craig. *The Mexican Political System in Transition*. Center for U.S. – Mexican Studies, University of California, San Diego, 1991.

Cruz Martínez, Alejandro; *Las Políticas Generales de Combate a la Corrupción Administrativa en México*, Thesis, Centro de Estudios Internacionales, El Colegio de México, México, 1991.

Gambetta, Diego; *The Sicilian Mafia: The Business of Private Protection*, Harvard University Press, Massachusetts, 1993.

Garibaldi, José Alberto, Los elementos de la Corrupción Administrativa, document produced for the book *Corrupcion y Cambio*, mimeo, 1997.

Garibaldi Jose Alberto, The Institutions of Corruption, paper presented at the III Annual Conference of the International Society for New Institutional Economics, 1999.

Goude and Stasavage, 1995

Heidenheimer, Arnold J. (ed.), *Political Corruption, Reading in Comparative Analysis*, Transactions Books, New Jersey, 1978.

Huntington, Samuel P., *Political Order in Changing Societies*, Yale University Press, New Haven, 1968.

Kaufmann, Daniel. "Challenges in the Next Stages of Anti – corruption", in *New Perspective on Combating Corruption*. Transparency International and The International Bank Reconstruction and Development, U.S.A., 1998.

Klitgaard, Robert; *Controlling Corruption*, University of California Press, San Francisco, 1988.

Krauze, Enrique; *Siglo de Caudillos*, Tusquets, México, 1993

Leff, Nathaniel; "Economic Development Through Bureaucratic Corruption", *American Behavioral Scientist*, 8:3, November, 1964.

López Presa, José Octavio; Díaz de León, Guillermo Díaz; García Argüelles, Mauricio; Garibaldi Fernández, José Alberto, *Corrupción y Cambio*. Fondo de Cultura Económica – Secretaría de la Contraloría y Desarrollo Administrativo, México, 1998.

Mauro, Paolo; "Corruption and Growth", *Quarterly Journal of Economics*, Vol .110, August , 1995.

Morris, Stephen D; *La Corrupción Política en México*, Siglo XXI, México, 1992.

North, Douglass; *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, 1990.

North, Douglass, and T. Denzau. *Mental Models and Institutions*, *Kyklos*, 1994

Paul, Samuel *Does Voice Matter? For Public Accountability, yes*. Policy Research Working Paper no.1388, Policy research Department, Finance Sector and Private Development Division, The World bank, Washington D.C. 1994.

Rose-Ackerman, Susan; *Corruption: A Study in Political Economy*, Academic Press, New York, 1978.

Rose-Ackerman, 1998. "Corruption and Development", Paper presented at the Seminario sobre Manejo Presupuestal, de Personal, y Control de la Corrupción, ITAM, Ciudad de México, February 1998.

Scott, James; *Comparative Political Corruption*, Prentice Hall, New Jersey, 1972.

—, “Modernization and Corruption” in Heidenheimer Arnold, J. (ed.), *Political Corruption, Readings in Comparative Analysis*, Transactions Books, New Jersey, 1978.

Shleifer, Andrei, y Robert Vishny; “Corruption”, *Quarterly Journal of Economics*, Vol. 108,3, August, 1993.

Wiarda, Howard J; “México: The Unraveling of a Corporatist Regime?”, *Journal of Interamerican Studies and World Affairs* 30, num.4, 1988-1989.

Williamson, Oliver, *The Economic Institutions of Capitalism*, The Free Press, New York, 1985.

Williamson, Oliver, *Markets and Hierarchies. Analysis and Antitrust Implications*, The Free Press, New York, 1975.