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State Capture and the Role of Political Parties in Latin America

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Abstract

This study explores the impact of political parties on state capture in Latin America. A mixed effects model is used with time as the level one unit nested within countries that serve as the level 2 units with a total sample size of 349 observations pooled across 19 different Latin American countries with data ranging between the years 1996-2017. The model is also estimated with an AR(1) term in order to account for the temporal dimension of the analysis and any problems autocorrelation may pose. First, the impact of political party in power [years], a variable that captures how long one political party is able to stay in power in a given country in years – is analyzed for its effects on state capture. Second, the impact of political party in power [years] on state capture at varying levels of economic development as measured by GDPPC is then examined. The analysis provides support for the negative impacts of political party in power [years] on state capture where the longer one party is able to remain in power – the greater state capture we will see. Overall, the results suggest that a lack of political competition and horizontal accountability that political parties are able to provide in a given country results in enhanced levels of corruption and state capture across the Latin American region.

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Introduction

Since the early 1980s after the fall of mixed market economies world-wide and the institutionalization of neoliberalism alongside widespread democratization, corruption and state capture along with attention being paid to these phenomena have exploded world-wide. After the fall of the Soviet Union and heading into the early 2000s at the height of the globalization era, this explosion only amplified (Ackerman & Palifka, 1999). Even though corruption is a popular topic in economic and political development literature (Ackerman et al., 1999; Shabbir & Anwar, 2007; Karklins, 2002), the continuing surge in corruption demands new attention. A multitude of statistical and econometric analyses along with qualitative studies have addressed corruption and state capture and their

underlying forces. Modeling state capture is a difficult task because there are so many intervening variables. Among explanatory variables, general corruption and state capture phenomena are quantifiable and are therefore included in studies. Others, such as the role of political parties, the presence of illicit actors and their contribution to economic activity and state capture, and the level of informality, are much less so. The analysis is further complicated as there are so many mechanisms that contribute to state capture (Bonilla, 2018).

One factor that has drawn attention to state capture is the role of political parties. The role of political parties has gained prominence as populism along with the erosion of democracy have surged in the last two decades. The evidence of *political party in power [years]* is mixed when it comes to their role in state capture. For instance, Uruguay has experienced party continuity of the executive branch in power for semi-lengthy periods of time but has not necessarily exhibited an increase in state capture the longer one party is able to stay in power. Meanwhile, the opposite is true for Venezuela where there lies a direct correlation of the current party in power founded by Hugo Chavez and an increase in state capture where the longer the party remains in power, the more capture year after year arises. Addressing such a paradox requires careful analysis. So far, scholars of policymaking and corruption in general have dealt with political parties in various ways (Spiller, Stein, Tommasi, Scartascini, Melo, Mueller, & Penfold, 2008; Blake & Morris, 2009). Meanwhile, scholars of state capture have attempted to address the issue of political parties in fomenting state capture, but often purely examine things from the perspective of political party financing (Durand, 2019). Analogous empirical research regarding the role of political party institutionalization and duration of *political parties in power [years]* on state capture is scant. Therefore, it is the objective of this paper to help uncover the casual effects that *political parties in power [years]* has on state capture.

This paper is organized as follows. A review of the role of political parties and their impact on state capture are presented first. Stemming from this review, hypotheses are developed that aim to test the impact of *political party in power [years]* on *state capture* along with an examination of the role of *GDPPC* (economic development) may have in moderating the magnitude of the effect of *political party in power [years]* on *state capture*. Analysis and results are then presented. Finally, the paper concludes with a discussion on the findings and their implications.

Literature Review

General studies on state capture and how it functions

State capture can generally be defined as a phenomenon where private sector actors systematically shape the rules of the game of the state in their favor through illicit mechanisms and private payments (Hellman, Jones & Kaufmann, 2000). The groundbreaking work on state capture by Hellman et al. (2000) provides guidance for how state capture tends to function. Large incumbent firms have a structural advantage in their respective economies within which they operate, as they tend to enjoy privileged contractual rights and protection of property under the home regime. In order for outsiders to compete against such incumbent firms who often have strong linkages with the state and its respective networks of power, they turn to state capture. This creates a dynamic in society where innovation is placated in favor of a “capture economy,” as the authors describe it to compensate for the weaknesses in the existing legal and regulatory apparatuses. In capture economies when the state underprovides for its citizenry, public officials and politicians privately sell underprovided goods which are a must for entry and competition. Ackerman et al. (1999) also wrote extensively about how corruption creates

distortions in the market, as public officials deliberately create “scarcity” in order to provide opportunities to extract rents and bribes from those who need to get things done such as obtaining a new business permit to overcome the deliberate “scarcity” and barriers to entry and competition. Thus, captor firms purchase these benefits “a la carte” from the state to secure property rights and remove any obstacles that may be a hindrance to their business. Therefore, identifying the variables exerting the strongest impact on state capture are crucial for the sake of equitable development and a healthy economy for a given country. The majority of previous studies have relied on qualitative evidence and causal analysis (Durand, 2019; Durand & Crabtree, 2017) which have greatly expanded our knowledge of the issue. In order to advance our understanding of the mechanisms that contribute to *state capture*, however, this study uses aggregate state capture data in a quantitative manner.

Identifying additional variables that contribute to *state capture* can expand our knowledge of the underlying causal mechanisms and their influence on *state capture*. To this end, the length of *political parties in power [years]*, a factor that has received recent attention, is included among the explanatory variables that contribute to *state capture*. The role that political parties and the state of institutionalization of those parties play in explaining corruption/state capture can take many forms. For instance, political parties can be operationalized as an all-inclusive variable comprising their party identity, party longevity (how long a political party remains active), the politico-economic system in which they operate under and the corresponding rules of the game, and their ideology. Political parties in this study, however, are used here to describe specifically the time in years that the party of the executive branch is able to stay in power. Thus, *political party in power [years]* is the appropriate operationalization of the variable.

Literature on the role of political parties on state capture

With respect to Latin America, political parties do matter, even if they had played an insignificant role in the transition to democracy in the region during the 1980s and 1990s. Political parties play a critical role in the consolidation of democracy because they serve as a strong oppositional coalition to authoritarian rule such as rule by the military (Petrova, 2010). But they have contributed much less to political and democratic stability as had been expected. This was a result of the “pacted” nature of many Latin American transitions from authoritarian rule. Transitions that came about due to pacts have a tendency to “lock in” existing privileges of the current social forces in power. Moreover, they tempt elites to extend their initial agreements beyond the period of uncertainty where the rules of the game are still in flux and instead reinforce a pattern of collusion amongst political parties that foments corruption and citizen disengagement (Schmitter, 2010). Gustafsson, Merino, & Scurrah (2020) also speak to the dangers that political parties can play if they are collusive with elites, which makes it more difficult for reform-oriented actors to challenge their power. By and large, the neoliberal reforms that ensued in the democratization era in Latin America in the 1980s and 1990s produced structural reforms that eroded the established linkages that political parties once held with the electorate (Kaltwasser, 2015).

Simultaneously, another stream of thought ponders upon the role of political party financing by private interests and the corresponding contributions to state capture (Durand, 2019; Hellman et al., 1999; Hellman, Jones, & Kaufmann, 2000; Hellman & Kaufmann, 2001). Hellman et al. (2001) argue that weak political parties contribute to state capture, as captor actors are better able to curate and preserve informal one on one relationships with state officials as collective representation remains weak. Beltran et al. (2020) argue that the financing of political parties was a key factor in explaining corruption

in Guatemala. The authors note that it is often the case that elites and power groups finance elections expecting to receive a return on their investment that comes in the form of privileged contracts, benefits, and sway over policy and crucial jobs in key ministries of the government. Nonetheless, variation exists with regards to the impact of political party financing by private interests. For instance, parties may be more susceptible to capture depending on their relative degree of institutionalization (Blake & Morris, 2009). To that end, Beltran et al. (2020) argue that political parties and their associated fragmentation have served as a key source of corruption in Colombia. The authors' state this is so due to the creation of "personal parties" which are conducive to corrupt political exchanges as a result of the paucity of campaign finance regulations. These personal parties are able to raise funds for political campaigns while doling out patronage and rewards to their supporters/donors with respect to preferential jobs, contracts, and favors. It is even the case that some political parties can simply buy votes outright. In theorizing about political finance and its impact on political parties, Kupferschmidt (2009) posits that illicit political finance can come about via legally grey areas of lobbying. He notes that "lobbying" and its definition and regulation have been exceedingly slow to change in a whole host of countries' along with legal bribery which is characteristic of the assumed quid pro quo for making political donations to political parties and candidates.

Economic inequality also appears to play a role in facilitating state capture (Karl, 2019), especially if one of the parties in power plays a principal role in promoting policies that contribute to state capture and corruption. Winters & Paige (2009) elucidate this concept as they argue political parties ultimately need large sums of cash in order to be and remain viable, which forces them to cozy up to investors who in turn insist on policy allegiance – policy that often times can contribute to further inequality. Fuentes-Nieva & Galasso (2014) note, however, that political parties can play a key role in halting economic inequality through policy interventions, which could lead to less state capture overall while promoting healthy economic development. With that said, this does not appear to be the prevailing trend in Latin America.

In terms of political party institutionalization, countries with institutionalized political parties offer a wide array of benefits as they are predictable, have a structured political process, and a wide sense of legitimacy amongst the population along with a strong tradition of abiding by the rules of the game. Cox & McCubbins (2005) note that political parties once unified are better able to solve collective action problems. On the other hand, countries with disjointed party systems where party identity remains weak among the population, party discipline is low, and where parties remain loosely organized – are apt to make decisions that are unpredictable and not in the best interest of those they represent. Moreover, for party systems that are in disarray, the existing incentives and constraints make it easier for anti-party/anti-system candidates to reach power and undermine political parties' ability to prevent the executive branch from drastically changing the existing rules of the game (Flores Macias, 2012). Furthermore, as party system institutionalization decreases, any pro-market policies that are in place in a given country are likely to radicalize, leading to an upsurge of privatizations, trade liberalizations, and the elimination of subsidies becoming the norm (Flores Macias, 2012). This leads to increased opportunities for private sector actors to engage in capture. Moreover, it is evident that political parties are having declining influence. This contributes to anti-system candidates running for office, or at the very least, causes the executive branch to take more extraordinary measures than it otherwise would if political parties had wielded more influence (Kernell, 2006).

Non-institutionalized parties appear to be on the rise. Kupferschmidt (2009) states that in many countries, established and institutionalized party systems are withering away at worrying speeds. Politicians are now creating a party which they personify, and this appears to be a global phenomenon in which democracy assistance groups seek to resolve by strengthening existing party systems along with increased transparency and so on. Worryingly, he notes that political parties in many countries have now become temporary election vehicles representing one or very few candidates. Tsai (2019) finds similar results where he posits that political parties – the key representative democratic institution – break down because the major traditional parties lose the support of voters which ushers in new personalistic parties that are often populist in nature, such as Fujimori of Peru and Chavez in Venezuela. Flores Macias (2012) discusses how Rafael Correa, Hugo Chavez, and Evo Morales all utilized personal party vehicles that centered around their persona rather than competing for the presidency through established political parties. They were able to do so because these populist leftist governments and the citizens of their respective countries held widespread mistrust of political parties and other institutions as instruments of corruption (Kaltwasser 2015). However, as a result of the weak party systems in these countries, they were forced to abdicate even more power to the executive branch. Consequently, horizontal accountability severely eroded. Since political parties became unable to serve a check on the executive branch, the executive was easily able to rewrite the existing rules of the game. Given that political parties could therefore not translate the demands of the various sectors of society they represent into shaping the executive's policy, plebiscitary rule became the preferred option. This creates a severely unstable dynamic in a respective country when broad based changes take place without broad consensus. This is exactly what happened in Peru during the 1990s (Levitsky & Loxton 2018; Carrion 2021). Gustafsson & Scurrah (2019) note that the authoritarian populist government of Alberto Fujimori imposed reforms on the country that drastically reduced the importance of state regulations and planning institutions, while severely debilitating the power of political parties along with civil society organizations. Cameron (2020) notes this form of neoliberal populism as espoused by Fujimori ushered in a form of oligarchic rule.

In the end, political parties care about gaining office, not about promoting a better or more ideal society (Downs, 1957). However, the degree of political party institutionalization and how long one party stays in office does matter for a country and its citizenry. This is evident because weak political parties are unable to serve as a check on corporate power and economic elites (Gustafsson & Scurrah, 2019), which could otherwise help weak agencies enforce the institutional rules of the game. Moreover, strong political parties and competition as is the case in Chile, Uruguay, and Brazil create a vertical linkage between governor and governed (Kaltwasser, 2015). Without vertical linkage associated with weak party systems, it is easy for state capture to begin to take hold. Durand (2019) states that Latin American political parties suffer from a dependence on capital and extreme amounts of corruption. Moreover, weak political parties lead to the subversion of both horizontal and vertical accountability and can contribute to populism (Schedler, 2003; March, 2017). Thus, given the state of the literature, it is clear there are maladies in current Latin American political parties, especially with the surge in populism occurring throughout the region. The longer one party (often populist) stays in power, the more corruption and state capture can take hold. Carrion (2021) details this explicitly in his argument pertaining to populism in power. He notes that in cases of unconstrained populism, in which there are a lack of oppositional checks and balances including a paucity of judicial oversight, once chief executives can cement their power asymmetries, corrupt

practices become more widespread. This lack of horizontal accountability has real consequences. I argue that the length of the current party in power diminishes existing political competition the longer one party is able to stay in power. In the end, there must be a healthy balance between political competition and economic competition in order to assure a more egalitarian society. It is time we take a hard look at how elected leaders and political parties lose touch with those who they are supposed to represent and how this contributes to state capture.

Thus, it is clear that political parties are being undermined and this is resulting in increased state capture with the intent to subvert democracy (Kupferschmidt, 2009). The longer a party can stay in power, the greater the abuse can take place whereby such party and its leader begin to cement their rule and erode horizontal and vertical accountability mechanisms. This facilitates clientelism and patrimonialism where there lies a relationship between a patron (who has all of the power) and the client. The patron, once a sufficient set of horizontal and vertical accountability mechanisms have been eroded, is then able to use their power to grant privileges to certain groups and sectors in society. Developing countries such as those in Latin America are in need of resources and funding, and thus business actors tend to operate in privileged positions. Moreover, the level of economic development present in a given country may directly impact the magnitude of the effects of *party in power [years]* on *state capture*, as more economically developed countries often have superior institutions and legal frameworks that can inhibit acts of state capture relative to countries that suffer from a paucity of economic development. Given the state of the existing literature along with my theoretical propositions as derived from the literature, I derive two core hypotheses:

- H1:** The longer one single party is able to stay in power, the weaker political competition is/gets while opposition parties lose power and become unable to exert a check on the majority. This opens the door for corrupt actors (both public and private) to infiltrate the politico-economic apparatus and promote self-interest via mechanisms of corruption and capture.
- H2:** The impact of *party in power [years]* on *state capture* will be lower at higher levels of economic development relative to lower levels of economic development as is measured via Gross Domestic Product Per Capita (GDPPC). Economically developed countries and their citizens would not tolerate acts of corruption and state capture to “get business done” as may be the case in a country which suffers from low levels of economic development. This is because less-developed countries political and private sector actors are more easily capable of skewing the rules of the game in their favor as it is often the case that that less developed countries also lack the necessary institutions and legal/regulatory frameworks for inhibiting corruption.

Methodology

This study includes a sizeable number of countries in the Latin American region offering a broad perspective on *state capture* and the impact of *political party in power [years]* and corresponding institutionalization of said parties. The statistics on aggregate state capture data are analyzed alongside key regressor variables. Most of the data for the sample is derived from the World Bank. The remaining data for other regressors come from the Database on Political Institutions from the Inter-American Development Bank, the Heritage Foundation; and Freedom House. Given the time limitations in the dependent variable *state capture* this study analyzes the time period 1996 through 2017. In total, 19

countries from Latin America are included in a pooled time series cross-sectional dataset. These countries represent the complete spectrum of countries across Latin America, including developed countries that are established democracies with limited corruption, such as Chile, and underdeveloped countries suffering from flourishing corruption, such as El Salvador and Venezuela. Overall, this study incorporates countries with markedly varying levels of the Control of Corruption index, a measure which is formulated by the World Bank in combination with Daniel Kaufmann, a leading scholar on corruption and state capture. The Control of Corruption index takes a wide variety of factors into consideration that capture different perceptions in regard to the extent that public power is exercised for private gain to include both petty and grand forms of corruption along with “capture” of the state by private actors and interests to ultimately curate the index (WGI-Home 2022). A total of 418 observations was expected, but missing data for particular years and countries resulted in fewer observations, $N = 349$.

There is one main model used in this study to analyze the effects of *political party in power [years]* on *state capture* with the intent of capturing the key independent variable's base effect. Within the overall estimation technique, the study produces a set of four different model outputs to properly analyze the variation in *state capture*. The model employed is a mixed effects model. The mixed effects approach is suitable given the use of continuous variables in the study along with the pooled nature and inherent time component. The mixed effects model also has advantages relative to other type of modeling strategies in numerous domains. For example, it's superior in regards to a pure time series analysis due to the fact that it is better able to account for messiness and or missingness in the data while still producing robust and reliable results while at the same time being able to account for autocorrelation in the model. The dependent variable, as mentioned earlier, is *state capture* as derived from the Control of Corruption index. *State capture* as derived from the index is originally scaled between -2.5 through 2.5, where -2.5 signified the most extreme amounts of state capture whereas 2.5 signified a corruption free country. First, the *state capture* variable was inverted so higher levels on the index equate to higher levels of *state capture* and vice versa. Then, the variable was transformed in order to make its values all positive integers for ease of the analysis by adding 2.5 to every single observation to produce the new scaled measure of *state capture* that ranges between 0 (no state capture/corruption free) up through 5 (extreme state capture).

The key independent variables are *political party in power [years]* as measured by the Database on Political Institutions curated by the Inter-American Development Bank, *log GDPPC* which is a measure that comes from the World Bank Development Indicators in which the log of GDPPC was taken in order to smooth out the variation of the variable to better capture its true effect, and an interaction variable *Party in Power [years] * log GDPPC*. First, measuring the impact of political parties is problematic. There is no consensus among researchers regarding what should be properly measured as is evident by the multitude of studies that measure the phenomenon in different ways (Blake et al., 2009; Beltran et al., 2020; Beck, Clarke, Groff, Keefer & Walsh, 2001). However, objective measures have become available, and one good source is from the Database on Political Institutions which curates a wide variety of factors relating to political parties. The factor I employ from the database is *party in power [years]* which measures the length that the current party in power sitting in the executive branch holds power for. The variable is straight forward and codes country year data for the respective countries within the database for how long the current party is in power in years in a given country and restarts the count measure once there is a change in regimes. I also estimate the squared and cubic versions of *Party in Power [years]* in order to estimate any quadratic effects that may be present. I argue that quadratic effects

may be present as the impact of *party in power [years]* on *state capture* may be relatively slow gaining at first but once a certain party in power in a given country is able to rule for longer than normal periods of time – corruption and patronage networks should be able to begin to cement themselves in the existing politico-economic system and thus – the quadratic terms aim to capture this effect. *Log GDPPC* is a rather straight forward measure which aims to capture overall levels of economic development in a given country. In order to parse out the effects of *party in power [years]* and *log GDPPC* in a more fine-tuned manner – the interaction term between these two regressors seeks to capture the effect as theorized earlier in this study and posited by my hypothesis that the effect of *party in power [years]* on *state capture* will be greater in countries with lower levels of *economic development* relative to higher levels of *economic development*.

The mixed effects model also includes other “control” variables besides the key independent variables present in the study and discussed above which appropriately account for the determinants of *state capture* as suggested by the literature. The mixture of control variables come in a variety of forms ranging between continuous and dummy variables respectively – but all are known to be determinants of *state capture*.

Finally, so as to avoid the problem of autocorrelation – the mixed effects model is developed to account for the problem of autocorrelation or time dependence in our data by including the autocorrelation term employing an AR(1) process. Moreover, in order to serve as a robustness check given that our key independent variable of interest is *party in power [years]* – this study also re-estimates the main results but with dropping Cuba from the sample as it is an extreme outlier (one-party rule for over 60 years). In the robustness results shown in Table 2 – this had the effect of lowering the total n from 348 to 330 for all models estimated. Table 1 below presents the descriptive statistics for the main model and its variables. A discussion of the results follows.

Table 1: Descriptive Statistics

	Min	1QR	Median	Mean	3QR	Max	SD
Time	0	5	10.5	10.48	16	21	5.83
Total % Urban Population	43.44	60.13	72.59	70.88	81.46	95.24	13.59
Economic Freedom	26.70	56.23	61.80	60.10	67.00	79.00	10.78
Total % (GDP) Nat Resources	0.02	1.18	2.01	4.16	4.84	32.28	0.76
Party in Power (Yrs)	1	3	5	9.73	10	71	10.77
State Capture	1.1	1.75	2.01	2.22	2.42	4.1	0.69
GDP Per Capita	5	2294	4123	5275	7170	18691	3866.12
POLITY DV	0	1	1	0.83	1	1	0.38
Civil Liberties	0	2	3	2.97	4	7	1.27
Drug Trafficking	0	0	0	0.21	0	1	0.41

Results

The mixed effects regression results for the full sample are presented in Table 2 with the main model and variations of the main model with a total output of 4 different regression models. Table 3 presents results that form a robustness check where “Cuba” was deliberately omitted from the sample in order to ensure the validity of the results as presented in Table 2 as Cuba is an extreme outlier for our key independent variable of interest *party in power [years]*. The models ran in Table 3 were the same as in Table 2 with the exception of Cuba being omitted from the analysis. In Tables 2 and 3 respectively – the

main model presents the pure results in their base form. Model 2 in Tables 2 and 3 present the results of the main model with the inclusion of a squared quadratic term for our key independent variable *party in power [years]*. Model 3 in Tables 2 and 3 presents the main model with the inclusion of both squared and cubic quadratic effects for *party in power [years]*. Finally, model 4 in Tables 2 and 3 estimates the base model (the main model) without the inclusion of quadratic effects for our key independent variable of interest *party in power [years]* but with the inclusion of an interaction term *party in power [years] X Log GDPPC* in order to test for any moderating effects that may be present to properly examine H2. The autocorrelation term is also included in all models in Tables 2 and 3 in order to properly account for the presence of autocorrelation employing an AR(1) process. I begin by discussing the main results of Table 2 below.

Main Results

Table 2 below presents the main results. In Table 2, the main model presents our base estimates. Beginning with the fixed effects, our key independent variable of interest *party in power [years]* as shown in Table 2 in the main model was statistically significant at the $p < .1$ level and positive after controlling for all available regressors. This suggests to us that the longer one *party in power [years]* is governing a respective country – the more *state capture* there will be. This finding confirms H1 in which I argued that the longer a party in power is able to stay in power gives said party opportunities to erode political competition while at the same time eroding mechanisms of vertical and horizontal accountability. This in turn enables the leaders of the *party in power* to firmly cement their rule and engage in mechanisms of rent extraction and patronage with ease as political competition remains weak due to the systematic attacks on the existing rules of the game such as has been the case in Venezuela with President Nicolas Maduro. In an environment such as the one described above – corrupt networks are easily able to foment themselves and take root. Figure 1 below visualizes the effect of *party in power [years]* on *state capture* in order to greater examine the effects impact on *state capture*.

From Figure 1 below: we clearly see that the longer one party is able to remain in power shown on the x-axis – the more *state capture* we correspondingly see as is shown on the y-axis with 95% confidence intervals on the lower and upper bounds respectively shown in grey. Albeit the effect is modest in regards to the impact of *party in power [years]* on *state capture* as we don't necessarily see drastic increases in *state capture* the more one party is able to remain in power – the effect is still highly salient nonetheless and does confirm H1 that the greater *party in power [years]* – the more *state capture* there will be. This also suggests that corruption and state capture do take time to develop as *party in power [years]* increases – these are not just phenomena that happen overnight.

Table 2: Main results

	Main Model	Model 2	Model 3	Model 4
<i>Fixed Effects</i>				
Time	0.016*** (0.006)	0.015*** (0.006)	0.015*** (0.006)	0.016*** (0.006)
Total % Pop Urban	-0.019** (0.008)	-0.019** (0.008)	-0.019** (0.008)	-0.020** (0.008)
Economic Freedom	-0.006** (0.003)	-0.006** (0.003)	-0.006** (0.003)	-0.006* (0.003)
Total % Nat Res Rents (GDP)	-0.005** (0.003)	-0.005* (0.003)	-0.005** (0.003)	-0.005** (0.003)
Drug Trafficking	0.627** (0.279)	0.628** (0.279)	0.633** (0.280)	0.631** (0.278)
Party in Power	0.002* (0.001)	0.003 (0.003)	0.001 (0.004)	0.028* (0.017)
^2 Party in Power		0.000 (0.000)	0.000 (0.000)	
^3 Party in Power			0.000 (0.000)	
Democracy	-0.079** (0.036)	-0.077** (0.037)	-0.076** (0.037)	-0.072* (0.037)
Civil Liberties	-0.046** (0.02)	-0.046** (0.02)	-0.045** (0.02)	-0.045** (0.02)
Party in Power X Log GDPPC				-0.007 (0.004)
Log GDPPC	-0.278*** (0.101)	-0.276*** (0.102)	-0.279*** (0.102)	-0.225** (0.107)
Constant	0.477 (0.61)	0.467 (0.61)	0.47 (0.612)	0.30 (0.618)
<i>Random Effects</i>				
Intercept	9.394 (1.83)	4.323 (3.38)	4.16 (3.62)	9.12 (3.46)
Residual	0.523 (0.07)	0.527 (0.08)	0.53 (0.08)	0.523 (0.08)
Correlation Structure (AR1)	0.978	0.978	0.978	0.978
Observations	349	349	349	349
Log Likelihood	242.883	242.977	243.228	244.134
AIC	-459.767	-457.954	-456.456	-460.267
BIC	-409.651	-403.983	-398.63	-406.296

Note: *p<0.1; **p<0.05; ***p<0.01

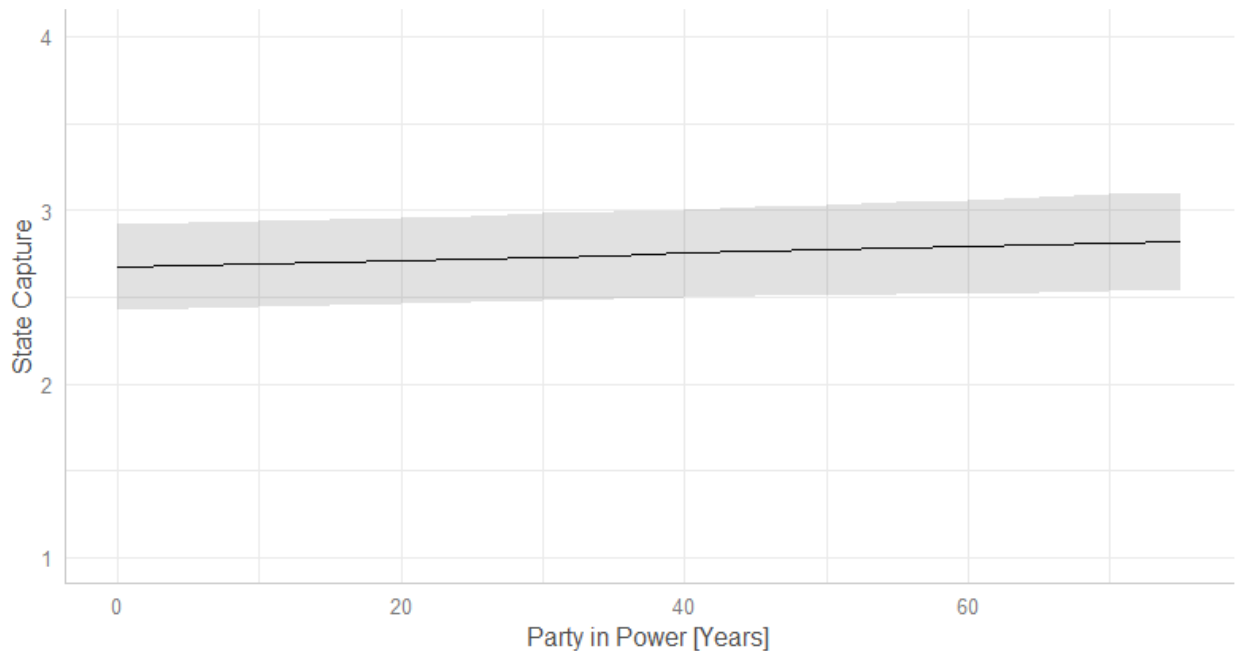


Figure 1: Substantive effects Party in Power [Years] on State Capture

Log GDPPC in Table 2 of the main model results represented our control variable for overall economic development and wealth of a country. The results show that while controlling for all other variables – *Log GDPPC* is highly statistically significant at the $p < .01$ level and negative which suggests to us the wealthier and more economically developed a given country is – the less amount of *state capture* will be present in a given country. This suggests to us that wealthier and more economically developed countries may be better off at distributing the gains of wealth and leveling the economic playing field. Moreover, once a country becomes wealthy, it could have “lock in” effects where citizens realize how good things are and the minute things begin to turn sour – they will loudly express their “voice”. Thus, wealthier and more economically developed countries should generally show elasticity with respect to the relationship between economic development and *state capture* where the wealthier and better off a country – the less *state capture* while the reverse holds true for less developed countries economies who often suffer from poor institutional quality and rigged rules of the game which are not conducive to healthy economic production and development. The impact of *Log GDPPC* on *state capture* is shown below in Figure 2 in order to greater parse out its effect on *state capture*.

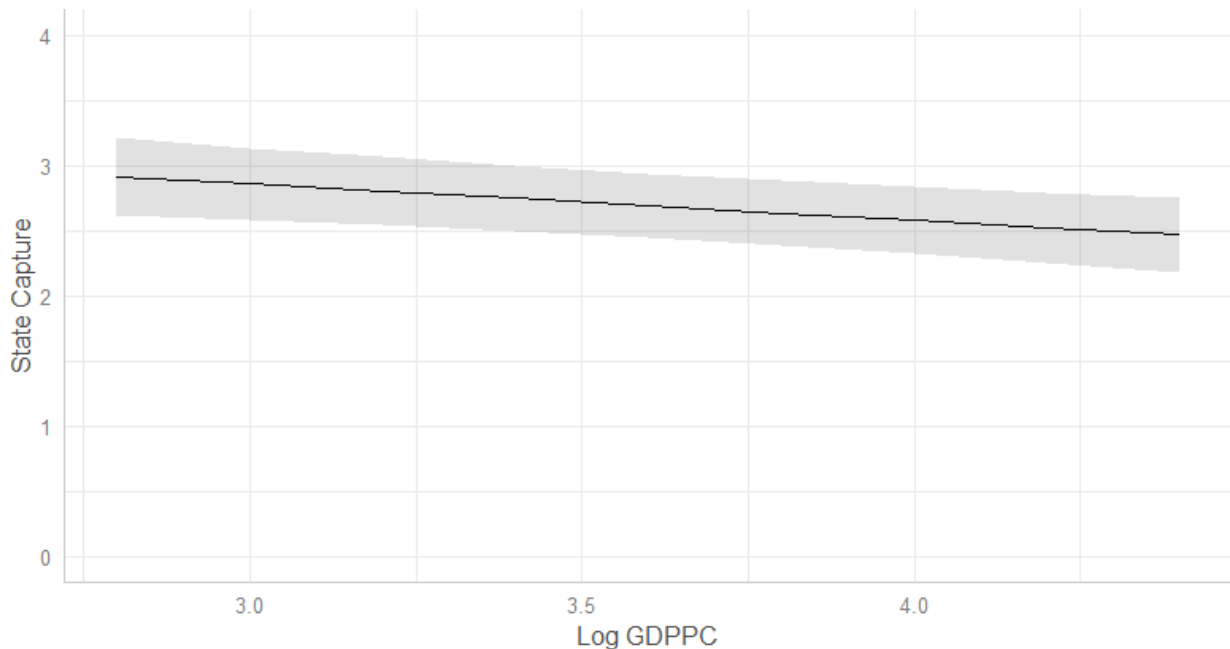


Figure 2: Substantive effects Log GDPPC on State Capture

Figure 2 above visualizes the effect of *Log GDPPC* (*economic development*) shown on the x-axis on *state capture* as is shown on the y-axis with 95% confidence intervals in grey. Figure 1 demonstrates that the more economically developed and wealthier a country's citizens become as we move across the range of the x-axis – the less *state capture* there will be overall – thereby confirming part of H2 with respect to the impact of *economic development* on *state capture*. H2 will be fully explored in more detail later below in order to parse out the moderating effect of *party in power [years]* on *state capture* at varying levels of *economic development*. The key takeaway for this finding, however, remains the fact that *economic development* matters for *state capture* and corruption – where the more economically developed a given country is – the less *state capture* overall.

The correlation structure (AR1) process shown in Table 2 in the main model also demonstrated that there was significant autocorrelation or “time dependence” present in the model and that we have properly accounted for it by including the autocorrelation term. Overall, the results for the main model proved highly robust while H1 proved true – the longer a *party in power [years]* – the more *state capture* there will be. Next, I briefly discuss models 2 through 3 in Table 2 below which extend the analysis of the main model but include quadratic effects on our key variable of interest *party in power [years]*.

In model 2 of Table 2 – I examine the same model as the main model but this time include a squared term for *party in power [years]* where by this term enabled the analyzation that perhaps at lower levels of *party in power [years]* – *state capture* may increase but once *party in power [years]* reaches a certain threshold – its effect on *state capture* exponentiates. We see, however, that including the squared term for *party in power [years]* in model 2 while controlling for all other variables did not produce any reliable results and did not garner any statistical significance. Overall, from these results we can derive the fact that *party in power [years]* with respect to quadratic effects on *state capture* does not hold. However, the base result as was shown in the main model of Table 2 remains robust. A brief discussion of model 4 – the model with our interaction term in Table 2 follows below.

Model 4 in Table 2 presents the same estimation as the main model in Table 2 but with the inclusion of an interaction term *Log GDPPC * Party in Power [years]* but without the examination of any quadratic effects as was done in models 2 through 3 in order to analyze H2. Overall, the results remain consistent with the estimation results from the main model. Meanwhile, our key variable *party in power [years]* also remained statistically significant and positive while controlling for all other factors which once more suggests to us that as *party in power [years]* increases as every year goes by – *state capture* can be expected to increase as well. *Log GDPPC* also remained negative and statistically significant. However, it lost a level of significance moving from a $p < .01$ significance level as was the case in the main model to a $p < .05$ level in model 4 with the interaction term due to the multicollinearity present between the interaction term and the variable itself which has the effect of biasing the estimates downward. The interaction term *Log GDPPC * party in power [years]* is negative which is the correct sign as predicted by my argument in which I argue that the impact of *party in power [years]* on *state capture* will be less at higher levels of *GDPPC* (as this variable serves as a corollary for general levels of economic development in a given country). This is due to the fact that once a certain threshold of wealth in a given country has been reached which doesn't come about via poor institutions and corruption as these factors increase wealth inequality and stifle economic development – but rather overall levels of higher economic development as suggested by the corollary of *GDPPC* signify that the country as a whole and its citizens are benefitting from a politico-economic system that is more egalitarian in nature. Thus, once citizens of a given country would sense a downturn for the worse in terms of overall economic development and inequality – citizens in a wealthier and more economically developed country as measured via *GDPPC* will be more apt to raise their “voice” and express discontent for perceived mismanagement of the economy and wrongdoings by public officials and or harmful acts which stifle economic development on behalf of private sector actors. This is because citizens in a country that is more economically developed will not tolerate corruption to the same extent as citizens may in a country that is not as economically developed where the rules of the game are still in flux and the ease of doing business remains difficult. In countries such as those just described that remain at lower levels of overall economic development – “greasing the wheels” of commerce or “greasing the palms” of public sector officials in order to carry on with business remains common practice. On the other hand, in economically developed countries, the citizens in these countries would not be able to fathom corrupt practices as they already were able to see how good things were at high levels of economic development and will not tolerate a reversion backwards. Put shortly, the impact of *party in power [years]* on *state capture* will be less at *higher levels of GDPPC* relative to lower levels of *GDPPC* as economically developed countries and their citizens are less likely to tolerate corrupt acts and practices as economically developing countries and their citizens would be due to the paucity of strong institutions and legal/regulatory frameworks which are often characteristic of economically developed countries which lubricate economic activity but serve as a hindrance to economic activity in less developed countries as is shown via the proxy of *GDPPC*. Still, this interaction term was not statistically significant at a $p < .12$ even though its direction was correct (negative). However, it is important to analyze the impact of the interaction term in detail below with a visualization in order to visualize the effects of *party in power [years]* on *state capture* at

varying levels of $\log GDPPC$ to better parse out the interaction terms true effects as is shown in Figure 3 below:

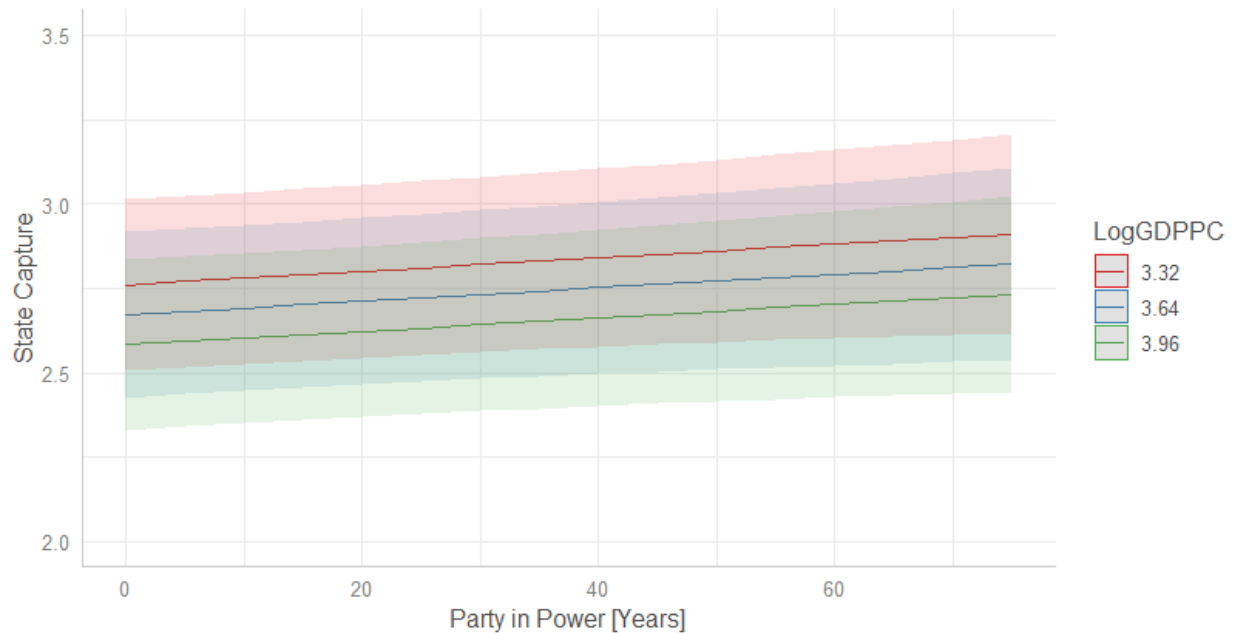


Figure 3: Party in Power [Years] on State Capture at Varying levels of Log GDPPC

In examining Figure 3 above which visualizes our key interaction term to test H2 in which I argued that the effects of *party in power [years]* on *state capture* will be less at higher levels of *economic development* relative to lower levels of economic development in which I went into the argument as to why detailed above – we do see that this appears to be the case. In Figure 3, the red line corresponds to the lower levels of *GDPPC (economic development)* and we see that in this case, the effect of *party in power [years]* as shown on the x-axis on *state capture* as shown on the y-axis is higher at these lower levels of economic development suggesting to us that less economically developed countries are not as capable at controlling the corrupting effects of *party in power [years]* on *state capture*. Meanwhile, Figure 3 demonstrates as shown via the green line that higher levels of *GDPPC (economic development)* in which the legend to the right also portrays the various levels of *GDPPC* – that at these higher levels of *economic development* – the impact of *party in power [years]* on *state capture* is mitigated which suggests to us that higher economically developed countries offer superior institutional quality that are better able to mitigate any corrupting impacts that a *party in power [years]* may have on *state capture*. Still, the moderating effect remains without statistical significance.

Robustness Check Results

In Table 3 below I present a robustness check of the results garnered from Table 2 by dropping Cuba from the sample to bring the total number of observations estimated in the model down from 349 to 330 which accounts for the omission of Cuba for the years 1996-2017. The results in Table 3 serve as a robustness check as Cuba is an unusual case – especially with respect to our key independent variable of interest *party in power [years]* as Cuba is an extreme outlier in this case having a single party rule ever since its revolution in 1959. Thus, it is worthwhile to guarantee the robustness of our results as were shown in Table 2 by omitting Cuba from the sample as is done in Table 3 and its estimated models.

From Table 3 in the main model – we see that the results remain highly robust and consistent with the main model estimation as was done in table 2 but with the omission of Cuba from our sample. The same can be said for models 2 through 4 in Table 3 in which once more the results remained consistent with the results from table 2 and highly robust. Overall, *party in power [years]* in both the main model and model 4 of Table 3 remained statistically significant and positive in our robustness check models (the same outcome as was the case in table 2 which presented the main results). Thus, our robustness check demonstrates that even with Cuba omitted from the sample which was a major outlier with respect to our key independent variable of interest *party in power [years]* – the results hold, are consistent with the main estimates in Table 2, and remain highly robust.

Discussion and Conclusion

This study examined the relationship between *political party in power [years]* which is synonymous with political party institutionalization as the longer one party is able to remain in power signifies that political competition is weak and *state capture*. This is because opposition political parties that can serve as a potential check on the party in power are slim to non-existent. The study used a pooled regression employing a mixed effects model where time served as our level 1 units (the fixed effects) and countries served as our level 2 units (the random effects) for 19 different Latin American countries through the years 1996-2017. The findings are consistent with the various results presented in the literature and suggest that *party in power [years]* where the longer one single party is able to remain in power presents a serious obstacle for controlling corruption and *state capture*. However, as we have shown in this study, the greater a country's level of *economic development* – the effects of *party in power [years]* are abated relative to countries with low levels of overall *economic development* albeit the moderating variable was without statistical significance. Still, the base effect for *economic development* on *state capture* remained statistically significant. The data for this study are derived from various sources, aggregated by countries at the country-level. At the present state, the findings of this study generalize the country level experiences of *state capture* and adds to our understanding of the impact of *political party in power [years]* and resultant institutionalization of political parties and their impacts on *state capture*.

Table 3: Robustness check (Cuba omitted from analysis)

	Main Model	Model 2	Model 3	Model 4
<i>Fixed Effects</i>				
Time	0.016*** (0.006)	0.016*** (0.006)	0.016*** (0.006)	0.016*** (0.006)
Total % Pop Urban	-0.019** (0.008)	-0.019** (0.008)	-0.019** (0.008)	-0.020** (0.008)
Economic Freedom	-0.007** (0.003)	-0.007** (0.003)	-0.007** (0.003)	-0.007** (0.003)
Total % Nat Res Rents (GDP)	-0.006** (0.003)	-0.005** (0.003)	-0.005** (0.003)	-0.005** (0.003)
Drug Trafficking	0.583* (0.278)	0.584* (0.278)	0.584** (0.275)	0.587** (0.277)
Party in Power	0.002* (0.001)	0.003 (0.003)	0.000 (0.004)	0.029* (0.018)
^2 Party in Power		0.000 (0.000)	0.000 (0.000)	
^3 Party in Power			0.000 (0.000)	
Democracy	-0.081** (0.037)	-0.079** (0.037)	-0.078** (0.037)	-0.073* (0.037)
Civil Liberties	-0.044** (0.021)	-0.043** (0.021)	-0.042** (0.021)	-0.042** (0.021)
Party in Power X Log GDPPC				-0.007 (0.005)
Log GDPPC	-0.282*** (0.104)	-0.280*** (0.104)	-0.284*** (0.104)	-0.230** (0.109)
Constant	0.553 (0.611)	0.543 (0.612)	0.557 (0.609)	0.361 (0.622)
<i>Random Effects</i>				
Intercept	4.148 (1.83)	3.691 (3.38)	1.651 (3.14)	3.648 (3.46)
Residual	0.522 (0.07)	0.522 (0.08)	0.518 (0.08)	0.52 (0.08)
Correlation Structure (AR1)	0.976	0.976	0.976	0.976
Observations	330	330	330	330
Log Likelihood	224.644	224.724	225.164	225.86
AIC	-423.288	-421.447	-420.328	-423.72
BIC	-373.9	-368.26	-363.342	-370.533

The theoretical arguments against strong political parties and institutionalization do not hold according to our study. Strong parties do make a difference at controlling corruption in a given country as they serve as a key source of horizontal accountability on the executive branch but also against private sector actors in their attempts to engage in

acts of *state capture*. Both of which are crucial for Latin America which historically has a legacy of a very strong executive branch or what O'donnell (1994) would describe as "delegative democracies" along with asymmetrical power wielded by private sector actors (Durand 2019). This study has demonstrated the negative impacts of *political party in power [years]* on *state capture* as the longer one party is able to remain in power – the greater the level of *state capture* will be present within a given country. This further suggests that political parties (especially the party in power) play a pivotal role in either facilitating or inhibiting *state capture* and corruption. This also suggests that the type of *political party in power [years]* may also either contribute to or inhibit *state capture*. This crucial fine point is worth explicating, as it has not yet been empirically examined in the literature. Thus, a study that not only accounts for *political party in power [years]* but also a characterization of said party such as its ideology on a scale ranging from autocratic to democratic and its resultant impact on *state capture* is a worthwhile undertaking to examine for future research. One way to estimate this would be to include a moderator that examines *political party in power [years]* on *state capture* at varying levels of *regime type*. To do so in this study, however, is beyond the scope of the focus of this research.

Including *political party in power [years]* in the *state capture* model may help countries and their respective governments with all of the different horizontal and vertical accountability mechanisms in place to realize the importance of strong political party competition when it comes to controlling corruption. It is well known that autocracies by and large experience more corruption than do democracies (Durand, 2018) as party competition in autocracies is often slim to non-existent. Thus, for autocracies, there may not be a whole lot society can do until reform or revolution take hold which enable healthy political party competition to take place. For weak and or ill-established democracies, however, – the importance of political parties is even more profound – as they can make or break whether or not a country goes down the path of corruption and state capture – or the path towards healthy and equitable politico-economic development. Moreover, in dynamic environments such as what a government governing a country confronts – considering the role of political parties will help state officials and politicians implement measures to help protect political party competition along with refine any existing deficiencies in existing political parties and their respective structures and legal frameworks in which they operate in order to mitigate any factors that could cause political parties to play a key role in fomenting *state capture* and corruption. Based on this study, even miniscule changes in *political parties* can make a difference when it comes to *state capture* (or lack thereof). Thus, once governments determine the relative importance of political parties for *state capture*, their response to the expected digressions/improvements in political party robustness in a given country would have to be taken into account in the existing legal and regulatory frameworks for purposes of helping to limit acts of *state capture* and corruption.

Governments and private sector actors alike should ultimately take an aggressive stance when it comes to corruption and *state capture* for the good of the country and the long-term interests of the citizenry at large. To that end, if *political parties* once in power become unable to be dislodged from such power due to weak political party opposition and resultant lack of competition in a given country and therefore begin to cement corrupt networks and acts of patronage due to the lack of accountability they confront – it is up to the marginalized sectors of society at that point to call out the perceived wrongdoings on behalf of those who wield power. However, this becomes increasingly difficult for the marginalized in such a situation as they often confront at this point once a single party in power is able to cement its rule – inevitable acts of political persecution along with judicial

misgivings. Therefore, it is crucial to fight for civil liberties at all costs and ensure civil society can act as a check on an increasingly autocratic governing party in power once political competition becomes stifled. To that end, the importance of a strong and independent judiciary must not be discounted either (Carrion 2021).

Examples can be found where governments have played a key role in managing corruption and acts of *state capture* with the aid of responsible and robust political parties. For instance, Chile – with its robust political party system has better been able to keep a check on corruption in the country while offering a greater level of horizontal accountability that can provide checks on an executive that wishes to skew the system in its favor. At the other end of the spectrum, a country such as Venezuela has lost all forms of horizontal and vertical accountability. In Venezuela, there is no political opposition while Venezuelan president Nicolas Maduro has managed to turn Hugo Chavez’s populist movement into full-fledged authoritarian rule. In Venezuela, the implications of one single *party in power* for a substantial number of years along with a lack of political competition are clear: the country and its people are living in a crisis. A country such as Peru can be argued to be in the mid-level range of Chile and Venezuela. While Peru does not have robust and institutionalized party systems as does Chile – there are, nonetheless, alternations in power and political competition which are notably absent in the case of Venezuela. This could explain partly why Peru has greater levels of *state capture* than Chile but lower levels relative to Venezuela. In the end, political parties’ matter – and they play a key role in either the strengthening or weakening of the politico-economic rules of the game.

This study does yield limitations. It relied upon a perception-based measure of corruption/state capture for the dependent variable given the inevitable difficulty of properly measuring a phenomenon that often takes place in either “grey zones” or completely illicit zones. With that said – it is still one of the most robust corruption measures out there in the world today and made for an easy choice for inclusion in this study. Another limitation of this study is that it could not properly account for the specific impact of *party in power* based upon the classification of said party. This study only took the key independent variable *party in power [years]* and measured its impact on *state capture*. While this provides a good estimate for the initial impact of *party in power* on *state capture* – it is not a perfect measure. Future studies aiming to estimate the impact of the length of the party in power on *state capture* should also attempt measures at classifying this key independent variable depending upon whether the *party in power* leans more democratic or autocratic in order to better parse out its effects. Finally, it is worthwhile to examine if the impact of *party in power* on *state capture* varies depending upon the type of economy and not just overall levels of *economic development* (ie is the economy resource dependent or more diversified; the total % manufacturing relative to other sectors etc.). Addressing these issues is and remains a critical task for helping governments, policymakers, and academics alike to better manage and understand corruption and *state capture*. To do so here, however, is beyond the scope of this study.

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