



European Research Centre for
Anti-Corruption and State-Building

Working Paper No. 22

ERCAS Working Papers

Political Economy Analysis of Control of Corruption in Chile

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December 2010
www.againstcorruption.eu

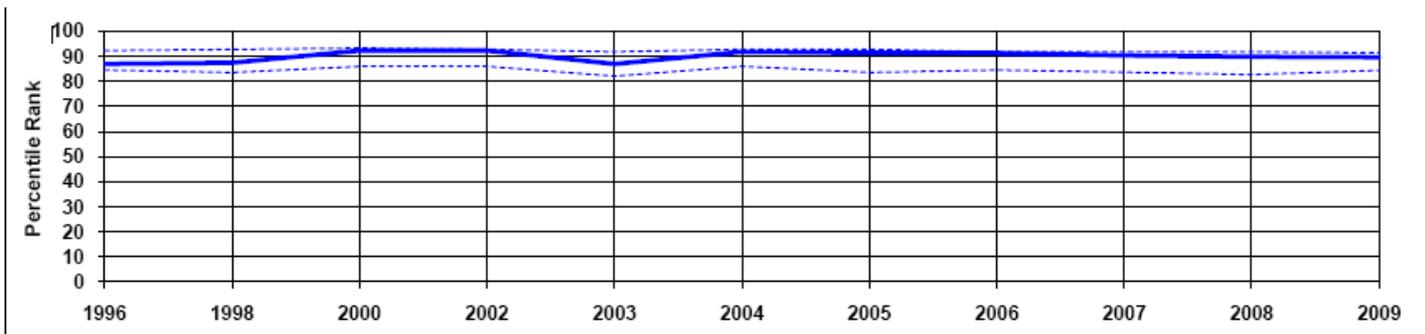
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1. Control of Corruption

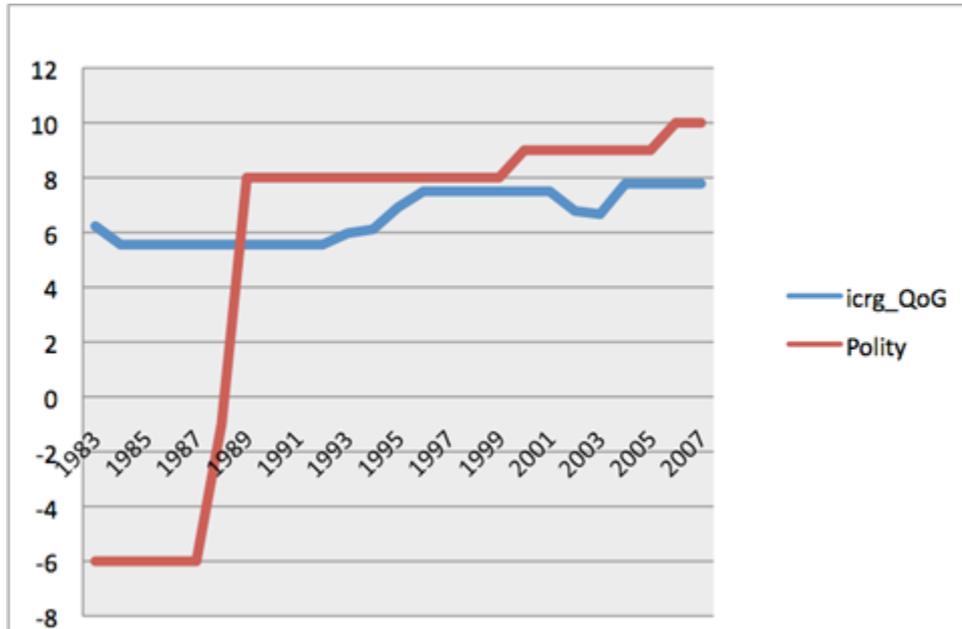
Chile has always been considered one of the least corrupt countries in Latin America (annex 1). Since the first World Governance Indicators in 1996, control of corruption in Chile was already high, and the country has shown a slightly improvement since them, as one can see in the graph below. Considering CPI (Corruption Perception Index) compiled by Transparency International since 1995, Chile has always been positioned among the cleanest countries.

Control of Corruption Chile 1996-2009



Source: World Bank - WGI

The analysis of the world governance indicators as well as the CPI shows that Chile has always been a clean country, but one cannot tell how control of corruption developed. The ICRG is the only indicator that analysis the risk of corruption since 1983, and considering the Chilean case, risk of corruption was already low back in 1983 (when Pinochet was still in power), especially in comparison to the region. Nevertheless, around 1994 the indicator shows that the risk of corruption decreases even more. The graph below shows how risk of corruption (ICRG –QoG) and pluralism (POLITY IV) developed from 1983 to 2007. In 1989, after the plebiscite that removed Pinochet from the presidency, there is a great increase in pluralism, but risk of corruption is still stable. After the first elections (1990) pluralism remained stable (scoring 8 out of 10) and the risk of corruption decreased around 1991 and 1994, increasing in 2003, but decreasing again shortly after.



Those surveys show businessmen's perceptions on corruption, and might not capture all kinds of corruption. In this sense, an important remark is that policy schemes and regulation are relatively transparent in Chile. There is a simple tax code, tax evasion is low, and procedures and time required to open new businesses and to comply with government regulations are much lower than Latin American average. Moreover, staff of the regulatory agencies, tax collection agencies, Central Bank and Finance Ministry tends to be more prepared, better trained and more professional than that of other government agencies. Chile's regulatory scheme has been based on reducing entry barriers and on selective, rather than structural, intervention executed by antimonopoly commissions that bring more flexibility to the system.

In order to understand control of corruption in Chile, one must look at the transition to democracy period, especially in 1994 when, according to the ICRG graph, the sharpest improvement in control of corruption happened, but also look at Chile's history, analyzing the institutions, power distribution, and the rules of the game since the first democratic period until nowadays in order to understand why control of corruption in Chile has always been higher than in other Latin American countries.

2. Patrimonialism, Competitive Particularism, and Universalism

Chile has experienced the three types of regime, patrimonialism, competitive particularism, and universalism (Pippidi 2006). During the colonial period state 'ownership' was concentrated on the hands of few, power distribution was unequal and with limited access, informal institutions and rules

were in place, making the distinction between private and public practically impossible. After independence and the development of pluralism, elite groups started disputing important positions in the government, as well as disputing state rents. Access was only possible for those enjoying certain status or position in the society, in a way that distribution of public goods was known to be unfair and unpredictable. The use of clientelistic practices was widespread, and distinction between private and public was poor, especially in the end of 1960s and beginning of the 1970. In 1973, after the military coup, political parties and civil society organizations were outlawed, Pinochet installed an authoritarian regime, based on power monopoly, with closed access and acting as 'owner of the state'. However, as opposed to other authoritarian regimes in the region, an economic reform based on decentralization and privatization took place, reducing the opportunities for rent seeking behavior. After redemocratization in 1990, the circumstances divided political parties in two big coalitions (in favor or against the authoritarian regime) and although pluralism was quickly installed, politics did not developed under competitive particularism, but rather the political environment placed modernization and accountability as important principles of the public administration, bringing the assumption that as a norm the state must be autonomous from private interest, that public goods must be distributed equally and fairly, and that a sharp distinction between private and public must exist. It does not mean that corruption, favoritism, or 'state capture' does not exist in the country, but those are exceptions rather than the norm.

Those periods will be analyzed in order to understand Chile's transition to good governance and control of corruption:

Colonialism

During the colonial period, the colonial bureaucrats had a significant degree of freedom to manipulate State resources for personal gain; the Crown would turn a blind eye as long as it could share in its proceeds. However, as opposed to other Latin American colonies, the Chilean province during most of the colonial period was relative poor; the corruption, therefore, was characterized by the use of influence through the manipulation of kinship, friendship, educational, and professional perspectives (Valenzuela 1978). During the independence process, unlikely in other colonies in the region, from early on, the Chilean church developed in relative autonomy from the state, and some members played a prominent role during the wars of independence. Important also the democratic ideals brought by the Patricians who studied in Europe, they were responsible for the modernization of values and institutions earlier than in the rest of the region and for the creation of solid foundations later on.

During the 1950's, after independence, unity broke down and a certain degree of controversy was installed, but there was no significant use of violence, which was substituted by the buying of parliamentary votes, award in public contracts, and other clientelistic practices.

Parlamentarism vs. Presidencialism (1833-1973)

The 1833 Constitution guaranteed strong executive prerogatives, but after the 1891 civil war the Congress assumed the center position in national politics and the executive's power to manipulate the electoral process ended. Politics were chaotic and corrupt, once politicians had considerable autonomy to enhance clientelistic practices and patronage. In addition, the State enjoyed an unusual prosperity due to the booming of nitrate trade, which increased the possibilities of rent seeking. Political parties whose activities have once been limited to the activities within the Congress start considering the interests of Chileans at every level of society; the parties provided the basis for an open, highly competitive political system comparable to those of Europe's Parliamentary democracies.

In 1925, constitutional reforms restored Presidential power; the period had reasonable democratic stability, expansion of suffrage, and respect for civil liberties. Moreover, the 1925 Constitution guaranteed life tenure for all judges at all levels, irreducible salaries and an explicit nonpartisan appointments process that removed virtually any role for political parties in the selection of judges (Valenzuela 1978).

The crisis of 1930's discrete Chile's oligarchical politicians and encouraged the growth of alternative political forces, thus, parliamentarians had their power formally reduced, and their influence network suffered with several waves of social and political mobilization, such as the integration of the working class into the political system, and the agrarian reform. Middle class parties emerged before the development of a strong bureaucracy and became full participants in the governing process. Chile, as opposed to other Latin American countries, had populist parties only between 1952 and 1958, but they were soon suffocated by traditional parties, such as the conservative and liberal, as well as the radical, communist and socialist parties which were strictly ideological, with strong philosophical and ethical basis. In countries such as Argentina, Ecuador and Paraguay, populist parties were (are) strongly related to corruption (Luna 2008).

In 1950 Chile was highly institutionalized, with an independent judicial system, a strong oversight institution - the Office of the Comptroller General-, and autonomous agencies. The country developed a highly competitive and polarized political system, with strong right and left parties. The Congress, considered the symbol of Chile pluralistic traditions, had a decisive lawmaking role arena for partisan compromise of political elites. During the period of 1958 and 1964 the government also sought to accommodate private interests giving voting membership to the most powerful business

organization in all major finance institutions, namely the Central Bank, State Bank, and CORFO (mining company) (Valenzuela 1978).

Due to the highly polarized political system, governments did not have a majority in Congress and had very limited powers to rein in political pressures and to approve corrective legislation. While the proportional system encouraged competition among parties, it also increased the transactions costs required to govern and amplified the number of negotiating agents, at the same time that it reduced retaliatory powers by the Executive. Moreover, Congress had almost unlimited powers to legislate benefits for key constituencies, pension benefits being a prominent instrument (Chumacero – Fuentes, Lüber, Vial 2005).

In June of 1968 the Comptroller General after conducting investigations during the years of 1965, 1966 and 1967 concluded innumerable frauds and cases of misuse of public resources. The denounces were related to the use of 'slush funds' from state companies and the general secretariat of the government for pre-campaign advertisement, as well as irregular loans from the State bank for deputies disputing the 1969 parliamentary elections (Rehren 2000).

Frei and Allende's presidencies tried to gain more stability by economic growth, state interventions and a redistribution of the income. The copper-sector was responsible for two thirds of the Chilean export income, but most mines were owned by US companies. The government, thus, bought an ownership of one of the three major mines and changed the economic and political course. In sum, during Allende's government large industries, the copper mining, and banks were nationalized, more than 500 medium and large sized firms were either nationalized or taken over by the government. Government became highly centralized and its expenses rose significantly, as the government started taking over activities previously conducted by the private sector. CORFO, created in 1939, became really important having the mission of promoting industrialization, either directly creating new state owned enterprises, or with preferential loans to the private sector. By 1970, sixty-four of the largest firms in the country were either CORFO's subsidiary or state owned.

As we saw, during the 1940-1973 period, governments provided protection to allow local producers to exploit the Chilean market, giving then subsidies and preferential loans to companies. In order to compensate these benefits, government expenditures in education, public housing, health and pensions were increased. However, these social expenditures largely missed the poor and in a large fraction were captured by emerging pressure groups in the middle and upper classes (Chumacero, Fuentes, Lüber, Vial 2005). State size raised significantly, while in 1925 the State had in total 26.000 employees, in 1970 it had around 300.000, and 53% were employed in the social sector. It was clear by that time the increase of social expenditures, for instance, social spending raised from 2,1% of GDP in 1925 to 25,8% in 1972.

Moreover, rent seeking was the highest seeing in the country so far. Although freedom of expression existed and most democratic institutions were still in place, the economy began to resemble a Central European centralized economy, with massive expropriations, high inflation and widespread shortages of all kind of goods, as well as an extremely confrontational political climate. The Government imposed even more restrictions to international trade and finance, and practically all prices in the economy –including wages, interest rates and exchange rates – were not only fixed but also micro-managed by government decrees (Chumacero, Fuentes, Lüber, Vial 2005).

Pinochet's Era

The Military allied with right wing parties closed the Congress and Pinochet assumed as head of State, power was concentrated in the figure of General Pinochet, and all veto players were removed. Civil society organizations as well as left political parties were outlawed.

In 1974, the military government adopted a socio-economic reform agenda proposed by a group of liberal economists, partly forced by a severe deterioration of the international economic environment and as means of distinguish themselves from the previous socialist regime. These economists, known as 'Chicago Boys', had similar academic backgrounds and most of them had no active political participation before, although their political sympathies tended to lie with the center-right.

The main implemented reforms which might have played a role in control of corruption were: (i) *property rights security*, which had been severely undermined during the Allende regime when many companies were nationalized or put under state management, with little or no compensation; (ii) *A subsidiary role of the State*, which limited state interventions to cases of clear market failures, exception of the preservation of the state owned firm in the mining sector; (iii) *Freedom of choice*: reflected in the elimination of trade permits and prohibitions, as well as rationing procedures and price controls, which pervaded every activity by the end of Allende's government; (iv) *Fiscal consolidation and orthodox management of monetary and foreign exchange policies*, which were a necessary condition for a well-functioning market economy and an area in which Chilean governments had failed in the past; (v) ***Systematic reduction of the spaces for public discretion and potential arbitrariness, introducing impersonal rules whenever possible: Rent seeking¹ was seen as a major source of inefficiency and corruption, with a significant impact in***

¹ According to "the rent-seeking approach in political economy sees society as formed by individuals organized in special interest groups (or acting alone) that are motivated by their particular interests rather than by the general interest of society. Common examples include: farmers seeking price support schemes, industrialists wanting import protection, bankers pressing for protective regulation and less competition from new intermediaries. From this perspective, the state is seen as institutional machinery that, among other things, dispenses economic favors and transfers income among groups in exchange for political support. Rent-seeking behavior leads some groups to attempt the capture of key state institutions such as customs, tax administration authorities, public contracts agencies, where they can extract rents".

overall factor productivity and growth; (vi) *Trade and financial openness*, which would provide the impulse for growth that the limited size of the domestic economy could not provide, as well as create competition in the local economy, and (vii) *Institutionalization of the “rules of the game” in such a way that it would not be easy to change them*, with the purpose of granting stability of those rules under different governments (Edwards – Lederman 1998).

As a general principle, the technocrats behind the reforms made special efforts to avoid rent seeking behavior and activities, for instance the price of all public utilities was established at marginal cost of production as well as uniform import tariffs for all goods

In 1980, seeking to legitimize his government, Pinochet proposed a Constitution, which was approved by referendum the same year. The 1983 downturn of economy and the decline in intensity of military repression made possible the reconsolidation of political parties; soon organized political opposition emerged, when civil society together with political leaders reassert their participation in the resistance movement. The opposition took advantage of the fact that the regime allowed public discussion of the socio-economic management of the country and their criticism to economic policies was publicly circulated. General discontent and social unrest was expressed in large public demonstrations, organized by union leaders with the backing of the political opposition, soon traditional supporters among farmers, small business owners in commerce and transportation hit by the recession were also against the government.

As predicted in the 1980 Constitution a plebiscite whether Pinochet should remain in office for a period of eight more years took place. Pinochet lost, fair and democratic elections took place in the following year. Until 1988 Pinochet was the only case of illicit enrichment in power, there are a lot of evidences, although his government reduced the opportunities for rent seeking, that he and his family benefit from the privatizations and of his powerful position. Denounces were investigated later one, but no one was ever punished (Muñoz 2010).

Transition period

In Chile's transition the impetus for change came from outside the incumbent elite, from groups that were excluded by the military rulers (the losers). Though failing to avert a change in regime, incumbent elites may well have exerted more control over the transition than in any other recent case of regime change (Munck, Leff 1997). The transition was launched on the basis of a constitutionally mandated plebiscite in 1988 which the opposition won. However, in order to remove the incumbent elite from power the opposition had to form a broad coalition, opening the political process to a broad array of social forces, but the incumbent elite was not displaced, creating a fairly balanced elite competition.

As part of the accommodation of powers, the Constitution established the right for the President to appoint 9 out of the 47 members of the State (and the 9 first appointments were made by General Pinochet, making really hard for the democratic regime to approve constitutional amendments), General Pinochet could remain as chief of the army until 1998 and thereafter as senator for life, last but not least, 10% of the annual export earning of the state copper company would go directly to the military forces. This “pacted transition” left many ‘enclaves of authoritarianism’ in Chilean Constitution, nevertheless, it was essential to allow the transition to a democratic regime, opening the way to democracy.

As a result of the conditions prevailing at the time, two large coalitions were formed, one center-right and the other center-left (either one was against or in favor of the regime). Given the new electoral system, negotiation within the coalitions for the definition of the ballots is the key factor to get elected, so that the power of the Party leaders over members of Congress has been greatly enhanced. This significantly reduces the number of players and gives strong retaliatory powers to party leaders. Stability was (and still is) a central goal in the democratic governments. The main difference between Chile before 1973 and after 1990 is that political parties were conscious of the need to advance to democracy using consensual mechanisms of conflict resolution. In this case, consensus implied abandoning ideological differences and building a common platform.

During the 1990s and early 2000s, the prevalence of common views on matters of economic policy between government officials and the opposition, reduced “transaction costs” and permitted the economic reform to continue at a reasonable pace. Contrary to what happened almost everywhere in the region, the Chilean experience during the implementation and consolidation of the reforms were unique. The early reforms implemented in the seventies and eighties were conducted under an authoritarian government, and, contrary to experiences elsewhere, the return to democracy did not entail reform reversals (Chumacero, Fuentes, Lüber, Vial 2005).

3. Redemocratization and Control of Corruption

Chile’s bureaucracy during the twentieth century developed a reputation for low corruption levels by Latin American standards. The structural economic reforms during the authoritarian regime reduced the size of the state by privatizing public companies and the social security system, deregulating several markets, and improving the tax system. However, these reforms were carried out in an ideological environment contrary to empowering the state, which led to under-investing in state capabilities and no effort to modernize the provision of public services. Thus, after the return to democracy in 1990, democratically elected governments inherited a public sector badly prepared to

respond to citizens' demands regarding Public Service's efficiency, quality, responsiveness, public ethics, and accountability (Aninat, Landregan, Navia, Via 2006)

Aylwin administration, the first democratic elected government after Pinochet's authoritarian regime, favored strongly technical and sectorial approach to policymaking, which limited the margin for political pressure from political parties and other social actors.

The creation of the **Public Ethics Commission in 1994** was the response of President Freis' administration to the increasing public concerns regarding politicians and public officials' ethical behavior. Various scandals and denounces of corruption, traffic of influences or mismanagement and waste of public resources denounced by the media threatened public confidence in politicians and public institutions. Therefore, in 1994, an Inter-Ministerial Modernization Committee for the Public Sector was formed with pluralist composition (members from different branches of government and civil society), its mission was to coordinate the modernization efforts and initiatives launched by different public sector bureaucracies and to submit policy and legislative proposals. The Committee produced a Strategic Plan that defined six action areas to deepen state modernization, namely: (i) strategic management and evaluation; (ii) human resources; (iii) public sector transparency and probity; (iv) quality of public sector services; (v) citizen participation; (vi) state institutionalism and public relations.

Since then, corruption has been a public concern of the presidency, with each successive president willing to fight against it. Consequently, after each period of political tension produced by corruption scandals several measures aimed at improving public administration were taken, measures which have usually emerged from a consensus with opposition representatives. For instance, after the corruption denounces of 2002 and 2003, in which payments to public officials for political campaigns were exposed, José Miguel Insulza, Minister for the Concertación coalition and Pablo Longueira, president of the UDI – strongest opposition party, negotiated a solution to the crisis, and a program of 38 reforms to state was proposed, one of the proposals was to decrease the size of the state, until 2003, about 3,500 public administration posts were appointed directly by the president, this number was then reduced to 750 and the Senior Management Service System (Alta Dirección Pública) was created, and in a progressive manner, important positions are being filled through public competition (Bertelsmann Stiftung 2009).

In 2006, following new corruption denounces, President Bachelet, member of Concertación coalition, launched a new drive for transparency and probity in public administration, the Probity Agenda, covering sensitive issues such as whistleblower protection, access to information law, recently approved, and regulation on lobbying, revolving door, among others that are still being

discussed in Parliament². Bachelet's government, in general, was less responsive to pressures of interest groups than previous governments, especially regarding cultural and ethical issues. Nonetheless, Concertación's agenda in what concerns education, public health, social security and regulation of mining companies, was strongly influenced by economic and political elites, and the government did not manage to propose or approve any substantial reform.

Besides that, seems like private interests have captured the policy making process in other areas. An example of this highlighted by a study conducted by the Inter-American Development Bank (2006) is the price bands for some agricultural goods (wheat, sugar, and vegetable oil), which were introduced in Chile with the argument that highly fluctuating international prices for these goods placed an overwhelming burden on producers. A protectionist neutral band was adopted so that the government could impose tariffs when international prices were too low and reduce tariffs when international prices were too high, as means to improve the welfare of agriculture workers. However, this mechanism has not functioned correctly, once lobbying by agricultural producers has prevented the government from reducing tariffs when international prices increase and has even effectively altered the scheme by which the government calculates the appropriate price bands for these products. For instance, the study has shown that the private sugar-producing quasi-monopoly IANSA received US\$37 million just as a result of the price intervention on sugar, while the government only received US\$25 million on additional money as a result of the higher tariffs on imported sugar. US\$16 million were given to national sugar beet growers, but the benefits from price intervention go primarily to well-off agricultural producers, not to minimum-wage agricultural workers as 63% of small sugar beet producers produce only 4% of the national production and receive less than 1% of transfers from consumers who pay more for imported sugar (Aninat, Landregan, Navia, Via 2006).

During this period other events were fundamental for the consolidation of a plural state and helped to consolidate democracy. In 1997, President Eduardo Frei, encouraged by historical factors, proposed a Judicial reform and created an autonomous Public Prosecutor Office, which later on formed an anti-corruption unit. In 2000, the last authoritarian enclaves of the Constitution were removed, Pinochet's prosecution immunity was removed, and in 2004, under Lagos' presidency, the Congress voted to eliminate the non-elected positions in the upper chamber, and the President gained power to dismiss the head of the military and police forces. In 2007, as part of the OECD accession process, several competition laws were approved, including the CODELCO – state mining company – legislation. It is also important to highlight that Chile ratified the UNCAC, the

² Transparency International chapter in Chile – Chile Transparente – created a platform in order to monitor all the proposed bill concerning transparency and probity in the public sector: <http://www.observa.cl/portal/index.php>

OECD anti-bribery convention, and the Inter-American Anti-Corruption Convention, those have been useful to justify the needs for reforms and reach consensus in the Parliament.

4. How is power shared?

Chile has an institutional system of checks and balances that has worked well in terms of promoting political transactions since the redemocratization in 1990. Chile has a presidential system, a binomial electoral system where two representatives for each district are elected, each district has competing lists (formed by parties or coalitions), the candidates of the two most voted lists are both elected, unless the winning list obtains twice the votes of the second list, in which case candidates of the winning list fill both vacancies. This system encourages the formation of coalitions and enhances the national leadership of parties. The country also has an independent judiciary and the General Comptroller overseeing executive and legislative powers.

With the return to democracy in 1990, the patronage system aided in recolonizing the government with those committed to democracy. Under the new democratic government, the patronage system generally adopted a quota model to accommodate a coalition of parties in government. "There is clear understanding in Chile of the need for political balance. That is why in the past there has always been an effort to bring in people across the political spectrum. For example, if a minister is a Christian Democrat, then it is tradition to have a Socialist as the vice minister. If there are four directors of services below them, then one would come from each of the coalition parties (...) At the same time, there has been an emphasis on getting really well qualified people in government." (Grindle 2010) The lack of political balance may create conflict within the coalition, decreasing loyalty and cooperation among its members. In this sense, a study organized by Balán (2009) demonstrated that in the years which the Cabinet changed more frequently the number of corruption scandals denounced by the media raised significantly, assuming that members of the ruling coalition would be the ones leaking information on corruption cases (Annex 2). Nonetheless, Concertación chose to put experts and technocrats in most of the positions of the government, (members of the think tanks and young graduates) reducing the number of political appointments.

The autonomous entities such as Central Bank, Constitutional Tribunal and the regulatory agencies have effective decision making capacity and veto power, reducing power of the government as well as parties and parliamentarians. The opposition political parties act as a constructive opposition, open to negotiation, but also monitor and denounce misconduct of Concertación members. This constructive opposition is based on the fact that the Chileans do not approve confrontation among

political parties, according to a recent survey 82% of the population is in favor of agreements between ruling party and opposition.

Moreover, there are an increasing number of laws aiming at limiting Executive's discretionary decisions, such as the Public procurement law (the Parliament can only reduce public expenditures, which limits the possibility of clientelism), or others requiring from the Executive evaluation of results, audits of public programs, limits to public appointments, public competition to several positions.

Executive

The Executive has exclusive legislative initiative on several policy areas, has a highly hierarchical control of the budget process, and has an array of urgency and veto options, which makes it a *de facto* agenda-setter. Yet there are a number of institutional actors that are able to block executive policy initiatives (Londregan, 2000). These include an independent judiciary, a Constitutional Tribunal, a Comptroller General. The bicameral Congress requires qualified majority thresholds to change many laws, enabling various minorities to block policy changes. Therefore, the Executive has sole authority to initiate legislation that requires budget increases or allocation of new funds, which gives it exclusive legislative initiative over most economic policy areas.

The strong agenda setting power exercised by the Executive has been important to assure governability and control clientelistic practices. Anti-corruption measures have mainly been promoted by the government, but rather in a reactive than proactive manner, driven by corruption scandals, media coverage, and public opinion polls.

Legislative

The legislative power plays an important role as an oversight body and veto player. Many of the corruption denounces were made by parliamentarians, as part of the construction of their profile and as means to raise votes for the following elections. In addition, the establishment of the Investigative Commission by the Chamber of Deputies was also a step forward on control of corruption.

Judiciary and the Comptroller Office

The main enforcement technologies overseeing Chile's political system are the Judiciary, the Constitutional Tribunal, and the Comptroller General (*Contraloría General de la República*, or CGR). The 1980 Constitution establishes their absolute independence from other powers of the state and

their institutional design successfully accomplishes that goal. Even though all three enforcement technologies are nominated by other powers of the State, the correct combination of checks and balances assures their political independence. Those institutions are essential in assuring that corruption scandals remain as individualized cases, once, in general, authorities involved in corruption and/or misappropriation of public funds have been subjected to an audit by the Comptroller General's Office and the judiciary and have been severely punished. Government responded with vigor in 2003, for example, to a succession of public and financial sectors scandals related to corruption and influenced peddling. For instance the Central Bank president resigned due to his involvement, and several mayors were removed from office due to political scandals

The judiciary is composed of the Supreme Court, the courts of appeals and ordinary courts. The Supreme Court is the highest tribunal in the country and is composed of 21 judges. They are nominated by the president from a five-person list proposed by the Court, and have to be approved by two-thirds of the Senate. Judges cannot be removed until they are 75 years old, unless sanctioned for misdemeanors

The CGR is also independent from political pressure. The Comptroller General is appointed by the President with Senate approval, and cannot be removed until he or she is 75 years old, unless impeached by the Senate based on a constitutional accusation by the Chamber of Deputies. It is an autonomous body which oversees all branches of the public service. Its budget is assigned by the Treasury and confirmed by the State (in 2008, 60 million dollars)³. However, the office's investigations cannot reach important bodies, such as the Copper mines state company, unless the Parliament asks the office to investigate. The Office is also responsible of overseeing the electoral service (SERVEL).

Political Parties

According to Sapelli (2000), fragmented party systems increase the risks of unstable coalitions, populist appeal, favoritism, and wide swings in policy, it can result in perverse incentives that are detrimental not only to macroeconomic stability but to democratic governance as well. Since 1990 there have been six parties with congressional representation in Chile, organized into two national coalitions, performing, in practice, as a two party system. The 1988 plebiscite to decide whether General Pinochet should remain in power for eight more years organized the existing political actors into two blocks supporting the "yes" and "no" votes. These blocks were maintained during the subsequent democratic elections, with the center and left-wing parties that opposed Pinochet in one coalition, and the right-wing parties that supported the General in the other: the *Concertación de*

³ Source: Global Integrity Report. Available at: <http://report.globalintegrity.org/Chile/2008/scorecard>

Partidos por la Democracia and the *Alianza por Chile*, respectively. As a consequence of the binomial system *Concertación* and the *Alianza* are still the only two coalitions with congressional representation today.

Nevertheless, each political party seeks to maximize its own power and influence, and transaction within the coalition happens often, especially during elections period, when candidates for congress and presidency have to be decided. In this sense, the real political competition in Chile takes place within the coalitions rather than between opposing political parties (Luna 2008).

Media

The media covers sensitive issues as well as fulfills a watchdog role vis à vis the government and other political authorities. Pluralism of the printed press is limited by the concentration of media ownership in two groups all over the country: El Mercurio and Copesa, and the few alternative print media are often forced to close due to a lack of private advertising and public support. According to a study by Observatorio de Medios Fucatel the Central government, municipalities, state institutions, and services spent between 7 million and 8 million dollars on newspaper advertising during 2005. The main recipients of state newspaper advertising were El Mercurio (48%) and the Copesa group (29%) (77% of the total). La Nación (state owned) accounted for 9% of advertising expenditure, only about 15% of the whole was spent on advertising in independent newspapers and magazines. On the other hand, the country has an independent television landscape of private and public stations, as well as over 800 radio stations (which are quite important) and online media presence (Bertelsmann Stiftung 2009).

5. Chile as opposed to the Region

A quantitative analysis of control of corruption in seventeen Latin American countries showed that Chile is the best performing country. Considering the dependent variable, WGI Control of Corruption, Chile (89,85th percentile rank) performs above the regional average of 43,84th percentile rank. In regard to the independent variables tested in the model, GDP per capita, political rights, federalism, gini coefficient, ethno linguistic fractionalization, trade openness, size of government and legal structure and property rights (Annex 3), they were found to be significant and in the case of Chile, with the exception of gini coefficient, all the hypotheses were confirmed (Annex 4).

Variable	Chile	Uruguay	Colombia	El Salvador	Regional average
WGI Control of Corruption	89.85	84.54	50.24	43.96	43.84 (22.99)
GDP per capita, PPP	11301.26 ✓	9087.37 ✓	6949.02 ✓	4741.85 ✗	6465.14 (3059.02)
Political Rights	2 ✓	1 ✓	4 ✗	2 ✓	2.47 (1.01)
Federalism	No ✓	No ✓	Yes ✗	No ✓	No
Gini coefficient	52 ✗	47.1 ✓	58.5 ✗	46.9 ✓	51.98 (3.98)
Ethnolinguistic fractionalization	.050625 ✓	.066667 ✓	.055796 ✓	.051429 ✓	.20 (.18)
Trade openness	75.39 ✓	57.73 ✗	42.83 ✗	71.95 ✓	64.95 (23.68)
Size of government	7.5 ✓	7.52 ✓	4.44 ✗	8.96 ✓	7.38 (1.23)
Legal structure and property rights	6.99 ✓	5.57 ✓	4.49 ✗	4.83 ✗	4.88 (1.02)

Chile is considered “free” by the Freedom House organization with scores of 1 in both political rights and civil liberties since 2003, indicating the highest level on these indicators. During the 1990s, Chile had an average of 2,1 for political rights and 2.0 for civil liberties, only below Uruguay and Costa Rica in the region (Annex 5).

The indicators GDP per capita, Gini Coefficient, Trade Openness (Annex 6), Size of Government, and legal structure and property rights are strongly correlated to the socio-economic reform introduced by the authoritarian regime and enhanced by the democratic governments. Chile has a strong institutional foundation for market competition and for ensuring economic order. With regard to the quality of the federal public officials there is a high degree of centralization of relevant decisions, and thus a very limited margin for decision making at the local, regional and specific institutional level. There is a high level of inflexibility, with little room for discretion for those responsible for the management of the respective institutions and offices. Moreover, there is a single and uniform regime of human resources for the entire public sector. Governmental policy is limited to general assurance and maintenance of the rules of the game, as regulations are consistent with competition and bank and financial institutions are autonomous. Chile is ranked 26th among 123 countries in the world, its position comes basically from its good institutions. The “Doing

Business' Index prepared by the World Bank⁴ ranks the business environment by identifying regulations and policies that foster investment, productivity and growth. For example, in Chile 10 different procedure are required to start a business, which is below the Latin American average. In order to enforce a contract 21 procedures are needed, requiring an average time of 200 days and costing an expected 14.7 percent of GDP per capita, values that are lower than the Latin America average, but much higher than in OECD countries, where it stands at 7.1 percent of GDP per capita. Chilean courts normally take 5.8 years to rule on insolvencies, much longer than in OECD countries, where courts take on average 1.8 years, but faster than other Latin American countries.

Additionally, according to Aninat, Landregan, Navia, Via (2006), the levels of tax evasion may also be a useful proxy for the capabilities of the state, providing insights into the efficiency of the tax-collecting agency. For instance, in the early 1990s tax evasion was close to 30 percent, during the 1990s it decreased constantly until it reached levels closer to 19 or 20 percent, the lowest tax evasion rate in Latin America. In 1990, more than US\$1 billion was collected in taxes simply because of lower tax evasion.

Regarding income inequality, Chile is considered one of the most unequal countries in the region (in 1998 gini coefficient was 0.57, the third highest score in Latin America). Since redemocratization the number of people living below poverty line has decreased, but policies did not manage to close the gap is income inequality remains really high. Therefore, considering only income inequality levels of corruption in Chile should be higher than it actually is. Nonetheless, strong institutions and especially economic policy have made business environment more credible than in other Latin American countries, which might explain Chile's good performance in corruption perception indexes.

6. Conclusion and Recommendations

Government, mainly Presidents, seems to be one of the main drivers of change in Chile, due to the political environment and electoral legislation. Since redemocratization until 2009 Chile was governed by Concertación coalition (central-left), but by Presidents from different parties with different ideological views. Nonetheless, ethical behavior and transparency in the public sector were key issues embraced by all governments, that also received support from the opposition. Since 2010 the right wing coalition is in power, expectations are that corruption issues will be dealt in the same way. However, the government will have to deal with increasing pressure, especially

⁴ Available at: <http://www.doingbusiness.org/data/exploreconomies/chile/>

regarding sensitive issues, from the press, public opinion polls, and mainly from business organizations.

Institutions are important drivers of change in Chile as well. Chile success in control of corruption seems also to be related to the liberalization of the economy and of the financial system, the privatization of companies that offer public services, and the consolidation of markets. Nevertheless, the strengthening of the institutions in charge of regulating those activities were fundamental as means to reduce the risks of capture in the interest of the regulated industries, and to assure that the agencies defend the interest of consumers and secure more competitive markets. Besides the autonomous agencies, an important role is played by the Comptroller office, which is responsible for overseeing and auditing different branches of the local, regional, and federal government, as well as analyzing the work done by the Electoral Service (SERVEL). Corruption in politics, especially in order to raise funds for election campaigns, seems to be a problem in Chile; the electoral laws were already reformed twice, but there is still room for anonymous private donations, for example. In addition, SERVEL, the institution in charge of overseeing political finance is relatively weak and does not have the necessary instruments to verify candidates and parties reports in party and campaign financing.

In sum, Chile already has a sound anti-corruption legal framework; the missing legislations (revolving door, lobbying, election financing) were already proposed and are being discussed in the Parliament. Hence, corruption remains as exception rather than norm, Chile should focus on investigation and punishment, assuring political and financial autonomy to the anti-corruption bodies, namely the **Comptroller General Office, the Anti-Corruption Unit of the Public Prosecutor Office, the Electoral Services, and the Judicial system**, expanding their roles, hiring qualified staff, training Prosecutors, agents, and judges, and investing in technology as means to enhance transparency.

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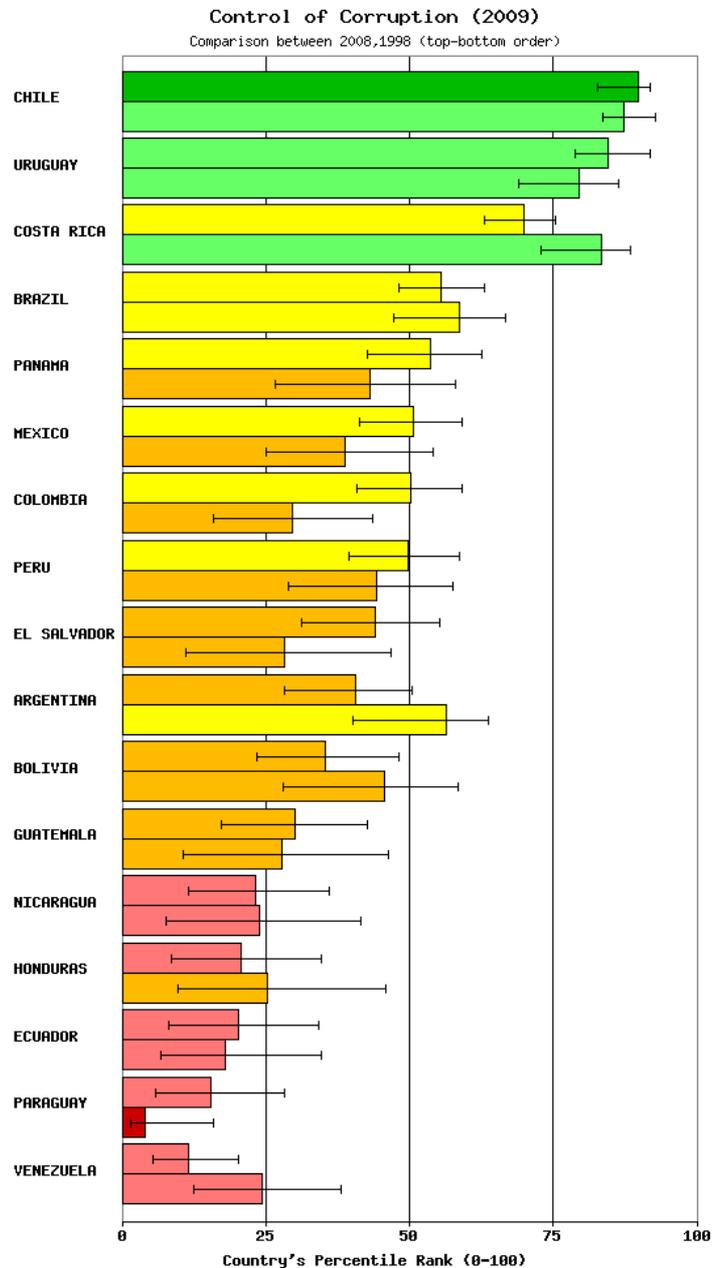
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8. Annexes

Annex 1: WGI Control of Corruption in Latin America



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Annex 2: “Competition by Denunciation”

Table 5. Dependent Variable: Corruption Scandals in Chile.

Period	Corruption Scandals	Total Weeks in LAWR	Made Front Page of National Newspapers	Level of Scandal
Aylwin 1990-1992	2 Scandals	5	1	Low
Aylwin 1992-1994	0 Scandals	0	0	Low
Frei 1994-1996	1 Scandal	8	1	Mid
Frei 1996-1998	1 Scandal	1	0	Low
Frei 1998-2000	0 Scandal	0	0	Low
Lagos 2000-2002	4 Scandals	20	4	High
Lagos 2002-2004	4 Scandals	21	4	High
Lagos 2004-2006	0 Scandals	0	0	Low
Bachelet 2006-2008	3 Scandals	22	3	High
TOTAL	15 Scandals	77	13	

Sources: LAWR, La Tercera, El Mercurio, Revista Qué Pasa?, La Segunda, La Época, La Nación.

Table 6. Independent Variable. Intra-Government Competition in Chile

Period	Intra-Government Competition		
	Legislative Seats & Municipal posts within Government	Cabinet Dynamics	Score
Aylwin 1990-1992 Party: DC	House of Representatives: 32.5% DC, 6.7% PPD, 4.17% PRSD, 13.3% PS. Senate: 23.9% DC, 4.34% PPD, 4.34% PRSD, 10.87% PS	0 Cabinet Changes. All coalition parties represented in cabinet. DC has over half the posts. No conflicts within government. Democratic stability is perceived to be most important goal.	Low
Aylwin 1992-1994 Party: DC	Alcaldes: 30.88% DC, 8.36% PS, 8.12% PPD, 6.87% PRSD Concejales: 28.93% DC, 8.53% PS, 9.21% PPD, 4.91% PRSD	1 Cabinet Change. All coalition parties were represented in cabinet, but DC had over half the posts (including interior and defense).	Low
Frei 1994-1996 Party: DC	House of Representatives: 30.8% DC, 12.5% PPD, 1.6% PRSD, 13.3% PS Senate: 25% DC, 6.8% PRSD, 11.36% PS, 2.27% PPD	2 Cabinet Changes. Cabinet starts with dominance by DC (half the posts), but changes add PPD (Lagos) and PS figures (Insulza).	Mid
Frei 1996-1998 Party: DC	Alcaldes: 27.23% DC, 11.13% PPD, 10% PS, 8.97% PRSD Concejales: 26.21% DC, 11.74% PPD, 11.15% PS, 6.54% PRSD	4 Cabinet Changes. Changes bring back some DC figures, giving it control of over half the posts. Lagos and Insulza remain in cabinet.	Low to Mid
Frei 1998-2000 Party: DC	House of Representatives: 31.7% DC, 13.3% PPD, 3.3% PRSD, 9.17% PS Senate: 29.17% DC, 4.17% PRSD, 8.33% PS, 2.08% PPD	2 Cabinet Changes. After two DC governments, rotation is agreed, and Lagos set as candidate early on. He leaves cabinet in 1998 to campaign.	Low
Lagos 2000-2002 Party: PPD/PS	Alcaldes: 23.96% DC, 11.44% PPD, 11.25% PS, 5.51% PRSD Concejales: 21.62% DC, 11.41% PPD, 11.28% PS, 5.42% PPD	1 Cabinet Change. Balance of forces in cabinet is even among parties. Some new faces, this upsets balance and dominance of DC. Conflicts begin to emerge.	High

Lagos 2002-2004 Party: PPD	House of Representatives: 15.32% CD, 16.12% PPD, 4.84% PRSD, 8.88% PS Senate: 25% DC, 4.17% PPD, 4.16% PRSD, 10.41% PS	4 Cabinet Changes. Conflicts become more evident, particularly between PPD and DC.	High
Lagos 2004-2006 Party: PPD	Alcaldes: 21.9% DC, 11.8% PS, 6.41% PPD, 3.06% PRSD Concejales: 20.3% DC, 10.9% PS, 9.97% PPD, 4.6% PRSD	4 Cabinet Changes. Coalition closes rank and conflicts disperse. Main worry is to maintain control of government after 2006. Instead of negotiating a successor, decision is left to polls.	Mid
Bachelet 2006-2008 Party: PS	House of Representatives: 13.11% CD, 15.6% PPD, 5.74% PRSD, 13.2% PS Senate: 10.52% DC, 7.89% PPD, 7.89% PRSD, 18.42% PS	5 Cabinet Changes. Bachelet begins term by getting rid of old guard and assigning new people to cabinet posts (ensures half female ministers). Parties establishments resist and conflict emerges.	High

Sources: Political Database of The Americas (Georgetown University and OAS), Servicio Electoral República de Chile, Ministerio de Interior, Gobierno de Chile, Biblioteca del Congreso Nacional de Chile, Amorim Neto (2006), Keesing's record of world events: www.keesings.com, Engel & Navia (2006), 60 interviews conducted by author.

Annex 3: Model and Variables

Table 1: Determinants of Control of Corruption										
Independent variables	OLS (1)	OLS (2)	OLS (3)	IV 2SLS (4)	OLS (5)	OLS (6)	OLS (7)	OLS (8)	OLS (9)	OLS (10)
GDP per capita, PPP log	36.24*** (5.78)	37.06*** (5.27)	26.76*** (4.98)	42.40*** (12.76)						
Life expectancy					3.43** (1.35)	3.41** (1.41)	1.61 (1.10)			
HDI								2.10** (.85)	2.07** (.89)	1.23* (.57)
Political rights (Freedom House)	-10.97*** (2.65)	-11.30*** (2.41)	-9.02*** (1.86)	-8.85*** (1.91)	-15.93*** (4.24)	-16.22*** (4.45)	-9.88** (3.57)	-11.64** (4.92)	-11.94** (5.21)	-6.91* (3.37)
Federalism	-29.52*** (6.60)	-35.76*** (6.95)	-26.49*** (5.76)	-37.61*** (10.20)	-17.33 (10.54)	-20.58 (12.70)	-11.46 (9.08)	-24.14* (11.60)	-26.39* (13.60)	-15.51 (8.62)
Gini coefficient	2.23*** (.58)	2.10*** (.53)	1.31** (.46)	2.00*** (.67)	2.27* (1.03)	2.19* (1.08)	.72 (.86)	2.04* (1.02)	1.97* (1.08)	.66 (.72)
Ethnolinguistic fractionalization	-41.10** (15.18)	-41.58** (13.78)	-27.26** (10.81)	-32.86*** (11.85)	-35.39 (27.33)	-36.02 (28.43)	-14.37 (20.45)	-52.52* (26.21)	-52.94* (27.45)	-21.10 (18.29)
Trade openness	-.41*** (.12)	-.39*** (.11)	-.32*** (.08)	-.36*** (.09)	-.58** (.22)	-.57** (.23)	-.36* (.17)	-.43* (.21)	-.43* (.22)	-.29* (.14)
Size of government		-3.71 (2.09)	-4.67** (1.52)	-4.34*** (1.58)		-2.10 (4.14)	-4.59 (2.92)		-1.55 (4.22)	-4.27 (2.63)
Legal structure and property rights			7.64** (2.44)	2.59 (4.53)			13.45*** (4.00)			13.73*** (3.35)
Df	10	9	8		10	9	8	10	9	8
N	17	17	17	17	17	17	17	17	17	17
Adjusted-R ²	0.8770	0.8986	0.9488	0.9429 (R ²)	0.6302	0.6005	0.8139	0.6243	0.5887	0.8504

Variable	Scale	Source	Relationship
GDP per capita, PPP	(logged)	Interamerican Development Bank	Negative
Political Rights	1-7; 1=wide range of political rights, 7=few or no political rights	Freedom House, 2006	Negative
Federalism	1=federal state	Biddle, 2007	Positive
Gini coefficient	0-100	World Bank	Negative
Ethnolinguistic fractionalization	0-1	Easterly and Levine, 1997	Positive
Trade openness	Imports and exports as % of GDP	Interamerican Development Bank	Positive
Size of government	0-10; 0=large government, 10=small government	Interamerican Development Bank	Negative
Legal structure and property rights	0-10, 0=weak legal guarantees, 10=strong legal guarantees	Economic Freedom of the World indicators, 2006	Negative

Annex 4: Hypotheses

H1: Corruption is lower in countries with higher GDP per capita.

H2: Corruption is lower in countries with stronger political rights.

H3: Corruption is higher in federal states.

H4: Corruption is higher in countries with higher income inequality.

H5: Corruption is higher in countries with higher ethno linguistic fractionalization.

H6: Corruption is lower in countries more open to foreign trade.

H7: Corruption is higher in countries with larger governments.

H8: Corruption is lower in countries with stronger legal guarantees.

Annex 5: Political Rights and Civil Liberties

Freedom House - Political Rights



Freedom House- Civil Liberties



Annex 6: Trade Openness

