

## CORRUPTION, LEADERSHIP AND DEVELOPMENT IN LATIN AMERICA

**Ted Goertzel**  
Rutgers University, Camden

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### RESUMEN

La corrupción latinoamericana está arraigada en la tradición histórica, pero también en problemas psicológicos, económicos y políticos que existen en cualquier parte del mundo. A veces conduce a períodos de crecimiento económico rápido, pero porque el estado no ha mantenido las condiciones el crecimiento sostenido. También contribuye a largo plazo al estancamiento económico que entonces se racionaliza con las víctimas propiciatorias ideológicas. Las ideologías socialistas y nacionalistas que predominaron entre la izquierda y los intelectuales latinoamericanos han perdido su fuerza, pero a muchos políticos les resulta difícil reconocerlo públicamente. Esto ha llevado a la aparición de un nuevo tipo de líder, el camaleón que sólo revela sus verdaderos colores después de una elección. A largo plazo, la competición internacional en la economía global recompensará a las naciones que desarrollen economías modernas transparente

### ABSTRACT

Latin American corruption is rooted in historical tradition, but also in psychological, economic and political problems that are found all over the world. Corruption sometimes leads to short periods of rapid economic growth, but only because the state has failed to provide the conditions for sustained growth. Corruption contributes to long term economic sluggishness, which is then rationalized with ideological scapegoats. The socialist and nationalist ideologies which predominated among Latin American leftists and intellectuals have lost their force, but many politicians find this difficult to acknowledge this publicly. This has led to the emergence of a new type of leader, the chameleon, who reveals his true colors only after an election. In the long term, international competition in the global economy will reward those nations that develop modern transparent economies.

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**Key words:** corruption, leadership, ideologies, Latin America

Karl Marx wrote that "men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all dead generations weighs like a nightmare on the brains of the living". Of the nightmares that weigh on the brains of Latin Americans today, the most troubling may be that their leaders are plundering and stealing their nations' wealth. This nightmare is deeply rooted in the traditions of past generations. In the 16<sup>th</sup> century, Latin Ame-

rica was conquered by Spaniards and Portuguese whose dream was to get rich by stealing any wealth they could find. They were, at least, honest about what they were doing.

Today's leaders do not admit to personal greed, but some have accumulated tremendous wealth while earning a modest salary, wealth that would do the *conquistadores* of past centuries proud. Corruption is inherently difficult to measure or prove, but Transparency International's Corruption Perception Index consolidates information about corruption in various countries, based on reports from people who do business there. Countries are rated on a scale from 10 (very clean) to 0 (highly corrupt). Haiti, with a score of only 1.5, wins the prize for most corrupt nation in the world. Paraguay, at 1.9, is not much better. Argentina, the wealthiest Latin American country, ranks only 2.5, but its neighbor Chile, at 7.4, ranks almost equal to the United States.

The 2004 rankings for selected countries are as follows (Graff, 2004):

Finland	9.7	Mexico	3.7
Singapore	9.3	Peru	3.5
United Kingdom	8.6	China	3.4
Canada	8.5	Dominican Republic	2.9
USA	7.5	Russia	2.8
Chile	7.4	India	2.8
Spain	7.1	Nicaragua	2.7
Portugal	6.3	Argentina	2.5
Uruguay	6.2	Ecuador	2.5
Costa Rica	4.9	Honduras	2.3
South Korea	4.5	Venezuela	2.3
El Salvador	4.2	Bolivia	2.2
Brazil	3.9	Guatemala	2.2
Colombia	3.8	Paraguay	1.9
Cuba	3.7	Haiti	1.5
Panama	3.7		

In addition to these statistics, there is ample evidence of corruption in historical and journalistic reports. Enrique Krauze reports that the Mexican presidency, during the decades of dominance by a purportedly revolutionary party, was generally known as a *six-year license to become rich at public expense* and that "like their distant predecessors, the Presidents of Mexico could treat public assets as private property. They could distribute money, privileges, favors, positions, recommendations, sinecures, lands, concessions, contracts" (Krauze, 1997, 156, 555-556). Octavio Paz believes

that the Mexican political system is based on the *Aztec archetype of political power* in which the leaders are seen as owning the nation (Paz, 1970).

In Brazil, Fernando Collor de Mello was elected as an anti-corruption crusader, yet he allowed his campaign treasurer and close associate P. C. Farias to "set up an elaborate scheme, including computer spreadsheets, for extorting kickbacks from firms having financial dealings with the federal government" (Skidmore, 1999). Collor set up mechanisms to prevent corruption, such as prohibiting payment with checks written *to the bearer*, then he got caught when he accepted payoffs through traceable checks. He apparently believed that he could "simultaneously denounce corruption, engage in extremely high levels of it, and then, when caught red-handed, expect the Brazilian populace to rise to his defence" (Downes-Rosenn, op. cit, p. 144). They did not, although he might have gotten away with it if his own brother had not exposed him as retribution in a family dispute. Collor was impeached and removed from office, although later acquitted of criminal charges.

A similar fate was suffered by Venezuelan President Carlos Andrés Pérez, who had become highly unpopular because his market-oriented reforms led to sharp increases in prices for food, gasoline and public transportation. He could not be legally removed from office for unpopularity, however, so his opponents focused on his alleged corruption. There was evidence of corruption and questionable practices in his administration, although apparently no more than was customary in Venezuelan politics (Pérez, 1995). Pérez was removed from office through legal and constitutional maneuvers, but never convicted of a crime. Both he and Collor de Mello continue to protest their innocence.

Former Mexican president Carlos Salinas de Gortari has not been shown to have been personally corrupt, but his brother Raúl, a \$190,000 a year civil servant, was caught with \$84 million on deposit under a false name in a Swiss bank (Morais, 2001). The Swiss government determined that the money was payoffs from drug cartels. Raúl is serving a jail term in Mexico for the murder of his former brother-in-law. Salinas de Gortari's current unpopularity is more the result of the economic crisis brought about by his market-oriented economic policies than the accusations of corruption in his family. The same is true of Peru's former president Alberto Fujimori whose intelligence chief Vladimiro Lenin Montesinos was shown on television bribing a politician. He was shown to be enmeshed in a variety of illegal enterprises including graft and drug trafficking, but the Peruvian public seemed tolerant of his misbehavior as long as the economy and the war against the *Sendero Luminoso* was going well.

Chilean dictator Augusto Pinochet was a repressive ruler whose government tortured and killed its opponents, but he was generally thought to be personally honest. It is now known that he managed to acquire a number of expensive properties in Chile over the years, and in 2004 a U.S. Senate investigation found that he had \$8 million squirreled away in the Riggs Bank in Washington, D.C. He claimed the money was contributions towards his legal expenses, but the dates did not match up and it seems more likely he was receiving kickbacks on arms sales (The Economist, 2004).

Latin American corruption cuts across ideology. There was an orgy of property grabbing by Sandinista revolutionaries in Nicaragua after their loss of power in democratic elections in 1990 (Miranda-Ratliff, 1993). Before the Sandinista revolution, the Somoza family ran Nicaragua as a personal fiefdom, dominating businesses with governmental favoritism and building luxury homes in the midst of squalor. When the Sandinistas took power in 1979, they took over these homes and other resources which they needed to run the country. Running the country turned out to be more difficult than they had expected, in part because of United States support for the counter-revolutionary forces, and in part because they favored statist economic policies that have not worked well anywhere.

In 1990, the Sandinistas lost a democratic election to the National Opposition Union led by Violeta Chamorro. At that point, the Sandinistas converted many of the homes and farms into their own names. Nicaraguans call this the *piñata sandinista* for its resemblance to a party game where an ornamental pot is broken open and children scramble to gather up the goodies hidden inside (Loáisiga, 2005).

According to some reports, the Sandinistas also looted the government itself of desks, chairs, typewriters, computers, television cameras, trucks, Mercedes sedans and the like. In taking over state and private property, the Sandinistas modeled themselves on the Fidelistas who took over the luxurious life style of pre-revolutionary Cuban capitalists. In both Cuba and Nicaragua, gold Rolex wrist watches were used as rewards and status symbols for officers who carried out the confiscations. One Mexican journalist estimated the state property that was stolen in Nicaragua at \$700 million, and the private property as twice as much (Ibarz, 1991, p.61).

Although these things are difficult to verify, there are reports that some of the commanders set up foreign bank accounts and collected "commissions" on government contracts or dollar payments from non-governmental agencies. They justified this as a normal way of doing business. Humberto Ortega's accounts were managed by one Mario "Concho" Castillo who explained to him, "Look, chief, business is business and you won't be doing

anything illegal. It is perfectly normal to collect commissions for being an intermediary between buyer and seller” (Ibarz, 1991, p. 63)

In Brazil the revelations of widespread corruption by the Workers Party government, in 2005, were shocking because the party had one of the best reputations in Latin America for high ethical standards and democratic procedures. The first hint of scandal came early in 2005 when a video tape emerged showing a Party official, Waldomiro Diniz, taking bribe money from a gambling kingpin (Alteri, 2004). A few months later Brazil’s leading news magazine released a video<sup>1</sup> showing a top official in the postal service pocketing a payoff from a supplier.

President Lula da Silva's chief of staff and top political operative, José Dirceu, resigned amid testimony that the Workers Party was paying \$12,000 monthly stipends to buy the votes of Congressmen from other parties (Alteri, 2005; Rohter, 2005a). Within a few weeks, the President, Treasurer and Secretary-General of the party resigned in response to reports of large monthly vote-buying payments to legislators in other parties. This became known as the Super Check (*mensalão*) scandal. There was also one case of money being smuggled onto an airplane in a family member’s underwear. This became known as the Super Shorts (*cuecão*) or Captain Underpants scandal.

One explanation of the bribery scandal is that power corrupts, and the Workers Party wanted, and believed it deserved, to stay in power. After decades in opposition, financing the Party with 10% tithes on their modest incomes, over 16,000 Workers Party activists now have patronage jobs and are enjoying a decent standard of living. Building a successful political machine that gets things done is the way to protect these jobs. Brazilian culture has often tolerated corruption from politicians who get things done.

But it would be wrong to give the impression that all Latin American leaders are corrupt. When Adolfo Ruiz Cortines assumed the Mexican presidency in 1952, he used his inaugural address to denounce the corruption that had been the hallmark of the Miguel Alemán presidency (Kruze, 1952, 601). He published a list of all his assets and insisted that all 250,000 public employees do the same, and he refused the gifts presidents normally received, such as free cars from automobile dealers.

The two Brazilian presidents after Collor de Mello - Itamar Franco and Fernando Henrique Cardoso - were free of credible reports of corruption. Chile and Costa Rica are generally known for honest politics and a minimum of corruption. Argentina was known for corruption under the presidency of Carlos Menem, but his economy minister, Domingo Cavallo, resigned and wrote a best-selling book exposing it (Cavallo, 1997). As a re-

sult, he himself was arrested for corruption, but he fought the accusations in the courts and was exonerated.

Latin American corruption is not just an historical tradition. It is sometimes tolerated as a necessary evil because economic development under a corrupt leader may be better than no development at all. Countries with corrupt governments do sometimes achieve high levels of economic growth. Enrique Krauze quotes a young Mexican businessman who said "the Alemán people took over Mexico, but they made it grow" (Kruze, 1952, p. 544). In the 1950s, São Paulo Mayor Adhemar de Barros was known by the slogan *roba mas faz*, or "he steals but he gets things done" (Page, 1995, p 151). Argentina was booming while Carlos Meném was president in the early 1990s, despite reports of blatant corruption in the privatization process.

Although corruption is a long-term drag on a market economy, it can lead to short-term growth spurts after a period of stagnation caused by poor governance. In a well run market economy the government functions as what Karl Marx called the executive committee of the capitalist class, or what Joseph Schumpeter called providing good conditions for entrepreneurs. This means that the government provides needed services such as a stable currency, reasonable interest rates, a judicial system that fairly resolves disputes and efficient regulatory agencies. If a government does not do these things well, businesses can only succeed by seeking special favors from those in power to obtain the resources and services they need. This is known as "crony capitalism" and the economic growth it provides can be better than nothing (Haber, ed.).

Crony capitalism leads to problems in the long run because it depends on subsidized borrowing, protectionism and other measures that lead to high inflation, low productivity and excessive government debt. But it can provide impressive short or medium-term results in an economy which is emerging from a period of stagnation. Today, China and India are growing rapidly, despite high levels of corruption, as they emerge from periods of stagnation under statist governments. Many Brazilians, even on the left, are nostalgic for the period of the "Brazilian miracle" when growth skyrocketed after corrupt military governments broke a political deadlock.

When corruption is a regular part of a system, politicians who are prosecuted for it often claim that they are being attacked by their political enemies. And indeed they usually are, but this does not mean that they are not also guilty. Fernando Collor de Mello's web site argues that he "was accused of corruption by his political opponents and by those who felt threatened by the modernization of the Brazilian economy. These forces

organized and proposed his impeachment forcing him to resign". Since he was never convicted by the courts, the web site insists that he is the "the only politician in Brazil to have an officially clear record validated by an investigation by all interests and sectors of the opposition government". (<http://www.collor.com/didyouknow.asp>.) He tried to revive his political career, running unsuccessfully for mayor of São Paulo in 2000 and for governor of his home state of Alagoas in 2002.

In 2005, Mexico City mayor Andrés Manuel López Obrador was stripped of his legal immunity from prosecution over a minor incident. He had continued to build an access road to a hospital when a judge had ordered construction to halt. If he had been prosecuted for this minor offense, he would have been unable to run for president of Mexico in 2006. His supporters believed that he was being prosecuted simply to keep him off the ballot, and pointed out that many Mexican politicians have stolen hundreds of millions of dollars and not been prosecuted. His likely opponent in that election, Jorge Castañeda, insisted that "no one can be above the law," but few found this argument persuasive. In defending himself before the Mexican Congress, López Obrador objected, "you know Mexico is a country of impunities. You know that in Mexico; that there are no white-collar criminals in jail; that the only people who go to prison are those who do not have the money to buy their freedom. Why would anyone assume that this is a country of laws, and that we live by rule of law?" (McKinley, 2005). Eventually, the government dropped the prosecution in response to popular protests.

### **Rationalizations for Sluggish Growth**

There have been periods of rapid economic growth in Latin American countries with high levels of corruption, but these are followed by downturns or periods of sluggish growth. In the long run, over the last half century or so, economic growth in Latin America has not kept up with North America, Western Europe, Japan or South Korea. In the last two decades, it has not kept up with China or India. This is frustrating for many Latin Americans. Venezuelan writer Carlos Rangel argued that:

the history of Latin America, to the present day, is a story of failure. I am not saying this to be shocking. It is the simple truth, and we Latin Americans are quite aware of it. It is a truth that we seldom mention, but it crops up whenever we take an honest look at ourselves. We perceive our history as one of frustration (Rangel, 1987, p. 6).

It is easier to live with failure if someone else can be blamed for it. In the 1960s and 1970s many intellectuals and activists blamed Latin Amer-

ica's sluggish growth on exploitation by North American and European imperialists. Today, some still blame it on globalization, international financial organizations and multinational corporations. This belief has been defended with complex arguments about unequal trade relationships, excessive interest rates, volatile capital movements and rich country protectionism. These are all real problems, but they are best treated as challenges to be overcome rather than as rationalizations for failure. This is what Taiwan, South Korea, Singapore and Hong Kong did while the Latin Americans were complaining, with much better results.

These "Asian Tigers" succeeded by taking advantage of world markets instead of walling themselves off from them. At first it was argued that there was room for only a few small countries to prosper in this way, but in the last decade India and China have jumped on the bandwagon. At the same time, countries that put up barriers to entrepreneurialism and world trade, especially in Africa, have done poorly. The country that cut itself off most completely from global capitalism and stuck most rigidly to Marxism, North Korea, is a disaster area, depending on charity from capitalist countries to feed its people.

Latin America is one of the places where bad ideas go to die, but Latin Americans are getting ready to bury them. When the Argentine economy collapsed in 2002, instead of scapegoating the United States or the Europeans, many Argentine writers placed the blame squarely on their own leaders, society and culture. Shoe manufacturer Eduardo Bakchellian wrote a best selling book called *The Error of Being an Argentine* in which he attributed the country's incorrigible decadence to structural deficiencies, corruption, stupidity, perversion and economic fundamentalism (Bakchellian, 2000). His factories had been destroyed when free-market reforms flooded the country's markets with imports from Asia.

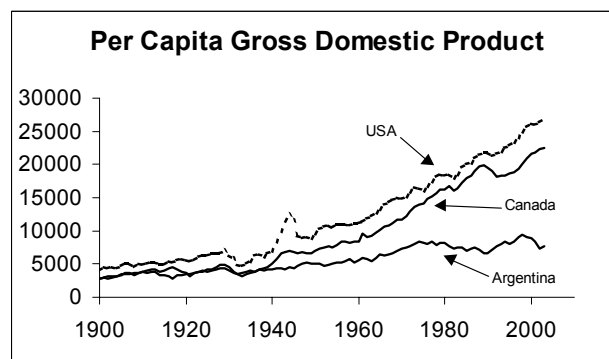
A best-selling book by Marcos Aguinas was titled *The Atrocious Enchantment of Being Argentines*. Aguinas insisted that "the impediments to our progress are derived, in the first place, from ourselves. We are infected with a fever of profound origin, which makes us resistant to civic discipline and social altruism" (Aguinas, 2001, p. 31). In *Reality: Waking up from the Argentine Dream*, sociologist and journalist Mariano Grondona accused his compatriots of being out of touch with reality, believing that they could live off the riches of the countryside without having to compete in the modern world (Grondona, 2002).

Argentina is awakening from this nightmare under the more pragmatic leadership of Néstor Kirchner, but the reality remains that the country's long-term economic growth has been disappointing. In 1929, Argentina's



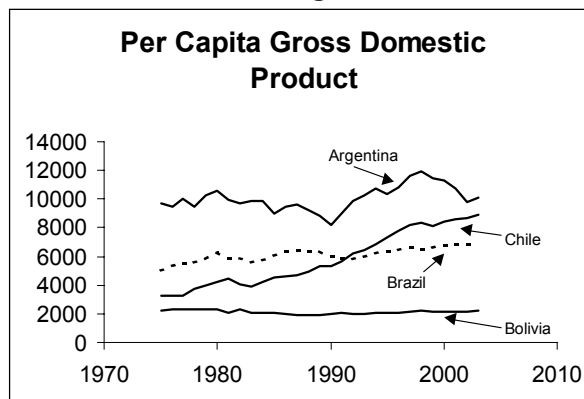
per capita income was close to that of Canada. By 1990, it was only one third that of Canada and three-fourths that of South Korea. The long-term economic trends in Chart A show that Argentina has consistently lagged behind the United States and Canada since the 1940s.

**Chart A(27) <sup>2</sup>: Economic Growth in the USA, Canada and Argentina**



Fortunately, not all Latin American countries have done as poorly as Argentina over this period. If we compare Argentina with Chile, Bolivia and Brazil, three of its neighbors, we see remarkable differences. The data in Chart B are from the World Bank and only go back to 1975. During that period Bolivia has remained mired in misery, Chile has been an outstanding success, Brazil has made slow progress while Argentina, Latin America's most developed country, has been an economic roller-coaster. These differences show that leadership and policy choices can make a major difference. Chile's success, for a long period of years, shows that Latin American countries need not lag behind forever.

**Chart B<sup>3</sup>: Economic Growth in Argentina, Bolivia, Brazil and Chile**



Chile's economic success is disturbing to many people because it follows a brutal military dictatorship that lasted from 1973 to 1989 and because it has resulted from strongly pro-market economic policies (for a vigorous review of the flaws in the Chilean model see the journal *Latin American Perspectives*, Volume 30, No 5, September 2003.). But no one denies that the economic growth is real and that it has been accompanied by a reduction in poverty and an improvement in general health and welfare. Nor is Chile the only country that has made significant progress. Costa Rica has done well, and it has done so with a solid democratic record and without any army at all (Goertzel, 1984).

**Chart C<sup>4</sup>: Economic Growth in Costa Rica, Cuba and Nicaragua**

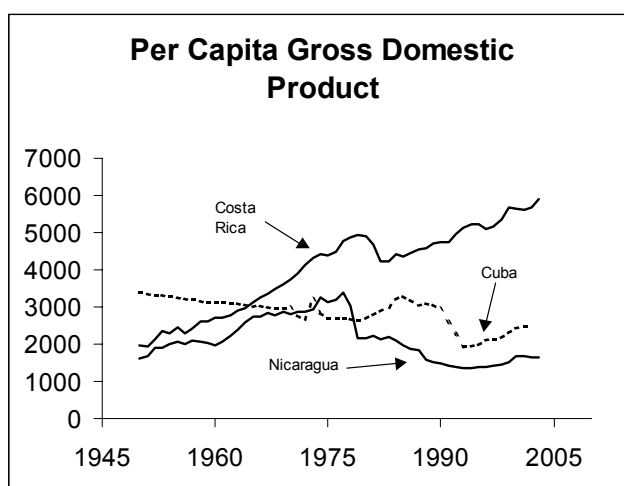


Chart C compares Costa Rica's economic development for the period from 1950 to 2003 to two other countries of interest, Nicaragua and Cuba. Costa Rica's growth is quite remarkable when compared to Nicaragua's and Cuba's, but it is very similar to that of its other neighbor, Panama, which is not shown on the graph because its trends match Costa Rica's too closely. The Nicaraguan economy plummeted after the Sandinista revolution in 1979 and never really recovered. Cuba's precipitous decline came, not after the 1959 revolution, but when the Soviet subsidy ended in the late 1980s. It is starting to recover, thanks largely to investments from European tourism companies.

### **An Emerging Ideological Consensus.**

Sociologists think of ideologies as reflections of class and group interests, and this is one of the roles that they play. But for the group that Karl Mannheim called the *unattached intelligentsia*, the main function of ideologies is to provide a sense of purpose and meaning in life (Mannheim, 1991). Sociologists, like many other intellectuals, use ideologies to dramatize their mundane lives by projecting their psychological issues onto society (Goertzel, 1993). As Kenneth Boulding observed, "an image of the world becomes an ideology if it creates in the mind of the person holding it a role for himself which he values highly... To create a role, however, an ideology must create a drama. The first essential characteristic of an ideology is then an interpretation of history sufficiently dramatic and convincing so that the individual feels that he can identify with it and which in turn can give the individual a role in the drama it portrays" (Boulding, 1964, p 159).

To create this sense of drama, ideologies split the world into good and evil (Goertzel, 1992, for a general discussion of ideological thinking). They warn of disaster if the forces of evil go unchecked and promise utopia if the forces of good triumph. Psychologically, ideologies allow believers to externalize any doubts about their own motivations and accomplishments (Volkan, 1997; Robins-Post, 1997). Their problems are due to the pernicious deeds of the enemy, and the solution is to overthrow the enemy. Of course, the fact that an ideology plays psychological functions does not mean that it is untrue. Even paranoids have enemies. But people caught up in ideological thinking often use enemies as rationalizations for their own failures.

Latin America has had many strong ideological movements that have brought about significant social changes including national independence, agrarian reform, abolition of slavery, national industrial development and even, in a few cases, socialist revolution. Socialism was the dominant ideology on the left for much of the twentieth century, but the collapse of the Soviet Union, the electoral defeat of the Sandinistas in Nicaragua, and the continuing crises of the Cuban economy have sapped enthusiasm. Latin American leftists still have an enemy -global capitalism- but they lack a convincing utopia. They insist that *another world is possible* but they are unable to articulate how that world would be organized. Efforts to develop a new utopian vision have not yet been very convincing (Garretón, 2003).

This is not just a criticism made by opponents. Many on the left recognize the problem and discuss it openly at gatherings of the World Social Forum and other groups. Duncan Green, a sympathetic observer writing for a leftist publisher, described one of these meetings as follows:

participants at the World Social Forum focused on the big picture (rights, justice, democracy) and on process (participation, citizenship, alliances, institutions, international conventions). They celebrated the vibrancy of grassroots organizations and drew inspiration from one another's stories of struggle and resistance. On economic issues, the focus of discussion was on denouncing present injustices and deciding how wealth should be distributed: there was little on ways of generating wealth in the first place - there was clearly some way to go in putting together a convincing and comprehensive alternative economic model (Green, 2003, p. 217).

The lack of a credible alternative economic model became an urgent political problem when the Workers Party elected in Luiz Inácio Lula da Silva President of Brazil in 2002. The new government had to put its rhetoric into practice. Back in the 1970s, many of the leaders of Brazil's Workers Party were members of Leninist and Trotskyist organizations conducting a courageous armed struggle against the military dictatorship. But the armed left was suppressed, the Soviet Union dissolved, and democracy came to Brazil, as elsewhere in Latin America, through nonviolent political compromises (Castañeda, 1994). Some Workers Party activists were on a study tour to East Berlin when the masses stormed Communist Party headquarters, an event which profoundly challenged their beliefs. When this experience was followed by the collapse of the Soviet Union and the adoption of market economics in China, India and even Cuba, they concluded that the future organization of society would be "capitalism in its globalized form, or neoliberalism" (Almeida, 2003).

For years, the Workers Party's stock in trade had been attacking *neoliberalism*. Lula won the 2002 presidential election by making cheerful promises to implement a "new model" while carefully avoiding specifics that might upset any group of voters. His goals were exemplary: economic growth, an end to hunger, lessening inequality, and so on. But he never said exactly how he would accomplish them.

In the same campaign, Lula made a very explicit promise to keep up the payments on the country's debts, a promise that left precious little room for changes in government finances. The prospect of Lula's election had frightened the investors, both Brazilians and foreigners, who lend the government the money it needs to pay its bills. So the outgoing government of Fernando Henrique Cardoso got Lula da Silva and the other candidates in the 2002 Presidential election to sign a commitment approved by the International Monetary Fund. Reassured by this agreement, the Fund supplied a \$30 billion cushion to prevent panic. Thanks to this agreement, Brazil avoided the kind of crash Argentina had just gone through.

Because of this agreement, and his firm campaign promise to the Brazilian people, Lula was committed to continuing most of Fernando Henrique Cardoso's financial policies when he took office. Many supporters hoped that this would only be temporary, until things settled down, and he could begin to implement the promised *new model*.

But the new model was defined only by vague slogans such as "giving priority to social goals over economic ones" that have no explicit policy content. Voters were free to read whatever they wanted into them. This worked brilliantly for the election, but when they began to make actual policy decisions it became clear that Lula's planning and economic ministers intended to stick with Cardoso's model indefinitely. This meant giving priority to controlling inflation, opening the economy to world markets, cutting debt and interest rates, and using the private sector as the engine of economic growth (Vieira, 2005). In short, all the things they had denounced for years as *neoliberal*.

The most important Workers Party leader carrying out this assumption is Finance Minister Antônio Palocci, a Trotskyist turncoat who played a central role in the transformation of the party to reformist politics. His role within the administration was strengthened by José Dirceu's fall from power in the 2005 corruption scandal, although there is a risk of his succumbing to the same fate. The success of his economic policies was the only real accomplishment the Workers Party could point to as it prepared for the 2006 elections. These policies were little changed from those of the previous administration that the party had long denounced as *neoliberal*.

It can be difficult to give up political comfort of scapegoating *neoliberals* or *elitists* even when this has nothing to do with one's actual economic policies. It is hard to generate enthusiasm for capitalism in Latin America because it is so closely associated with the United States. Rather than explicitly argue for capitalism or socialism, many people use ideological code words. Supporters of free market economics usually call themselves liberals or social democrats. Like modern supporters of capitalism everywhere, they emphasize their support for social programs, especially health care and education, to help everyone benefit. Opponents of capitalism, on the other hand, usually denounce *neoliberalism* instead of attacking capitalism *per se*. Oddly enough, the word *liberal* without the prefix is seldom denounced because of its association with traditionally respectable groups. Brazil's Workers Party allied itself with a Liberal Party as well as several Communist Parties in the 2002 election.

As a technical economic term, neoliberalism refers to a set of policies including limiting state spending so as to maintain a stable currency, priva-

tizing state-owned industries, cutting barriers to international trade, and freeing capital markets. These policies do not necessarily go together, nor do they have to be imposed in a rigid or arbitrary way. But they have been at certain times, most notably in Chile in the late 1970s, which is when they became stigmatized.

But when people denounce *neoliberalism* in ideological arguments, they seldom refer to specific policies. In its ideological usage, *neoliberals* is a code word for "selfish elitists who put profits ahead of people". It is a scapegoating term, a politically correct alternative to anti-Semitism. People who are most vehemently opposed to *neoliberalism* are usually not interested in discussing specific economic policies and often do not even have any clear ideas about them. This is the clue that the term is being used as a psychological tool instead of as a tool for serious economic analysis.

The actual economic evidence about neoliberal economic policies is quite mixed<sup>5</sup> It is clear that imposing neoliberal policies in a rigid and arbitrary way can cause serious problems, but that is true of any economic policy, and no responsible leaders advocate that. Most economists agree that a careful, judicious opening of markets, combined with social programs to improve health, education and deal with other social problems, is a good thing. People who bitterly attack *neoliberalism* are attacking a straw man if by that they mean *a wholesale retreat of the state and reliance on markets*. This is something which everyone including the World Bank's Michael Walton believes is "clearly undesirable, and hopelessly incomplete as a development strategy". But Walton goes on to say "if the concern is rather over the value of macroeconomic prudence and a set of market oriented policies, then these are an essential part of the development process in Latin America, on grounds of growth, stability, and inequality" (Walton, 2004, p. 181).

Left-of-center Latin American leaders such as Brazil's Lula da Silva, Chile's Ricardo Lagos, Uruguay's Tabaré Vázquez and even Venezuela's Hugo Chávez agree with Walton and the World Bank if we judge by what they do instead of by what they say. Leftists who have won power in Latin America in the 21<sup>st</sup> century have not done so by promising to replace free markets with nationalization of industry or high protective tariffs. They have advocated "decentralization and the creation of a free, competitive economy and strong legal institutions open to all", and an end to "crony capitalism and authoritarianism" (Vargas Llosa, 2005). They have also promised social programs to redistribute wealth and improve services to the poor and working classes, promises that they can keep only if free-market policies generate the economic growth needed to pay for them. They are

emotionally anti-establishment, but they have no real disagreement with the consensus thinking or *pensamento único* that dominates serious economic discussion today (Viera, 2005).

### **Chameleons, Hedgehogs, and Foxes**

This conflict between emotional needs and rational beliefs has led to the emergence of a new kind of leader in Latin America. Javier Santiso calls these leaders *chameleons* (Santiso, 2002). A chameleon runs for office as an anti-establishment, anti-neoliberal populist, then as soon as he is elected he reveals his true color and becomes an enthusiast for privatization and open markets. Chameleons are reminiscent of North American Communists in the 1950s who suddenly converted to militant anti-Communism. Their new views were a mirror image of their old ones. They continued to polarize the world into good and evil and they continued to promise to bring about a dramatic, revolutionary transformation of society. They simply switched from one extreme to the other. Leading *chameleons* include Carlos Menem in Argentina, Alberto Fujimori in Peru, Hugo Banzer in Bolivia, Jamil Mahuad in Ecuador and Carlos Andrés Pérez in Venezuela. Unlike their zoological namesakes, however, these chameleons are unable to change their colors back when the political climate changes.

Brazil's Fernando Henrique Cardoso, who had a long career as a Marxist sociologist before becoming a politician, is sometimes accused of being chameleon because he implemented market-oriented economic policies as President of Brazil. He is often quoted as having said, *forget everything I ever wrote* when he became President. It is ironic that this is by far his most famous quotation because it is a myth. Cardoso has repeatedly denied ever having said such a thing, and there is no original source for the quotation. He has continued to edit and republish his older publications after leaving office, and is eager to have people read them. Cardoso's views did not change overnight, but evolved quite openly over a period of years (See Goertzel, 1999; 2002). In his election campaigns, he was straightforward about what he intended to do.

To continue with zoological metaphors, Cardoso is not a *chameleon* but a *fox*. The fox is an animal that keeps its eye on the goal, changing its strategies and tactics quickly when circumstances warrant. In a classic essay, Isaiah Berlin contrasts the *fox* with the *hedgehog*, an animal that, at least in Greek mythology, subordinates everything to one consuming idea (Berlin, 1953). In more conventional terms, hedgehogs are true-believers, foxes are pragmatists, while chameleons are turncoats (Goertzel, 1992). Latin Americans often admire hedgehogs like Don Quijote who fight to the

end, all the more so when the cause is hopelessly mistaken. A passionate struggle is its own reward, even if it is tilting at windmills. In his psychologically revealing attack on Fernando Henrique Cardoso, Brazilian author Gilberto Vasconcellos denounces him as an *anti-hero* who is not angry enough about the world's injustices. He accuses Cardoso of not valuing *love, patriotism or spirituality*. He denounces Cardoso's economic plans as the result of *castrated eroticism* which he thinks is typical of the São Paulo intelligentsia. He complains that Cardoso "is horrified at the idea of martyrdom...it is not the desire of being a martyr which seduces him psychologically" (Vasconcellos, 1997, p.83).

To the pragmatist, these objections are bizarre. Latin America has had plenty of presidents with martyr complexes and it has never lacked for love, patriotism or spirituality. Everyone knows the *The Girl from Ipanema*. What Latin America needs from its presidents is not eroticism but sound economic and social policies and the ability to make them work. This means steering a course between the Scylla of populism and the Charybdis of monetarism. Javier Santiso believes the Latin American leaders of the future will be foxes, not hedgehogs of the right or the left. He says, "il n'y a pas, comme on pourrait le croire, passage d'un paradigme a l'autre mais bien l'émergence d'un nouveau style cognitive. Autrement dit, on assiste à la faillite de l'idée meme d'utopie politique et d'économie politique de l'impossible, la faillite d'un style cognitive (Santiso, 2002).

Marta Lagos, director of the Instituto Latinobarómetro in Santiago, Chile, shares this view of the Latin American future. She believes that the classic left of the 1960s is no more. Instead of seeking to destroy the old in order to build the new, contemporary leaders "are progressive reformists, not conservatives or rightists, but wanting to transform society by means of reforms within the rules of the market" (Lagos, 2005).

### **Corruption as a Method of Social Reform.**

Transforming society within the rules of the market is easier for an authoritarian regime such as the Pinochet dictatorship in Chile or the *Communist* government in China. Even Fidel Castro's Cuba has advantages in this regard. But Latin American democracies find that it is difficult to get desperately needed reforms through Congress. Politicians are judged by how many jobs they can get for their supporters or how much funding they can get for projects in their district, not by their commitment to belt-tightening reforms. It is easy to be popular when, like Hugo Chavez in Venezuela, you have a huge fund of oil money to hand out. But market-



oriented reforms require cutting wasteful spending, increasing taxes and cutting protections for inefficient producers, none of which is popular.

Sometimes a country can make difficult reforms when conditions have reached such a crisis that no alternative seems possible. Fernando Collor de Mello actually froze everyone's bank account and prevented them from spending most of their money for a year. Most people accepted this drastic measure because they were desperate for a solution to the hyperinflation the country was suffering from. Sadly, it was only a temporary fix. Fernando Henrique Cardoso was finally able to end hyperinflation in Brazil in the early 1990s only because the Congressional leadership feared that it was close to causing a total economic meltdown.

When Lula da Silva became President of Brazil there was a risk that the country would fall into default like Argentina. He responded responsibly by keeping expenditures and inflation down, paying debts and maintaining a stable investment climate. For the first two years, these policies worked reasonably well. Economic growth was strong and employment was up. This was, however, accomplished by continuing the *neoliberal* policies of the previous government, which was not what the party had promised its supporters. In its report to the public on the government's first two years in office, the main policy change the Workers Party could take credit for was cutting taxes on business, a measure they would have righteously denounced had it been done by anyone else<sup>6</sup>.

Ironically, the Workers Party government was turning out to be very good for business, while its premier social program - the Zero Hunger project - quickly became an embarrassment. No one doubted Lula da Silva's sincerity about not wanting any Brazilian to go to bed hungry, but the program his staff devised was old-fashioned and needlessly bureaucratic. It was modeled on the food stamp program devised in the United States in the 1930s, instead of on more innovative programs pioneered by previous Brazilian governments that gave parents stipends for keeping their children in school.

The Zero Hunger bureaucracy also created opportunities for petty corruption in remote, impoverished communities. The mayor of one such community, Acauã, in the northeastern state of Piauí, observed that: "it was supposed to be for poor families, but it ended up being for political families, for the sons and daughters of the members of the town council and other privileged types". In the state capital, Teresina, more than a thousand state employees were fraudulently enrolled (Rohter, 2005b).

Fortunately, the Lula da Silva government had the good sense to listen to criticism of its program. The Minister of Food Security and Combat

Against Hunger, José Graziano, had to be dismissed and the agency was folded into other programs that were already in place but starved for funding.

Lula da Silva's administration came to be known as *Fernando Henrique Cardoso's third term* both by those who thought this was a good thing and by those who did not. Unable to develop a new model, their best alternative was to build on Cardoso's accomplishments by completing the projects he had left undone. This meant tax reform and social security reform to put government finances on a sounder basis that would permit cutting interest rates.

In its first two years, the Lula da Silva government was surprisingly successful in getting legislation passed to accomplish these very difficult goals. In December, 2003, Congress passed a very important pension reform providing for a tax on civil service pensions and a phased increase in the retirement age to 60 for men and 55 for women (Brazilian women have never felt obliged to give equal work for equal benefits). The legislation was opposed by Workers Party senator Heloisa Helena and three party congressman, so the party expelled them. The reform was strongly opposed by the public employee unions that made up a very important part of the party's base.

The Workers Party had always opposed pension reform when it was proposed by Cardoso, but once in power, the leadership had the good grace to admit they had been wrong. For their part, the Social Democrats could hardly oppose measures they had been advocating for the past eight years. But combining the Social Democratic and Workers Party votes seems not to have been enough. Passing the pension reform, and an equally important tax reform, apparently required the support of legislators whose votes were purchased with bribe money, money that was obtained from graft from government suppliers.

So far, there is no evidence that top Workers Party leaders were using corruption for personal enrichment, although people around them certainly were. They were buying the votes of politicians from other parties as a means of passing their reform agenda and building their political power base. They were using corruption as a means of passing reforms they were unable to get through Congress otherwise because of interest group opposition. Until they were caught on video by enterprising reporters, this strategy was working fairly well.

After the scandal, Lula had to turn to the center-right Brazilian Democratic Movement Party (PMDB) for allies, and the PMDB leaders have demanded \$2.6 billion in pork barrel projects in exchange for joining the

cabinet (Jornal do Brasil, 2005). Buying support in this way, although perfectly legal, is much more expensive than buying votes with bribes. The Lula government may find it necessary to buy support from all kinds of groups - farmers, universities, landless workers, public employees, industrial groups - which will make it difficult to meet its spending targets for keeping inflation down, repaying the country's debts, and lowering interest rates.

Any lingering hopes for socialist transformation in Brazil are also damaged by the corruption scandal. It is hardly a good time to advocate giving government bureaucrats greater control of the economy, although some true believers on the Brazilian left are still trying. But this was highly unlikely in any event. The greater misfortune is that the window of opportunity for meaningful social democratic reform under the Lula government has passed. Any chance of progressive social democratic reforms in Brazil requires a working alliance between the Workers Party and the Social Democratic Party. But the Workers Party is full of militants who spent the eight years of Fernando Henrique Cardoso's administration chanting *Out with FHC*. They simply cannot bring themselves to admit that they have nothing better to offer. The Social Democratic Party, for its part, is concentrating on using the corruption scandal to win the next election for itself.

### **Awakening from the Nightmare?**

Is Latin America awakening from the nightmare of corruption? Or is it getting worse? There are grounds for concern, and not only in Brazil. In Peru, more than a dozen of President Alejandro Toledo's relatives are accused of influence peddling, and his popularity is as low as Alberto Fujimori's before him. His youngest brother, Pedro, obtained a 20 year telephone concession for a new company with only a \$1500 investment. In Mexico, Vicente Fox's attempts to prosecute officials of previous governments have failed and there are reports of improper funding in his campaign organization and his wife's charity activities (Rohter-Forero, 2005).

In Nicaragua, the record after the Sandinistas left power has not been good. President Enrique Bolaños prosecuted Arnoldo Alemán, of his own Constitutionalist Party, who was President from 1997 to 2002, on charges of embezzling more than \$100 million, part of which was apparently used for Bolaños' own campaign. Alemán was convicted and sentenced to 20 years in prison, but was allowed to serve in house arrest. It appears that his lenient treatment is part of a political deal between the Constitutionalist Liberals and the Sandinistas (Miami Herald, 2005).

There are discouraging reports from Costa Rica. Prosecutors have charged two former presidents with taking kickbacks on government contracts, and Costa Ricans fear that their country may not be as different from the rest of Central America as they had thought. A survey by the University of Costa Rica found that "Costa Ricans don't like their President. They don't like their legislators. They think private businesses are robbing them. They don't trust the justice system. They say their municipalities are riddled with corruption..."(Kimitch, 2005)

A more optimistic spin is that corruption reports and prosecutions are increasing because of more vigilant attitudes, not because things are actually worse. Brazil's Lula da Silva made this argument, pointing out that you see more dirt during a housecleaning than when everything is swept under the carpet. But Transparency International's research has not shown an improving trend. Indeed, they report a worsening trend from 2002 to 2003 in Argentina and Chile as well as in the USA, Canada and other countries. They do report an improvement in Colombia, probably due to a new administration (Graff, 2003).

Corruption is deeply rooted in a view of government as the leading source of jobs, contracts and financing for businesses. Peru's Alejandro Toledo is a free-market advocate, but when he won power he was besieged by requests for jobs and favors from members of his political party and even from his brother and sister. According to Fernando Rospigliosi, a respected journalist who was Alejandro Fujimori's first minister of the interior, "they were dazzled by power and money and they immediately tried to take advantage, and they did it like it was the most natural thing in the world. They would show up at ministries and ask people to be placed in certain jobs. It's very Peruvian. You obtain power and you use the power for your own benefit" (Rohter, op cit)<sup>7</sup>.

In Brazil, sociologist Francisco de Oliveira resigned from the Workers Party, of which he had been a founder, soon after Lula da Silva was elected. His concern was that the Lula government was not living up to its socialist ideals. He was concerned, however, that people would suspect he was feeling slighted because he was not offered a job in the new administration. Eager to show that this was not the case, he reported that, even before the Lula government took power, he received a visit from a representative of the transition team who told him that:

the top positions in the new government have to be negotiated, but for any second level position, in my area of competence and preference, I had only to make my choice and I would have the right of first refusal. He then pulled out a giant organizational chart of the Brazilian government to look for positions or functions I might choose...(Oliveira, 2003, Dec. 14).

As long as countries have huge organizational charts full of patronage jobs, the temptation for corruption will be great. This problem is not limited to Latin America and reforms that have worked in other places might be helpful. This was the thinking of a group of Mexican businessmen who put up several million dollars to have former New York City mayor Rudolph Giuliani offer advice. Giuliani's consulting team was warmly welcomed by the city's mayor, leftist Manuel López Obrador, who was desperate for answers to the city's crime problem.

New York City's crime rates had fallen dramatically during Giuliani's administration, although there is controversy about how much Giuliani's leadership contributed to what was a much broader trend (Blumstein, 2002). But the system that Giuliani reformed in New York City was similar to that in many Latin American cities. New York had bloated, inefficient bureaucracies, routine corruption, and powerful organized crime syndicates (Siegel, 2005). Bringing Giuliani's team in for a fresh viewpoint was a reasonable idea, although he did not have the magical, instant solution many Mexicans hoped for (Gerson, 2005).

Giuliani cut corruption in New York by privatizing some services, using the threat of privatization to obtain concessions from unions, and setting up rigorous licensing and oversight to drive organized crime out of sectors such as trash hauling and the fish market (Jacobs, 1999). He cut the role of government in the city's affairs by cutting welfare services and by streamlining licensing and inspection regulations. Like many Latin American cities, New York had gotten to the point where it took months of paperwork and waiting in line at government agencies to get permission to open a business or begin a construction project. Welfare rolls had grown to the point where serving the poor was the city's major industry. Giuliani's was bitterly opposed by public employees unions, but he had strong popular support and his reforms were surprisingly successful.

To cut crime, Giuliani moved to make policing more effective. The most popularized innovation was rigorously enforcing laws against minor crimes such as not paying for subway rides or bothering motorists with offers to clean their windows. Perhaps a more important innovation was using statistical data to evaluate police policies. Police administrators were held responsible for cutting crime rates in their districts. Instead of being told what to do, they were told to get results and to use their own initiative in doing so.

Although Giuliani was a Republican, the management tools he used were part of a theory of public administration known as "reinventing government" which stresses making bureaucracies more flexible and holding

them accountable for results with measurable statistical indicators (Osborne-Gaebler, 1993). These ideas did not originate in the United States, Peruvian social scientist Hernando de Soto was a pioneer in this kind of thinking (Hernando de Soto, 1990).

Pragmatic, results-oriented government is especially important in today's world because countries now compete for resources on a global basis. Excessive regulation and corruption weaken a country in this competition. Statistical indicators are rapidly being globalized. The World Bank offers a handy WEB site where investors can check the regulatory burden in each country, finding out how many days of work it takes to get permission to go into business, how hard it is to hire and fire workers, how hard it is to enforce contracts in the courts, and so on<sup>8</sup>. The WEB site reports, for example, that it requires 152 days of work get legal permission to start a business in Brazil, 116 days in Venezuela, 27 days in Chile and only 5 days in the United States. In Bolivia it costs 51% of the average annual income just to establish collateral to borrow money, In the United States it costs only 0.1%. Excessive bureaucracy provides opportunities for government employees to draw salaries and extract bribes. Indeed that may be its only real function.

Latin American leaders are familiar with these trends, but they have found it difficult to educate the population about current realities. Thomas Friedman has argued that "the role of the politician should be, in good part, to help educate and explain to people what world they are living in and what they need to do if they want to thrive within it" (Friedman, 2005, p.280)". But politicians who do this honestly find it difficult to be elected. Pragmatic leaders are less exciting than ideologues who stir the emotions with attacks on evildoers and promises to correct past injustices. Many voters would rather hear vacuous promises of "new models" and attacks on scapegoats than honest discussions of the challenges their countries face. Many intellectuals have spent their careers attacking imperialism and globalization and are adept at highlighting the flaws in market economics while minimizing or ignoring the defects on the other side. Becoming pragmatists would deprive them of the sense of drama that leftist ideology provides.

To keep up in today's world, Latin American countries must compete with India, China and others that vigorously exploit the opportunities presented by global capitalism. This requires facing up to challenging realities without the emotional crutch of scapegoating foreigners or making unrealistic promises. This requires leaders with exceptional judgment, political skills and communication ability. If leaders cannot rise to the challenge of honestly explaining what they believe, and generating enthusiasm for their

visions, they will find it difficult to pass needed reforms without resorting to vote-buying or other deceptive methods.

This kind of leadership is in short supply. Fernando Henrique Cardoso explained everything clearly, but in dry academic prose, a problem for many pragmatic leaders. It is simply difficult to be ardent in advocating moderation. Lula da Silva resorted to rhetoric that did not really acknowledge what he was going to do. Hugo Chávez preaches anti-Americanism and “Bolivarian revolution” while catering to global corporations. Bolivia’s Sánchez de Lozada suffered from what an astute observer called “a poor understanding of the Bolivian people [and] an inability to effectively inform the public of his policy proposals”(Mihaly, 2005).

Because of these difficulties, reform will come unevenly and some countries will lag behind. Countries with large oil deposits may not see the need for reform until the oil revenues fall. Ethnic and regional conflicts make reform difficult in some countries as each group spends its energy attacking and blaming the other. Other countries may be too preoccupied with drug prohibition. And some may choose to give statist development still another try by exerting stronger government control over economic life.

But it is not necessary that every country succeed at the same rate. When even one Latin American country succeeds in escaping from underdevelopment with a modern, efficient, transparent market economy, the pressure on the others to follow suit will be strong.

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#### Notes

<sup>1</sup>Veja Online, <http://www.umbrasilmelhor.com.br/txt/VIDEOPROPINA.html>

<sup>2</sup> These data are from Angus Maddison, *Monitoring the World Economy 1820-1992*, Paris: Development Centre of the Organisation for Economic Cooperation and Development, 1995, updated with data from the World Bank's World Development Indicators Online. The numbers are in "1990 Geary-Khamis Dollars".

<sup>3</sup> Data from the World Bank's World Development Indicators online. The numbers are in "1995 International Dollars".

<sup>4</sup> The data are from Angus Maddison, *Monitoring the World Economy 1820-1992*, Paris: Development Centre of the Organisation for Economic Cooperation and Development, 1995, updated with data from the World Bank's World Development Indicators Online. The numbers are in "1990 Geary-Khamis Dollars".

<sup>5</sup> For two careful reviews of the literature, from different points of view, see Evelyne Huber and Fred Solt, "Successes and Failures of Neoliberalism," *Latin American Research Review*, Vol. 39, No. 3, October 2004, pp. 150-154 and Michael Walton, "Neoliberalism in Latin America: Good, Bad or Incomplete?" *Latin American Research Review*, Vol. 39, No. 3, October 2004, pp. 165-183.

<sup>6</sup> Brasil em Movimento, Revista do Diretório Nacional do Partido dos Trabalhadores, "O País já Mudou: PT apresenta os avanços promovidos em 25 meses de governo Lula, April 2005, [www.pt.org.br](http://www.pt.org.br)

<sup>7</sup> Rohter, op. cit, citing Fernando Rospigliosi, a respected journalist who was Alejandro Toledo's first minister of the interior.

<sup>8</sup>World Bank and International Finance Corporation, Doing Business Web Site, <http://rui.worldbank.org/DoingBusiness/>.

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**Ted Goertzel** is Professor of Sociology (B.A. Antioch; Ph.D. Washington University), teaches a range of sociology and criminal justice courses, including Methods, Communications, Political Sociology, Latin American Studies. He served as a consultant for the NJ Attorney General's office on welfare reform issues, and is a member of the New Jersey Work First Advisory Board. His books include *Turncoats and True Believers: The Dynamics of Political Belief and Disillusionment* and *Three Hundred Eminent Personalities*, the most recent being *Fernando Henrique Cardoso: Reinventing Democracy in Brazil* and a biography of *Linus Pauling: A Life in Science and Politics*. He has performed many community surveys under the auspices of the Rutgers-Camden Forum for Policy Research and Public Service and the Walter Rand Institute for Public Affairs. [goertzel@camden.rutgers.edu](mailto:goertzel@camden.rutgers.edu)  
T. Goertzel. Sociology Department, Rutgers University, Camden NJ 08102, USA.