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Noragric

Department of International Environment and Development Studies

P.O. Box 5003

N-1432 Ås

Norway

Tel.: +47 67 23 00 00

Internet: https://www.nmbu.no/om/fakulteter/samvit/institutter/noragric

Declaration

We, Malene Rosenberg and Trine Wiig Nicolaysen, declare that this thesis is a result of our research investigations and findings. Sources of information other than our own have been acknowledged and a reference list has been appended. This work has not been previously submitted to any other university for award of any type of academic degree.

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Acknowledgements

The writing of this thesis has been a long though interesting journey, and marks the end of an era. There is a lot of people we would like to acknowledge.

First and foremost, we would like to express our sincerest gratitude to our supervisor, Espen Sjaastad. Without your guidance and helpful feedback, this thesis would not have been possible. We benefited a lot from your constructive comments. Thank you for your patience and support, even after being pestered by hundreds of questions and emails.

In addition, we would like to extend our gratitude to all those we have been in contact with during this process. Your knowledge has been highly valuable.

We would also like to thank friends and family for bearing with us throughout the entire process, and for your encouraging words when we needed it the most. You have been more helpful than you know.

Abstract

When Hugo Chávez became president of Venezuela, he came with the promise to eradicate corruption and clean up politics. However, research shows that the level of corruption in Venezuela has actually risen after Chávez came to power. A question thus emerges: Why has Venezuela's level of corruption increased after Chávez became president? Furthermore, neither political institutions nor the population have held Chávez accountable for violating his promise, despite the fact that corruption seem to penetrate the entire system and that Venezuelans have overthrown corrupt politicians before. This makes us wonder, how did Chávez avoid being held accountable for corruption during his rule?

As this research takes the form of a historical case study, we have applied several different theoretical lenses to obtain a deeper understanding how corruption unfold in the Venezuelan context as well as understanding why Chávez has not been held accountable through checks and balances. To answer our questions, we have used a mixed method approach to analyze and discuss the findings. This has enabled us to triangulate our findings, as well as giving us the opportunity to explore material which is not always easily captured by one approach alone. Firstly, we analyzed the relationship between democracy, media and corruption. Secondly, we looked at how the division and centralization of power affect democratic tools. Thirdly, we saw corruption in the light of economical explanations. And fourthly, we examined the relationship between natural resources and corruption.

Our main findings were that corruption has increased with the deterioration of the democratic tools intended to suppress it. The power has been centralized into the hands of the presidency, and economic freedom has been suppressed. This has severely harmed checks and balances, and allowed corruption to thrive. Yet, even though corruption would theoretically entail more inequality and less prosperity, the findings suggest otherwise. In fact, as oil revenues are so great in Venezuela, there is room for both corruption and high social spending. This further leads us to understand why Chávez has not been held accountable by his people either. If a population has the impression of politics being corrupt by nature, which in respect to Venezuela's political history is reasonable to assume, they are less likely to criticize the one corrupt politician whose policies actually benefit them. In relation to the poor, he became like a modern day Robin Hood. Further, as the majority of Venezuelan voters remain poor, this explains why Chávez continued to win elections.

Overall, this study reveals why and how a democratic government can be utterly corrupt, and still not be held accountable.

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Part I: Introduction

When Hugo Chávez became president in 1998, he won the election with the promise of eradicating corruption and clean up politics. The population felt overlooked by the elitist parties which had dominated politics ever since democracy was fully introduced in 1958. In the democracy's initial years, the future seemed stable and prosperous. Due to Venezuela's large reserves of oil, the government was able to boost its investments in infrastructure and the population. The people of Venezuela was thriving, and the Venezuelan system became a role model for the rest of Latin America, where military dictatorships remained prevalent. Nevertheless, what goes up must almost always come down, and what seemed to be an exceptional democracy, turned out be nothing more than an elitist, corrupt democracy with instruments that granted top officials an enormous power to abuse public funds. Thus, while other Latin American countries experienced the so-called third wave of democracy in the 1980s, Venezuela went in the opposite direction. Therefore, in hindsight, the weaknesses of the system have been increasingly highlighted (Derham, 2007; Hausmann & Rodríguez, 2014; Karl, 1997; Philip, 1999). The economic crisis made it quite clear that the golden years were over, and the situation turned increasingly sour as the Venezuelans became more and more dissatisfied with their rulers (de la Torre, 2014:50). This dissatisfaction paved the way for an alteration of the previously stable political system, dominated by the parties Acción Democrática (AD) and Comité de Organización Política Electoral Independiente (COPEI). Additionally, the political dissatisfaction created a form of power vacuum, where anyone who did not look anything like the former regime had a fair chance of winning. Thus, when Chávez, a man of the middle-class with the same ethnic background as the majority population arrived the political scene, he represented a new turn in the country's political sphere. He was a man of the people, and not yet another new representative from the elite like the previous rulers. Furthermore, his aggressive rhetoric against the dominating parties and his pro-poor platform, spoke right to the hearts of poor Venezuelans.

Throughout his presidency, Hugo Chávez made a mark globally and not least domestically and the perceptions of Chávez are highly polarized. He was the former coup-maker whose politics came to dominate Venezuelan politics for decades, even surviving his death in 2013 (Riise, 2013:15). He was the man who was able to take Venezuelans' life quality to new heights, with decreasing employment rates and less inequality, while crime rates and inflation rose accordingly. Furthermore, despite the fact that Chávez even came to power with the promise to exterminate

corruption, little points in the direction of this happening. Critics of Chávez blame him for becoming nothing more than a reflection of the previous governments he intended to replace with widespread corruption, a bloated bureaucracy and a violent police force (Ciccariello-Maher, 2013:5; Deveraux & Collit, 2013). According to some sources, corruption has even become worse. In addition, as Venezuela is a democracy with a population fed up with corrupt politicians enriching themselves at the expense of the people, it makes you wonder why the population has not held Chávez accountable through elections. Overall, this begs the questions: *Why has Venezuela's level of corruption increased after Chávez became president? And how did Chávez avoid being held accountable for corruption during his rule?*

To answer these questions, we have taken on several theoretical lenses. Common for many of the theories however, is their emphasis on the role of institutions to ensure efficient checks and balances. Many of the theories thus address features likely to affect the quality of institutions, but in different ways. Further, as this study is a historical case, with the Chávez era being the object of analysis, we need a thorough review of the system Chávez came to replace. A society does not develop in isolation from its past, and it is therefore beneficial to understand the system Chávez inherited to acquire a deeper understanding of what it was with Chávez's rule that made Venezuela even more corrupt. Moreover, it might be helpful in understanding why he continued to win elections, despite a widespread perception of him being corrupt as well as less democratic.

Apart from presenting the topic and the research questions for this study, Part I provides an overview of the political history of Venezuela. In Part II, we present the concept of corruption and its changes over time as well as the theories we apply to answer our research questions. In Part III, we specify the design of the research and the methods applied, along with the variables used for the statistical analyses. In Part IV, we present the findings from the statistical analyses and discuss them in the light of both theory and existing written documents on Chávez's system of rule. Part V provides the concluding remarks and summarizes the highlights and findings of the research.

1.1 Political Background - From Authoritarianism to Democracy

From independence until today, Venezuela has experienced a rollercoaster ride of different governance systems, alternating between dictatorship and democracy multiple times. After independence from Spain in 1821, *caudílloism* (a form of military rule) was predominant in Venezuela as well as in many other Latin American countries. The system relied on personal authority, informal justice and clientelistic forms of recruitment (Karl, 1997:77). In 1908, Juan Vicente Gómez came to power in a US-backed coup. In this period oil production rose to new heights, while the 1920s represent the actual beginning of the Venezuelan oil adventure with both the production and export of oil exploding. Accordingly, so did the revenues to the state (Salazar-Carrillo & West, 2004). Oil revenues protected Gómez from the type of strains which had ousted dictators elsewhere, with increased funds to repress opponents and reward supporters (Karl, 1997:80). However, after Gómez's death in 1935, Venezuela entered a period of democratic reforms, which was unique in a Latin American context where several countries were still being ruled by military dictatorships. Still, much of the progress relied on the personal preferences of presidents, as democratic reforms came and went in waves. Political parties and unions were allowed to organize, the practice of torture abolished (at least officially) and political prisoners released. Yet, voting rights (one of the main characteristics of a democracy) were restricted and reserved for a small political elite (Riise, 2013:28-29). Thus, despite entering into a period of democratic reforms, some vital elements lagged behind.

The political party Acción Democrática (AD) was one of the parties who desired power, but at the same time understood that obtaining power through democratic channels essentially was impossible for political parties outside the established elite. AD felt they had no other real alternative than to turn to force to reorganize the power structure in the country. In 1945, AD allied with junior military officers and carried out a successful coup. With the new government, democracy in Venezuela was taken to new heights with the introduction of universal suffrage for all citizens over the age of eighteen as the most important reform. In 1947, Venezuela held its first formal election, which made Romulo Gallegos from AD the first democratically elected president (Riise, 2013:29). Oil revenues flushed the country and revenues were largely spent on investments in social health campaigns, education and housing. However, the times of progress soon came to an end when AD's position in power was brutally stopped by the same tactic that brought themselves to power, namely a coup. This time with the military in the lead, Venezuela was brought back to the period of caudilloism (Derham, 2010:47-48).

After nearly ten years of enjoying democratic reforms and freedoms, the new reality with the military in the lead was quite the opposite. The military government ruled with an iron fist from 1948 to 1958, and the democratic freedoms of the late 1930s and early 1940s were swiftly swept away. Political parties experienced a familiar wave of repression and thousands were incarcerated for so-called political crimes. Oil production steadily increased, but the revenues found its way into the leaders' pockets rather than into social programs. However, the new regime did not enjoy their position in power for too long. Early 1958, conspirators conducted a successful coup to oust the government, and on January 21st the president fled the country into exile (Derham, 2010:49-52). With the military dictatorship out of the way, Venezuela was able to continue its transformation into democracy.

After the fall of the dictatorship, the three biggest parties, AD, COPEI and Unión Republicana Democrática, met and signed the pact of *Punto Fijo*. The reasoning behind the pact was to prevent the reoccurrence of yet another coup, and thus protect the fragile democracy from unravelling. The pact laid the ground for close cooperation and mutual respect between the leading parties, and a common set of policies which would persist regardless of who won the election. In addition, all political parties were guaranteed some form of state job (Karl, 1997:99; Riise, 2013:30). In 1959, Venezuela's second, formally democratic election was held and once again, nearly a decade after they were overthrown, AD took the presidential seat (Derham, 2010:53). After a ten-year break from democracy, the new government faced several challenges when obtaining power. The Venezuelan society was starving in the lack of investments, and poverty and illiteracy were widespread. Fortunately, the new government could rely on an enormous oil wealth to carry out the much-needed social investments and finally the richness of the state seemed to benefit the population as the state was increasingly investing in infrastructure, education, health and much needed agricultural reforms. As a result, the country seemed to be on the right track on its transformation into a modern society (Derham, 2010:53-56; Riise, 2013:30-31). However, the upturn came to unravel as the newly democratically elected government came to resemble nothing more than the former regimes. Throughout the 1970s and 1980s, corruption scandals popped up everywhere together with widespread repression and misuse of executive power. As Fabricio Ojeda (who himself had participated in the overthrow of the former dictator) said: "nothing happened in Venezuela…only names were changed" (Ciccariello-Maher, 2013:24). Behind all the progress, a peculiar political crisis simmered. What seemed to be the emergence of an exceptional democracy in the Latin American context of the time, proved to be nothing more than a system who successfully applied instruments guaranteeing power in the hands of the leading parties. What was

paradoxical was that the unravelling of Venezuelan democracy started at a time when several other Latin American countries became democratic. The question is, what caused a system which future seemed so bright to fall so hard?

Some stress that the system had cracks in its foundation from the very beginning, which doomed it to fail at some point or another. In this view, particularly the signing of the Punto Fijo pact itself is highlighted as the initial pitfall for the system that emerged. It created an elitist three party system, which was deliberately created to exclude parties from the far left and the far right (Ciccariello-Maher, 2013:25). In fact, it was very difficult for parties outside the established elite to obtain power (Riise, 2013:31). It is imaginable that the new political leaders believed their strategy was justified because it would ensure a definite break with Venezuela's authoritarian past (Philip, 1999:363). However, it is difficult not to see the irony that the Pact created a similar system to the one AD couped in 1945, where only the established parties had an opportunity to obtain power. To prevent political crises, pacts became the mechanism of containment, establishing a policy style of giving something to everyone. Thus, the Punto Fijo system allowed outstanding political disputes to be resolved behind closed-door negotiations (Karl, 1997:99; Philip, 1999:363). To protect the infant democracy from unravelling at the interest of previous coup makers, all interests was appeased through the liberal use of oil money. First and foremost, all political parties were given some form of state job to prevent them from conspiring against the government. Secondly, to ensure support from the capitalist class, the government initiated an import-substitution policy. However, as the protection of national industries was based on licenses rather than tariffs, it granted state officials an enormous power where they could award licenses on an individual basis. Not surprisingly, in a country who lacks tradition with good governance policies, licenses and subsidized protection were often granted to firms with close ties to the political elite. Thirdly, to ease pressure from the public, increased social spending became the main channel for delivering jobs and services to the middle and lower classes (Karl, 1997:98-103). Nevertheless, the practice of appeasement proved difficult to dissolve when the democratic system stabilized as all competing interests were smoothed over with the extensive use of oil money in exchange for political support. In other words, it made everyone a client of the new political elite (Karl, 1997:101,231). Such a strategy does however have its costs. If they cut their expenses, they risked losing their broad support. The overall problem with this strategy was that the system granted the political elite a high degree of control over the bureaucracy and judiciary branch, eventually leading to widespread corruption and abuse of executive power (Philip, 1999:363). Further, with the oil boom in the

1970s, the situation only got worse as it enhanced political leaders' opportunities to intensify its subsidized democracy.

The oil boom of the 1970s highly affected the Venezuelan oil economy, initially in positive ways, but finally with devastating consequences. The oil shortage had led the oil price to multiply and the government received extreme amounts of revenues in a short period of time, which is recognized in theory to have adverse implications for governance (Riise, 2013:33). Despite promises to handle the sudden increase in revenues in a cautious manner, a number of ambitious projects were initiated with little regard to sustainability and future income (Riise, 2013:31). Karl (1997) explains how the practice of oil revenues being directly transferred to the state through profit taxation, reinforced the already existing rent-seeking and clientelistic trend in Venezuela's political institutions (Philip, 1999:364). It enhanced their ability to intensify the widespread clientelistic approaches, further noticeable by the large increase of state owned companies, many of whom were inefficient, corrupt or both (Philip, 1999:364). Furthermore, between 1974 and 1984 the number of public employees three folded, often in very insignificant positions. For instance, every public elevator was ruled to have an operator. Distributing the oil revenues through public employment even became so bizarre that a former financial minister stated in a speech that Venezuela had 500 000 public employees who did not work. Overall, this senseless use of money gave Venezuela the nickname "Saudi-Venezuela" and it became clear that Venezuela's abundance in oil had become both a blessing and a curse (Riise, 2013:31-32). While the increased revenues gave the government increased opportunities for investments, the increasing revenues became utilized in the most unsustainable manner. It also made the Venezuelan economy entirely dependent on a high and steady oil price to keep pace with the ever increasing expenses. The subsidized democracy had created a system that lacked the minimum sense of public and democratic purpose (Philip, 1999:36). The practice was intended to win support from every socially and politically important group, while it all together weakened broad debate, removed vital checks on presidential power and eventually fostered corruption (Karl, 1997). Removing the subsidies that had ensured the power in the hands of mainly two parties, would equal political suicide (Riise, 2013:33). Hence, when the money stopped pouring in, it represented the beginning of the end for the Punto Fijo system.

In the late 1980s, a broad set of problems emerged. To maintain their widespread support and dominance in Venezuelan politics, the government had boosted the society with the ever increasing oil revenues, a strategy doomed to fail as fast as the oil revenues started to decline. Thus, when the oil price plunged in the mid-1980s, the government obtained huge loans from international lending

institutions as a last effort to keep up with their unsustainable expenses, whom further bound them to implement neoliberal reforms (Ciccariello-Maher, 2013:73). Median income dropped, unemployment rates increased and the government redirected investments away from social programs to fund the overly employed public sector, meet debt payments and make up for industrial losses (Derham, 2010:53). As popular expectations were relatively high due to enjoying democracy for almost thirty years in addition to a high oil price, the cut in social spending was obviously not greatly received and popular rebellion emerged. The government feared a resurgence of coups, and turned to mass arrests, torture, and even airdropped bombs to target central revolutionary figures (Ciccariello-Maher, 2013:73; Philip, 1999:362). The history of repressive governments, popular rebellion and violence that had characterized the political landscape for centuries was thus not soothed by adopting a democratic system. The government's repressive attitude did not have the deterrent effect it might was intended to have, but rather the opposite, as popular rebellion continued to rise (Ciccariello-Maher, 2013:101-103). Nevertheless, as election approached there was new hope and the widespread anger was for now placed on hold.

In the 1989 election, Carlos Andrés Pérez was inaugurated as president, much due to his anti-neoliberal rhetoric and strict attitude against international lending institutions like the IMF. However, only weeks after his inauguration and critique of neoliberalism, he launched a neoliberal "package", which further worsened the already unstable economic and social surroundings (Ciccariello-Maher, 2013:91). The need for altering the economic policies were obvious. Nevertheless, without support from a population who now felt blind-sighted by yet another politician, the response was severe. February 27th 1989, the first concrete consequence of the new reforms emerged. The liberalization of price control was applied to oil prices, which had been heavily subsidized for years (Riise, 2013:34). Soon after the package came into force, the price on consumer gasoline doubled. For people working in the public transport sector this meant a doubling of expenses and in response, ticket prices were raised. This was not greatly received by the people dependent on commuting into the bigger cities for work, and popular rebellion emerged. Revolutionaries also came to join in and were quick on turning the anger against the president, the party system and state as a whole (Ciccariello-Maher, 2013:92-93). Riots broke out in all the major cities, and the result was the most devastating revolt in modern Venezuelan history, today known as the Caracazo. The president responded with declaring a state of emergency (Riise, 2013:34). Constitutional guarantees were suspended and overnight curfew inserted. Moreover, for those violating the curfew, severe implications followed. In addition, well-known rebellions were taken from their houses and were either executed, or disappeared mysteriously (Ciccariello-Maher,

2013:95-96). The official number of deaths is 276 people. Yet, human right groups in Venezuela has claimed that the number could have been as high as 3000 (Riise, 2013:34).

After the Caracazo, it became apparent that something had to change. The population was frustrated by the paradox that the country possessed so much wealth, but yet so many were living in poverty, and the only reasonable explanation to this paradox was significant abuse of stately funds by the ruling politicians (Cameron & Major, 2001:256). In light of this frustration, corruption scandals constantly became known. The practice of bribes and systemic fraud could no longer be hid from the public, and several government officials were charged for abusing their positions. The most revealing scandal was the RECADI-scandal, which has been estimated to have robbed the public of over 11 billion US dollars (Riise, 2013:32). Court proceedings against prominent political figures were announced almost daily, and peaked with the conviction of President Pérez in 1993 for illegal use of public funds and entrusted power (Karl, 1997:182; Riise, 2013:34-35). It eventually became clear that corruption had penetrated all levels of the system, from stately companies to the political elite, and the population's anger against the corrupt politicians only got worse. The population's support for the ruling parties declined alongside with their trust in the system. Surveys conducted by Myers and O'Conner (1998) in 1973 and 1993 measured the middle- and working class' support to political parties. The results revealed a steady decline in support for the Punto Fijo-parties. In 1973, 59 percent of the informants stated that they had no "simpatia" for AD, while in 1993, when asked the same question, 66 percent answered the same. COPEI experienced an even greater decline in support with 39 percent stating no "simpatia" in 1973 and 62 percent in 1993 (Derham, 2010:7). People were tired of the corrupt and elitists parties who ruled with little concern to the population's wishes, while enriching themselves at the expense of the regular Venezuelan. Considering Venezuela's history with coups and popular rebellion, it should come as no surprise that a significant reaction in form of a coup was to occur in the near future. And this time, Chávez was in the lead.

1.1.2 Chávez Enters the Political Scene

Hugo Chávez was born 28 July 1954 and grew up in a lower middle-class home in the Venezuelan interior. As his parents were too poor to take care of all their children, his grandmother raised him for much of his childhood. Already then, his contempt for the rich began. Trying to climb up the social ladder, lower middle-class families experienced difficulties finding their place in society. They were not the poorest of the poorest, but still "poor enough" to not be accepted by the higher classes (Riise, 2013:41). Seventeen years old, Chávez joined the military as an officer cadet. The Venezuelan military enlisted their recruits mainly from the lower middle-class as they were more

likely to comply with their leftist ideology. Chávez was no exception (Lapper, 2005). In the military, Chávez met and conspired with likeminded officers to overthrow the present government. In their view, the system that emerged in 1958 was both socially exclusive and corrupt. For example, the welfare benefits were rarely enjoyed by the rural migrants, but rather granted to well-organized urban workers closely affiliated to AD-controlled unions. Adding to this anger, Chávez and his companions were among the many military officers who opposed the violent repression against the weakest in society during the 1989 Caracazo. Nonetheless, as the Caracazo had led to severe discontent in the overall population against the ruling elite, it further expedited the planning of a coup (Lapper, 2005; Sylvia & Danopoulos, 2003:65).

In February 1992, Chávez attempted a military coup. The effort was unsuccessful, but still it had an impact and motivated further popular rebellions in the years to come (Ciccariello-Maher, 2013:101-2). Chávez and his partners were imprisoned until 1994, and during these years the situation in Venezuela did not take a turn for the better, as oil prices remained low (Lapper, 2005). Chávez's unsuccessful coup had given a face to the unsatisfied Venezuelans and expressed public outrage over corruption and mismanagement of funds (Cameron & Major, 2001:256). The prosecution of President Pérez in 1993 fueled the fire, and happened only years after former President Lusinchi was accused (but never sentenced) for corruption, supporting Venezuelans' perception that all politicians were to blame for their poor situation (Lalander, 2010:136). Further speaking Chávez's cause was the inauguration of a president outside the political elite. To ensure majority, the new president had allied with smaller, mainly leftist, parties. Due to the leftist sympathies, the new president amnestied both Chávez and other rebels in 1994, ultimately giving Chávez a fresh opportunity to reach his goal as the leader of the state (Lalander, 2010:141). However, this time Chávez changed his tactics.

One of the possible explanations for why the 1992 coup failed is that Chávez and his companions misjudged people's discontent for the ruling parties as a rejection of democracy. Therefore, when Chávez was released from prison in 1994, he changed his strategy and decided to go through the electoral system to reach his political goals. Chávez and his followers converted the previous military movement Moviemento Bolivariano Revolutionario to a political movement and called it Moviemento Quinta Republica (MVR). At this time, the leftist alliance had splintered into several fractions, and many gave their support to the newly established party under the leadership of Hugo Chávez. Chávez continued to discuss social justice problematics, which was greatly received by the masses. Furthermore, in 1996 and 1997, his support on opinion polls was ever increasing (Lalander, 2010:142; Sylvia & Danopoulos, 2003:66-67). Chávez's personal background was in

his favor. He looked like the majority of Venezuelans, coming from the same ethnic background, in opposition to his main opponent who was white with blue eyes. Both Chávez's looks and rhetoric spoke in his favor as he represented a complete shift from the traditional parties. Thus, Chávez seemed tailor made for the situation (Riise, 2013:21,23). In 1998, Chávez campaigned with the promise to eradicate corruption and clean up politics, and even though the voter turnout was only at 35 percent, he received an overwhelmingly 58 percent of the votes (Lapper, 2005; Sylvia & Danopoulos, 2003:66-67). Overall, with Chávez as president, the former system was definitely put to an end.

Part II: Literature Review

2.1 Corruption

In an increasingly globalized world, corruption is a problem that continues to grow in extent and complexity. Some scholars note that the liberalization and globalization of the world's financial markets and the aspiring advancements of technology has helped this evolution of corruption, as there are new ways and more opportunities to commit corrupt acts and new ways to help disguise it (Elliott, 1997:176). In addition, the spillover-effects of corruption onto the international arena, as an effect of increased international competition, has also been highlighted as a potential issue (Elliott, 1997:177). On the other hand, it is argued that the more integrated and connected the markets are, the more demand exists for transparency and accountability (Das & DiRienzo, 2009; Lalountas, Manolas & Vavouras, 2011). The general consensus in the globalized market seems to be that corruption is troublesome, and needs to be avoided. Thus, the demand for good policies and practices increases and creates its own spillover-effect as one is expected to abide by the rules to be allowed to participate. The result of free markets and high economic freedom is therefore decreasing levels of corruption (Ades & Di Tella, 1999:991-992).

With time, scholars and academics have seen the devastating consequences corruption can have on a society and on the world. It seems as though everyone is aware of the existence of corruption and agrees that something has to be done about it, although few agree on one specific definition that covers the issue. However, this will not be the purpose of this chapter either. One of the most long-standing and widely used definitions of corruption is the one used by the World Bank. Their definition states that corruption is "the abuse of public power for personal gain" (Worldbank.org, 1997:8). However, the use of the term "public" limits the applicability of the definition. It will thus fall short if non-public servants (e.g. non-governmental organizations, private firms and businesses) are the ones conducting the corrupt behavior. Transparency International (TI), a renowned international pioneer in the field of corruption, presents a more neutral and inclusive definition of corruption with *the abuse of entrusted power for personal gain* (Transparency.org, 2016). The advantage of using the latter instead of the former is that it allows us as researchers to include more under our umbrella without excluding too much. However, because corruption as a phenomenon is not static, it is important to remember that definitions of corruption will continue to change, meaning that previously acceptable behavior may today be regarded as corrupt acts and what is not regarded corrupt acts today may be defined as such in the future. We will draw from

already existing literature for explaining corruption in its various forms, types and contexts with the intent of deepening the idea of how corruption behaves. This will later be linked to the experiences of Venezuela and the era of Chávez's rule.

2.1.1 Corruption over Time

Corruption has existed since the beginning of time. Evidence has been found that the act of bribery and embezzling money from others for one's personal gain even occurred before the ancient times (Blind, 2014:109). According to Blind (2014), corruption in recent history can be divided into three different phases (p.110). First phase: The 1960s-1970s - the social-functional definitions: In the first phase, economists, sociologists and political scientists believed that corruption was clearly linked with development, democratization and modernization. In the beginning of this phase, they believed that corruption was more an issue for the developing world. This belief was severely weakened towards the end of the first phase, as the definition of corrupt acts expanded and corruption scandals increasingly appeared in the developed world (Blind, 2014:111; Farrales, 2005:6). Emphasis was also put on the fact that corruption worked as an instrument for personal enrichment, not just an instrument for (and of) societies in transition. Second phase: The 1980s-1990s - the behavioral-institutional definitions: The second phase was characterized by a bigger involvement by academics, and the concept of corruption became a popular subject for debate. Scholars, academics, and the international community increasingly focused on corruption for personal enrichment, but expanded their views to include institutional corruption on country level. They also saw more of the detrimental effects corruption could have on a country's society, economy and political environment by studying cases. By the end of this phase, several anti-corruption strategies and efforts to combat corruption were initiated (Farrales, 2005:7-12). Third phase: 2000s-today - the performance-perception definitions: The third phase was a continuation of the previous phases, but the view of corruption was increasingly expanded while it also became more targeted and divided. More indices for measurement also came into play as scholars found links between corruption and other variables, i.e. gender and good governance. These kinds of discoveries would prove valuable in the prevention, control of corruption, and response to corruption (Blind, 2014:114).

2.1.2 The Concept of Corruption

The concept of corruption has evolved over time. Because corruption as a phenomenon can vary greatly, it remains important to recognize that there are several types of corruption and that these can appear in different contexts and at different times. In most cases, corruption acts as an obstacle in societies and countries, especially those under development. Scholars and academics have

repeatedly tried to come up with a universally applicable, durable and usable definition, alas with no luck. Understanding different types of corruption is thus necessary to find an appropriate remedy, just like understanding an illness is important for finding the right cure (Heywood, 2015:27). As the concept of corruption has continually evolved, new types of corruption have emerged. Today, we can divide corruption into several forms and look at different contexts where corruption takes place. Blind (2014) expresses this kind of divide in the so-called "Corruption Pentagon":
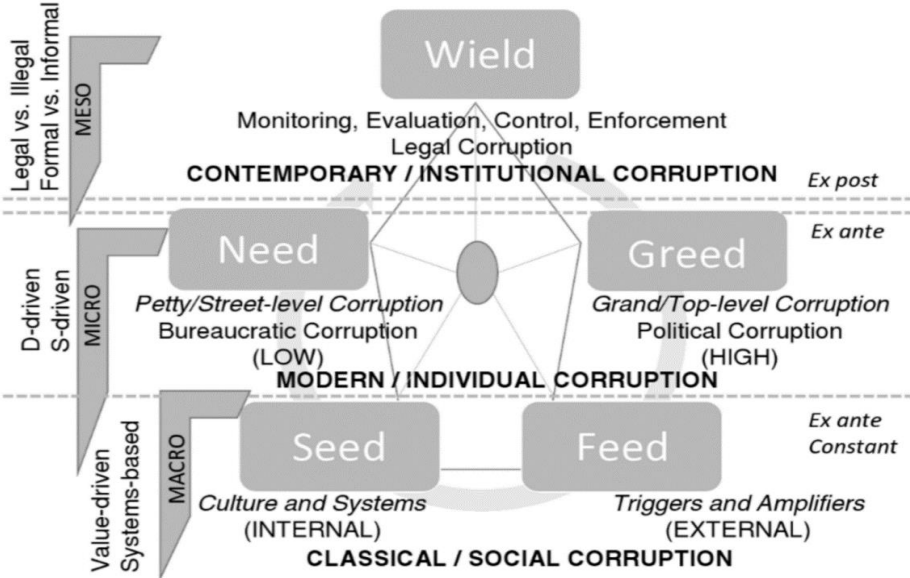
Figure 1: The Corruption Pentagon showing the structure of several types of corruption, and the link between them. Source: Blind, 2014:118.

The Corruption Pentagon helps with understanding different types of corruption and gives an overview of how we can sort them into different levels. The bottom level expresses the cultural context in which people are driven by internal values to commit corrupt acts, and the external factors that makes them do so. This level is characterized by nepotism, favoritism and bribery as common tools in a state or society. The middle level expresses corrupt behavior as supply- and demand-driven, where individuals are corrupt because they need to be to acquire material goods. On the other hand, it expresses the plain and greedy acts of individuals and organizations to enrich themselves and their "group", often by misusing public offices. The top level expresses the mechanisms that prevent and control corruption entrenched in the lower levels of the pentagon. Such mechanisms exist in the legal framework and are used by the authorities in the form of sanctions, prosecution, laws and legislations. Increasing accountability and transparency are other

measures that work preventatively on corruption at both the high and the lower levels (Blind, 2014:117-124).

When discussing corruption, it is relevant to look at on which level the corruption occurs. When we look at corruption on a scale, we differ between petty (bureaucratic) and grand (political) corruption. Petty corruption often occurs where lower-level bureaucrats meet private actors. Grand corruption occurs where the government, institutions and private sector meet and engage in corruption (Elliott, 1997:178). Elliott (1997) explains this nexus in the following figure:

Nonelected
officials

Petty
corruption

Grand
corruption

Private
actors

Influence
peddling

Elected officials
and politicians
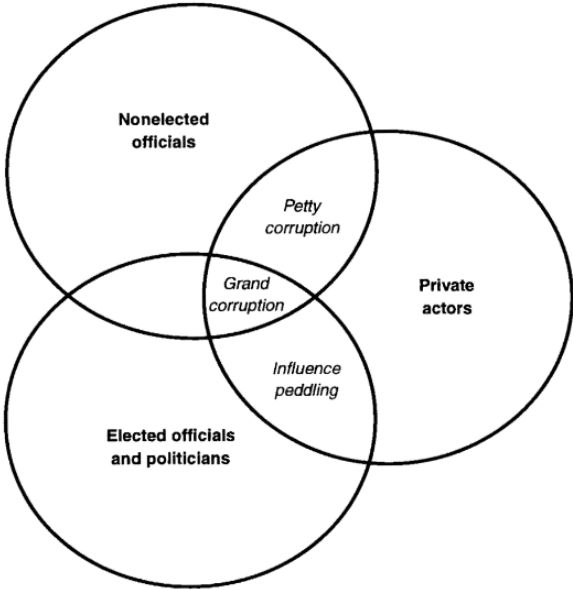
Figure 2: The nexus shows what kind of corruption that exists between the different levels of society. Source: Elliott, 1997:179.

Petty corruption is a type of everyday corruption that occurs at the juncture between private actors and nonelected officials, for example, when a citizen needs to obtain services from a hospital or a police station. Petty corruption does not necessarily involve large sums, but it is hurtful either way. This type of corruption is often evident in societies where there is a lot of red tape and bureaucrats are underpaid. By accepting bribes, the bureaucrat gets the necessary addition to a low income, while the briber gets pushed forward in queue in a slow system. This may not seem like that big of a deal due to the fairly insignificant sums involved, but often, even the smallest of sums can make it impossible for the poorest in a society to obtain what they need, thus they fall behind in the economy (Johnston, 2005:28). This level of corruption also links back to the *Need*-pillar on the middle level of Blind's Corruption Pentagon (see Figure 1).

On the opposite side of the *Need*-pillar we find the *Greed*-pillar, also called grand corruption or political corruption. This type of corruption often entails the misuse of entrusted power in the allocation of resources, political processes and electoral processes (Elliott, 1997:178). In these cases, the sum of money involved is often quite considerable. Grand corruption is quite critical for the society as a whole because it distorts the central functions of the state or government it occurs in. Included in this concept is for example police corruption (where the police collaborate and collude with organized crime gangs in order to get a piece of the pie), corruption in tax collections agencies, and electoral corruption. Also included in this concept is how the state handles contractual relationships and its assets, which may result in the collection of kickbacks (Rose-Ackerman, 2006:xix-xx). All of these can have detrimental effects on the economy, human development and the political environment because they only ensure the personal enrichment of the few on the top and prosperity does not trickle down to the majority of the population.

Even though grand corruption is quite severe, there is also a third level of corruption that is even more severe, called systemic corruption. This kind of corruption entails that a system is so corrupt that corruption is integrated in all levels of society, and thus the practice of corruption is difficult to break away from (Rose-Ackerman, 2006). Shaxson (2007:1126) explains this kind of corruption with the illustration of a queue. The order of a queue relies on two structures; the physical structure (people standing before and after each other in line) and the mental structure (faith that the order of the queue will persist, preventing them from cutting the line). If both structural orders are present, the physical queue can be disrupted as the mental order will ensure that the order of the queue remains intact. You can thus destroy the physical order without problems. The problem arises when the *faith* in the queue is disrupted by selfish people cutting in line. This will soon be followed by others who see no point in being the only one who keeps their place, and when the faith in queue is dissolved, there is no easy way to restore it. This kind of behavior relates to a system where most people are corrupt. There will be a corresponding lack of trust in the functioning of the system, which will further lead to more corruption. In a society where everyone cheats and cuts the line, there are few incentives not to join in as well. In other words, people engage in corrupt acts because they have lost their trust in the system. Overall, this creates an entirely corrupt system, with practices that are difficult to break. Further, this may explain why some countries face a particular difficult time overcoming corruption, as it penetrates the entire system.

Throughout this paper, there are several relevant concepts besides corruption that needs a more thorough explanation. The following terms are explained so that the reader can follow our thoughts and ideas in accordance with our understanding of the concepts as we apply them in this research:

Accountability: To hold individuals, agencies and both public and private organizations responsible for declaring their activities and to use their power according to laws and conventions. Media is often regarded as a crucial actor in revealing illegal and/or unethical behavior (Transparency.org, 2016). The presence of a free, independent media and available information is essential if the media are going to be able to report on such behavior. The media is also frequently referred to as the "fourth estate", meaning that it has an additional role in providing checks and balances on the government on behalf of the civil society.

Checks and Balances: "a system in which the different parts of an organization (such as a government) have powers that affect and control the other parts so that no part can become too powerful" (Merriam-webster.com, 2015a). In this research, it refers to a government system where power is separated between the judicial, legislative and executive branch, in addition to other mechanisms that exercise some form of control on that power.

Clientelism: refers to the process where benefits are distributed to individuals or clearly defined groups in exchange for some kind of obligation, e.g. political support. It is usually exercised in clear hierarchical lines, but not necessarily (Hopkin, 2006). The benefits presented can take the form of employment, protection, social goods or bribes, among many other. In this thesis, clientelism refers to the distribution of benefits in exchange for political support.

Governance: We decided to use World Bank's definition of governance as the Worldwide Governance Index is used as a variable in this thesis. Thus, when we comment on governance, we refer to this definition. The World Bank uses the definition of governance as

> the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them (Worldbank.org, 2015a).

Patronage: is linked to the term clientelism in which it describes a reciprocal relationship between a "patron" and clients. A patron is someone who uses his/her power to give benefits to a person or group who further is expected to give something back, thus becoming a client of the patron (Weingrod, 1968).

Transparency: refers to a system of openness within governments, companies and organizations, allowing information, rules, plans and actions to be available for, and overlooked by, third parties (Transparency.org, 2016).

2.2 Democracy, Institutions and Corruption

There is a lot of existing literature on how corruption develops, what may cause corruption and reasons for why corruption exists in certain contexts. In general, there seem to be a consensus that the existence of transparency, accountability and human rights are all essential factors in the battle against corruption (Treisman, 2000). Overall, these traits are also common for democracies and good governance institutions. According to Rose-Ackerman (2006),

> corruption is not a uniform, standalone problem. Rather, it is a symptom that state/society relations operate in ways that undermine the fairness and legitimacy of the state and that lead to waste and the poor targeting of public spending (p.xvi).

As with Rose-Ackerman's definition, corruption is most frequently linked to stately activities. It is therefore not surprising that literature suggest that if we reduce the size of the state, corruption will diminish or disappear (Lambsdorff, 2007; Tanzi, 2002). This assumption indicates that the bigger the state, the more incidents of corruption will occur. Nonetheless, the problem of corruption is not exclusively associated to, or conducted by, public officials. The proposed answer that reducing the state will diminish corruption, does therefore lack root in reality. Moreover, some of the least corrupt states in the world, including Canada, Denmark and Sweden, have some of the most developed and extensive public sectors (Tanzi, 2002). However, all of them are countries with longstanding traditions with democracy, indicating that democracy may be an important tool to counteract corruption. In many countries, a lack of transparency in decision-making processes, laws and stately spending, creates favorable breeding grounds for corruption to emerge. To obtain licenses, permits and authorizations, necessary for engaging in different activities (e.g. from building a house to establishing a firm), some form of interaction with the bureaucracy is required. As public servants can be said to possess the monopoly to grant and authorize such activities, they can misuse their power to demand bribes from those applying. Transparency in such transactions thus remains important. As previously stated, the level of public sector wages might also contribute to corruption. To demand bribes may therefore be out of need, and not necessarily out of greed (Shore & Haller, 2005:4; Tanzi, 2002). Nevertheless, regardless of whether the demand of bribe is put forward out of need or out of greed, stately institutions and transparency remain important to counteract such behavior. In general, transparency enables the public to evaluate government decision and procedures and hold them accountable for potential abuse. If transparency is missing, it will be difficult to reveal corrupt behavior. Thus, the way in which states operate become the most important aspect to prevent corruption (Tanzi, 2002).

2.2.1 State Formation and Operation

The formation of institutions and organizations, and the relationship between rulers and subjects is decisive for how a state operates. North (in Philip, 1999), stipulates that "institutions (i.e. formal rules) and organizations interact to create a set of incentive structures, which themselves create powerful beneficiaries likely to resist change" (p.361). According to Tilly (2010) there are three kinds of connections between cities and states (rulers) and their subjects, namely coercion, capital and commitment; "coercion involves the threat or use of force, capital the deployment of goods and services, commitment the operation of ties that facilitate mutual recognition and coordination" (p.267). These connections are organized in a system of rule (that can be everywhere on the range from authoritarian to democratic) based on social relations. More intimate social relations are established in so-called trust networks, where the connector is based on kinship and mutual interests. The trust networks hold substantial power in democratic regimes, as they produce and are the holders of (human) resources. Therefore, they are politically important for the rulers to hold on to their power (e.g. in the form of voting power in the hands of large trust networks) (Tilly, 2010).

Trust networks can be established in the form of e.g. labor unions, trade unions and ethnic groups, where they too exercise their power through coercion, capital and commitment in relation to states and cities. However, cities, states and trust networks weigh each of these differently; states rely on coercion, cities rely on capital, and trust networks rely on commitment. The relationship between cities, states and trust networks thus provide a mutual dependence on each other, which can have an effect on the quality of life due to the struggle of priority between them. Struggles of priority by trust networks might therefore involve strategies of evasion, resistance, patronage and integration (Tilly, 2010:271-272). These struggles shape how institutions and organizations work together in different contexts and their dominance relative to each other. Therefore, Tilly's theory on state formation might provide an explanation for how and why rulers share power, and the integration and separation between rules and subjects.

2.2.2 Democracy

In a well-functioning democracy, the checks and balances work efficiently with accountability and transparency as important features. The separation of power (meaning the breakdown between legislative, executive and judicial power) is very important in this respect. A lack of this power-division results in a poor democracy, poor governance, poor checks and balances and eventually enables more corruption. Democracy and well-established institutions might therefore stand out as adequate sectors to target and prevent corruption within a country. Moreover, studies have found

that there is a significant correlation between political rights and corruption (Lambsdorff, 2007). However, an additional study shows that being democratic does not have a significant impact on corruption levels (Treisman, 2000). If systemic corruption already has penetrated the entire system (as Shaxson (2007) explained with the illustration of a queue), becoming democratic is not necessarily enough. In such an environment, a country in its transformation to democracy needs sufficient time and practice to rebuild faith in the system. Important in this respect is transparency and accountability, because it enables the public to evaluate government decisions and further hold them accountable for potential misuse. If these necessary measures are not done thoroughly however, and corruption continue to penetrate the state system and society as a whole, countries risk remaining stuck in an intermediate state as a "medium democracy", which is known to be even more corrupt than fully authoritarian regimes (Chang & Golden, 2010; Lambsdorff, 2007; Treisman, 2000). Thus, there is a threshold that needs to be passed for democracy to efficiently reduce corruption (Lambsdorff, 2006a:11). In other words, the longer a country has been democratic, the less corrupt it is (Treisman, 2000). After the so-called "third wave" of democracy, sweeping through Africa, Asia and Latin America in the 1980s, only a couple of countries has been able to establish well-functioning democratic regimes, leaving the rest stuck in transformation. Medium-democratic states, more generally known as hybrid regimes, can be defined as regimes that combine both democratic and autocratic traits. Elections may be held, but again, this might be the only means to which the population has the ability to hold government officials accountable. Often, they tend to be characterized by a "strong-man" leadership, where the power lies in the hands of the president, placing the president above the law (Rocha Menocal, Fritz & Rakner, 2008:29-34). Formal political institutions only remain to strengthen patron-client relationships, not to constrain executive power, eventually leading to more corruption (Chang & Golden, 2010:6). In a medium-democratic state, leaders may have to engage in corruption in a larger scale to efficiently avoid checks and balances on their power. On the other hand, in an authoritarian state, rulers do not have to engage in corruption in the same scale, as neither institutional nor public accountability exist. Nevertheless, if one regard democracy in its rightful sense, meaning inclusion of efficient checks and balances, there should be a positive correlation between democracy and corruption. This makes it possible to draw the conclusion that even if corruption occur in democratic states, it tends to be more prevalent in countries with fragile democracies (Lambsdorff, 2007; Treisman, 2000). Hybrid regimes are in fact lacking the most essential form of institutional quality necessary to counteract corruption. Thus, the importance of democratic tools such as checks and balances, and transparency and accountability cannot be stressed enough. Separation of power between the

three branches of government is an example of this, because each branch works as a control on the power of the other two. Yet, it is not sufficient that government institutions have the ability to reveal corrupt behavior. This information need to reach the public in order for them to be able to hold the ruler accountable through elections. A free and independent media thus arises as an important intermediary in transferring this knowledge.

2.2.3 Media

According to Elliott (1997), a free, independent media provides transparency, and makes corruption riskier and more easily detectable. Politicians' fear of losing face, and thus political power, might even exceed their fear of being prosecuted. Thus, it increases the potential risks and costs related to corruption. The media has often been highlighted as an important democratic tool as it can serve as a "watchdog", controlling and revealing governmental spending and actions to the public (Waisbord, 2010). This view is supported by Lambsdorff (2006a), who claims that a free media deters corruption (p.40). Essentially, it is an institution of the civil society (Elliott, 1997:225). Nevertheless, for the media to be able to fulfill its function, it has to enjoy the liberties of freedom of speech, without the risk of being punished for outing government abuse of power. A Freedom House report (2014) supports the positive relationship between a free media and lower levels of corruption. The same report states that a major challenge in achieving this good is that many countries lack a tradition for investigative journalism and/or have constitutional provisions that restrict free flow of information (Freedomhouse.org, 2014). According to Elliott (1997), "Political reforms that [...] endow the media with greater freedom make corruption riskier and increase both the chances of detection and the potential penalty for politicians" (p.208). Additionally, those who actually are exposed through the media as corrupt, are often the powerful elite who are then exposed in relation to grand corruption scandals (Søreide, 2006:391). Analyzing the level of freedom domestic media enjoys might therefore be suitable when evaluating the level of corruption and failures in diminishing the problem. To get a visual overview of the connection between the previous theories and corruption, a flowchart was created:
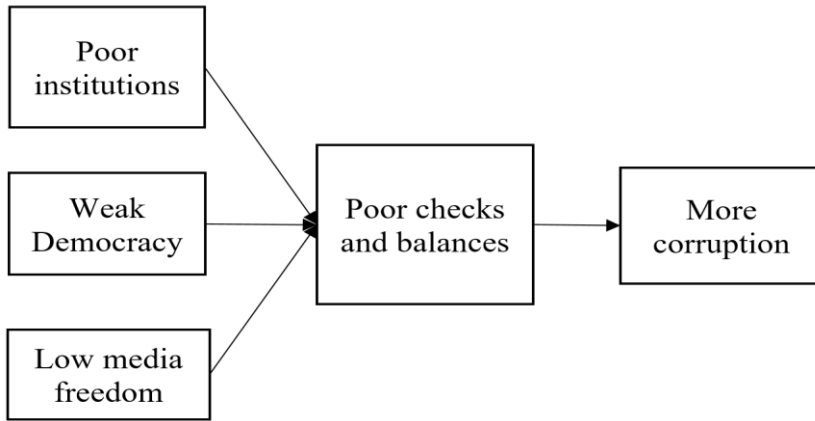
Figure 3: The connections and relationship between democracy, institutions, media and corruption.

Based on the theory and illustrations in the flowchart, we constructed the following hypotheses:

H1: High levels of democracy lead to low levels of corruption

H2: Lower media freedom leads to more corruption

2.3 Centralization, Decentralization and Federalism

In a country, the importance of having a decentralized government is crucial for dividing power between several levels, both horizontally and vertically. The division of power works as checks and balances, and is thus important to battle corruption. Two types of organizational structures, namely centralized and decentralized, tell us where the power is concentrated and gives us an indication of how authority and power is exercised and delegated. Both types have their pros and cons in various settings, which will be further explored in this chapter. Even though there exists degrees of centralization and decentralization at different levels in different kinds of political systems, we will only focus on a federalist political system for the purpose of this study. This is because Venezuela is the focus of our study, which is a country with a federalist political system. Firstly, we will present an overview of what the two terms, and "variations" of them, actually entail. Secondly, we will look at how a centralized or decentralized organizational structure can affect corruption. Thirdly, we relate these organizational structures to Venezuela in hope of finding out which one of them is more relevant. This might help us see what kind of consequences this potentially had on corruption.

2.3.1 The Differences

Federalism is a political system where the power (of the government) is divided, usually into two levels. At the top level, you find the national government and at the second level, you usually find the different states (or constituencies) that have been delegated their own power (Merriam-webster.com, 2015b). Decentralization can add more layers to the government, which means you can have a local, regional and national government (or more) in play. The main difference between decentralization and federalism is that in federalist states, power is delegated through constitutional rights. This gives more power to each state government as it can only be withdrawn with the help of the court of justice. Decentralization is, on the other hand, more fluctuating as the degree of power can be shifted back and forth (Rodden, 2004). Without an anchoring in the laws and legislations, the national government can withdraw power at will. When authority is centralized, decision-making powers are concentrated at the top. At the same time, centralized organizations often concentrate power in the hands of only one person or small group, which might make decision-making a quick process because there is no need for lengthy discussions. Decentralization is, on the other hand, when some power and authority is delegated to the lower levels of management (Rodden, 2004). This does not necessarily mean that the lower levels have authority equal to the top, but become part of the decision-making processes. When power is delegated to more people, who often sit on a lot of valuable information that is shared equally, decision-making

processes might be slower since more information and opinions have to be discussed among several people. In this study, we will focus on the government hierarchy and government power as the top authority in an organizational structure, while local authorities entail the lower and middle levels of management.

Although researchers have focused primarily on fiscal authority when trying to define and measure the extent of decentralization, decentralization and a federalist system can entail a shift of authority, regarding both fiscal, administrative (policy) and political authority. The reason for this is that it is more difficult to measure the last two empirically (Rodden, 2004:482). Bardhan and Mookherjee (2006), highlights the relevance of decentralization

> (i) of authority over legislation or implementation of local regulations, composition of government spending and delivery of public services; (ii) of finances, that is, setting and collecting taxes, borrowing from higher-level government or markets, and allocating expenditures on local services; (iii) of democracy, that is, whether local government officials are elected by local residents or appointed by higher-level governments (p.163)

There are a lot of pros and cons to having a centralized government structure. Besides those already mentioned (like saving time making decisions), a centralized government is usually very consistent and precise when it comes to how it operates and the subnational governments are all run under the same principles. Centralization is also very effective when adopting new policies and regulations due to the fact that there is a unification at the execution-end (Bardhan & Mookherjee, 2006). What is being implemented is often a "one size fits all" type of creation, which means that the sub-level governments are all equal in the sense that they have to adhere to the same laws and legislations. On the other hand, a "one size fits all" approach is not necessarily the best approach at all, since there are often great differences between them that should be taken into account. For instance, different types of industrial production and different geological features need different policies and regulations. In addition, some sub-local governments might take into account indigenous communities' demands that other do not need.

With centralist governments, there is a lack of competition in and between subnational governments because the local leaders are not the ones making decisions. Thus, the constituencies might suffer from a lack of engagement from the public and little competition. For instance, paying taxes set by the local government enforces citizens to make claims to their local governments (Lockwood, 2006). Thus, the local governments are held accountable. However, this might not be as possible with a centralized national government because the distance from the regular person to the decision-making power on the top is too great. A closer link increases accountability because it is easier to hold a local government responsible than holding the whole state responsible. When

local governments set the tax levels and engage in competition, the constituents hold them responsible, and not necessarily the central government (Lockwood, 2006).

2.3.2 Decentralization and Corruption

A possible consequence of having a centralized government, or centralization at the top levels, is that it opens up the possibility for misuse of power. If the leaders on the top do not honor integrity, they might engage in corrupt acts or exercise authority based on their own agenda. The view of centralized governments as prone to corruption and lacking in accountability has existed for the last couple of decades (Bardhan & Mookherjee, 2006:161). However, this is a contested view as scholars and academics disagree on whether or not centralization affects corruption levels negatively. Some scholars argue that decentralization can open up for more corruption, as there are more arenas and more layers for conducting corrupt acts (Treisman, 2000). Due to the many layers, there might be less interference and involvement from the central government, especially in countries with poor institutions (Mishra, 2006). Still, getting away with corruption might be more difficult, as there are more observers and monitors in place, and there might be too many people to bribe than in a centralized system. According to Rose-Ackerman (2006), decentralization could open up for more corruption where the local governments are weak, because strong local forces could interfere. Other scholars argue that there is no increase or decrease in corruption at all, and that decentralization only shifts corruption charges (e.g. bribes) from the central to the local government (Bardhan & Mookherjee, 2006:162).

For the most part, there seems to be a convergence among scholars that decentralization is better than centralization when it comes to the subject of corruption. Decentralization is in generally better for transparency and accountability, which in turn are important tools for battling corruption. Bardhan and Mookherjee (2006) present inter-jurisdictional competition and local democracy as two tools for pressuring for accountability (pp.165-171). The first relies on the mobility of factors of production, and the competition between the local governments for attracting them. Without the necessary infrastructure and with a predatory government, the factors of production might move to another jurisdiction. The second accountability pressure is local democracy, which ensures that public officials can be re-elected. With decentralization, the citizens are better informed about the actions of their locally appointed officials because they experience them firsthand. Thus, they have more incentives and are better at holding their local government responsible and ensuring accountability than the national government. Local democracy works as a check for citizens, and helps prevent public office corruption and misuse of power (Bardhan & Mookherjee, 2006). Nevertheless, as with most issues one has to look at the context, since there are infinitely many

variables to consider. Inter-jurisdictional competition may cause corruption to rise, as some regions may be less competitive than others, making them resort to accepting bad deals or cut corners to obtain investments. There are also downsides with a highly decentralized local democracy, as the elite often will have quite the strong foothold in small jurisdictions, causing little diversity and less protection of the minorities' interests. This may eventually cause regulatory violations, reduction of tax revenues, rent-seeking behavior, a reduction in welfare and dissolution of access to public goods (Bardhan & Mookherjee, 2006:166-171).

The effects of decentralization on corruption is very much tied to the fiscal autonomy the subnational government enjoys, and the incentives that governments have to internalize that benefit, which again might encourage economic growth. Externally, the subnational governments might have more incentives to collude, either with the local industry or with investors. Collusion is done at the expense of other regions, and can cause a lack in economic growth. Political decentralization often ranges from elected to appointed candidates, more importantly by popular vote or the central government, and the electoral arenas play an important role in assessing the level of democracy. Administrative (or policy) decentralization is important in relation to a subnational government's ability to, firstly, create their own policy, secondly, actually have autonomy to implement it, and thirdly, have authority that is not easily overrun by the central government (Rodden, 2004).

Karlström (2015) found that the relationship between corruption and decentralization is highly dependent on the level of democracy. To curb corruption, there is a need for democratic institutions, as they naturally inhibit corrupt acts through e.g. freedom of the media, free and fair elections and economic freedom (Karlström, 2015). In general, Bardhan and Mookherjee (2006) argue that the effects of decentralization will differ between cases, and that there is no easy answer. Nevertheless, political competition, political participation and civic participation play a crucial role. They also note that decentralization is often accompanied by an increase in (horizontal) equality between subnational governments. To prevent less-off governments from lagging behind, it is important that the national government assumes the role as watchdog, and is willing to intervene when necessary, and introduce safeguards (pp. 183-185). Without such efforts from the central government, decentralization might create a distorted system of local governance. Supporting the theory put forward by Ahmad and Brosio (2006), Fisman and Gatti (2002) suggest that corruption levels are lower when revenue collection in the hands of the government is combined with decentralized public spending. On the other hand, Fisman and Gatti (2002) include the aspect of revenue collection, which would entail tax collection, being conducted by the central government.

This violates the theory by Lockwood (2006), who suggests that taxation also should be decentralized, because tax competition between local governments increases accountability. To illustrate the relationship between democracy, decentralization and corruption, a flowchart was constructed:

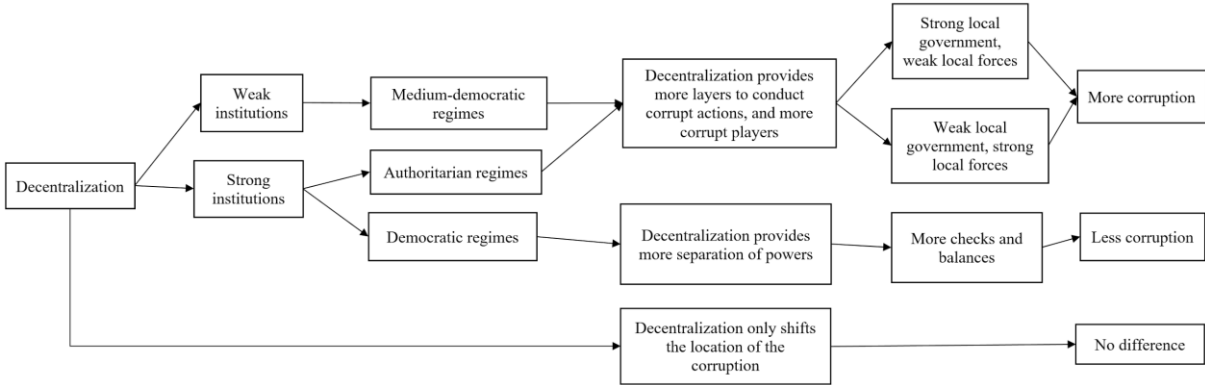*Figure 4: Visualization of the connection and relationship between decentralization, regime type and corruption*

Based on the theory and illustrations in the flowchart, we constructed the following hypotheses:

H3: Decentralization has no effect on the level of corruption

H4: Decentralization leads to more corruption

H5: Decentralization leads to less corruption in fully democratic regimes

2.4 Economic Freedom, Openness and Competition

The link between economic freedom and corruption can be seen through a variety of aspects. According to Pieroni and d'Agostino (2013), there are five dimensions of economic freedom that are connectible to corruption: market competition, government regulation of private entrepreneurial activity, the ability of the financial system to support private firms, property rights, protection of contracts and regulation of contracts (pp.56-57). Overall, these dimensions are relatable to competition, openness of markets and policies. Lack of competition and economic alternatives can increase corruption as it encourages rent-seeking behavior. In addition, competition is known to reduce rents as there are several actors engaging in the market, competing against each other (Islam & Montenegro, 2002:3-4). This is especially true when this is related to foreign investments, as foreign investors are occupied with managing the risk that inherently comes with dealing with unknown partners. Consequently, they demand more effective and well-run institutions to reduce that risk. This creates an incentive for improving institutions when there is a need (or wish) to attract investments. The openness of an economy also has a positive impact on corruption because there is an exchange of good practices, and bad practices are weeded out (Islam & Montenegro, 2002:3-4). In situations where investors have other economic alternatives, this can be attributed to the fact that they usually want transparency and better transaction costs, thus limiting the availability of a corrupt actor securing funds illegitimately (Pieroni & d'Agostino, 2013:55-56). This is supported by Jain (2001), who claims that investors are attentive and want good governance and quality information (pp.215-216). According to Jain (2001), "economics dominates (sic.) politics" (p.217). Due to this, it is important to protect people's rights so that the wealthier part of the population is not allowed to step on smaller enterprises or organizations, or to hinder just political processes. In many countries, the line between the economy and politics is not clearly drawn, thus allocation of funds for financing political campaigns is not uncommon. This kind of influence provides for a biased treatment and a less competitive environment between large and small, wealthy and poor. This leads to more corruption as the smaller players have fewer economic alternatives, while the bigger players use their powers to influence politicians, who in turn alter policies in the big player's favor (Jain, 2001:216-217).

In addition, economic freedom is also an important feature of a democracy. Democracy implies that there is transparency, which is not possible if there is no openness in the economic sphere, which is dominated by government control and interference. Previous studies have shown that corruption can be controlled through democracy and economic freedom (Graeff & Mehlkop, 2003; Saha, Gounder, & Su, 2009). According to Johnston (2005), economic freedom is crucial because

it creates more economic alternatives, and hinders others from furthering their own economic interests by taking advantage of others. Thus, it makes people in a society less dependent and vulnerable. This is especially relevant in societies where institutions might be less concerned with the individuals and more concerned with enriching themselves. Democratic, well-functioning institutions help protect individuals right to economic participation by enforcing sound policies (Johnston, 2005). Without such policies, and without the enforcement-tools, there is a space for accomplishing one's interests through other measures, namely through corrupt acts and exploitation. Research has shown that deriving funds into one's own pockets and away from its intended receiver, boosts corruption, which has severe implications for a society (Gupta, Davoodi & Alonso-Terme, 1998). According to Gupta, Davoodi and Alonso-Terme (1998), high levels of corruption signifies high levels of income inequality, because policies mostly favor the elite. Additionally, because corruption is deterrent to investment, which slows a country's growth, and causes poverty levels to rise (p.5). In relation to rent-seeking behavior, corruption is further aggravated by investments in capital-intensive projects with easy accessible revenue instead of projects that create employment opportunities for the poor (Gupta, Davoodi & Alonso-Terme, 1998:5-7). This widens the gap in income inequality between the poorest and the richest parts of the population, and severely limits poor people's access to sustainable income. The study by Gupta, Davoodi and Alonso-Terme (1998) shows that "corruption interferes with the traditional core functions of government" (p.29), where higher levels of income inequality and poverty are mainly attributed to a biased, but progressive tax system, poor human capital formation and poor (targeting of) social spending. When the core functions of a government are infested with corruption, or influenced by corrupted actors, the people are less prosperous and income inequality permeates the society. Based on theory, we developed the following flowchart as illustration:
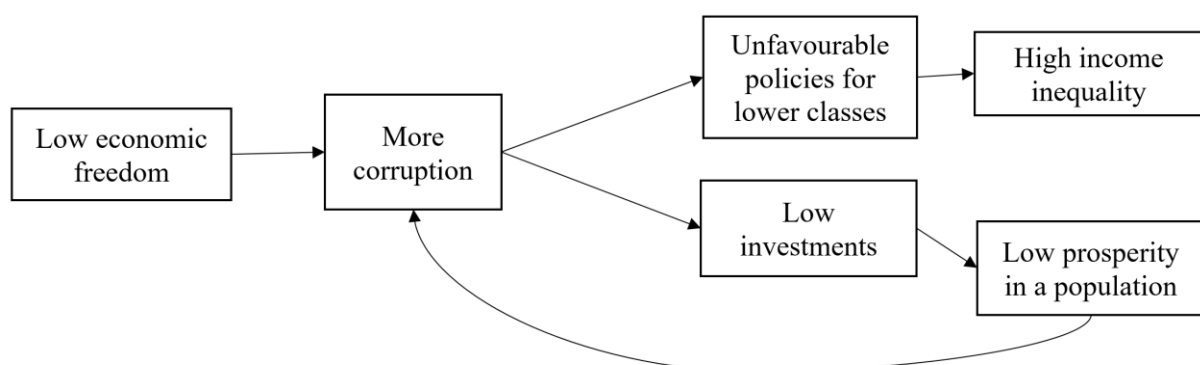
Figure 5: The connection between corruption and economic theories.

Based on the theory and illustrations in the flowchart, we constructed the following hypotheses:

H6: Low levels of economic freedom lead to more corruption

H7: High levels of corruption leads to high income inequality

H8: Higher levels of corruption leads to lower levels of prosperity in a population

H9: Lower levels of prosperity leads to more corruption

2.5 Natural Resources and Corruption

Almost all of the countries at the bottom of Transparency International's Corruption Perception Index are countries possessing significant natural resource reserves (Transparency.org, 2015). Moreover, Leite and Weidemann (1999) find a strong correlation between natural resources and corruption. This indicates that there is something with natural resources that lead to higher levels of corruption. But what are these characteristics and why do resource rich countries tend to be more corrupt than their resource poor counterparts? The potential negative effect natural resources induce, is already captured by the extensive literature on the theory resource curse. Therefore, as oil accounts for a great portion of the Venezuelan economy, the resource curse may be helpful to explain why corruption is so prevalent.

2.5.1 The Resource Curse

The discovery of large natural resource reserves represents a potential goldmine to a country as it guarantees high income and great revenues. Yet, this is not an absolute truth and in fact, maybe rather the exception to the rule. Also known as the paradox of plenty, the resource curse helps explain why abundance of natural resources not necessarily equals economic success. Sachs and Warner's (1995) in-depth study on several resource rich countries proved the paradoxical fact that there are limited overlaps between natural resource abundance and high levels of GDP. Overall, they suggest that natural resources, despite bringing great revenues, disrupt economic growth and thus represent a curse for a country's economy. These effects are today known as the Dutch disease and explains how resource dependency, and particularly oil dependency, makes the economy entirely tied to the ups and downs in the world market, potentially bringing catastrophic side effects as other sectors become less prioritized and further less competitive.

However, countries rich in natural resources represent both great winners and great losers in economic and human development, indicating that there is something about the specific country that decides whether or not it will be cursed (Mehlum, Moene & Torvik, 2006). To explain this dissimilarity of outcomes, several researchers have emphasized the role of political institutions in ensuring sustainable and proper use of the high revenues (Auty, 2001; Karl, 1997; Leite & Weidmann, 1999; Mehlum, Moene & Torvik, 2006; Robinson, Torvik & Verdier, 2006; Shaxson, 2007). Moreover, oil in itself cannot be attributed specific forces, neither positive nor negative. It is in fact nothing more than a material (Karl, 1997:6).

2.5.2 Resource Rents, Institutions and Corruption

The significance of political institutions in relation to natural resources is underlined by the very fact that oil rich countries who succeed in their development also tend to have better scores on institutional and political indicators (Mehlum, Moene & Torvik, 2006). Quality institutions ensure long-term perspectives on policies and investments, and are essential for countries to turn its potential wealth into actual wealth. Quality institutions also remain vital in preventing corruption, as Bhattacharyya and Hodler (2010) found that whether resource abundance would increase corruption depended on the quality of political institutions to prevent and detect such activities. However, if quality institutions were absent when the natural resource was discovered, it bears the potential of having negative implications for the development of quality institutions. Thus, a vital element that emerges is how developed the institutions and state itself were in prior to the discovery (Karl, 1997:13). However, what exactly hinders democracy and quality institutions to establish in resource rich countries, making them more prone to corruption?

The challenges with resource rents and governance have been recognized for a significant period of time, starting with Adam Smith in 1776, referring to resource rents as "the income of men who love to reap where they never sowed" (Karl, 1997:5). Resource rents increase the value of, and access to, "lootable" goods, making it easier for corrupt leaders to evade funds for personal gain (Chang & Golden, 2010:11). The lootability of natural resources is related to the fact that resources and their rents, particularly those stemming from primary resources like oil and minerals, are easily accessible to greedy rulers due to their control over the industry (Le Billon, 2001:569). Resource sectors weaken the division between state and economy, making the road to the easily accessible rents short. Typically, it is the state through the judiciary body who controls that companies follow the law and do not participate in corrupt and illegal activities. As the state (and not private actors) is often in control of the resource sector, strong and well-developed political institutions remains crucial, as they must be competent enough to control themselves (Karl, 1997:5). A vital question that arises is therefore to which degree public officials are likely to be subject to institutional checks and balances to avoid that corruption and unhealthy practices take root (Collier & Hoeffler, 2005). Countries with a long and cohesive history with democracy will possess greater capacities in ensuring political accountability, and to prevent corruption, than countries without this history and tradition. Moreover, this might explain the difference in corruption levels in Australia and Norway versus Nigeria and Venezuela who all are resource rich countries (Bhattacharyya & Hodler. 2010). However, as will be explained, rulers in resource rich countries have greater funds to spend on patronage and clientelism, which eventually leads to poor quality institutions and thus facilitates

more corruption in the years to come. The continuation of bad governance that are so prevalent in resource rich countries can therefore be attributed to the lootable character of resource rents (Le Billon, 2001:569), underlining Karl's (1997) point that resource rich governments face a hard time preventing misuse if necessary institutions are not in place when the resource is discovered. Overall, it is more difficult to weaken or build a strong democratic system with checks and balances, than to maintain a system already characterized by corruption and abuse of power.

In an ideal democratic situation, leaders will compete based on who most efficiently can provide and distribute public goods. However, there is also a growing consensus that whereas resource revenues used to be the means for financing conflicts, resources are increasingly the reason *for* conflict. Political competition and regime change in resource rich countries may therefore not be so democratic after all as coup d'états are more likely to emerge (Le Billon, 2001:562). Moreover, as the price of holding power in resource rich countries, literally, is so great (due to the lootable character of the rents), mineral rich rulers tend to fight to maintain status quo and prevent adjustments which will challenge their position in power (Karl, 1997:15). Also here, natural resources become helpful. Natural resources, and especially minerals, are easily and heavily taxable and therefore provide political leaders effective instruments for staying in power. Thus, while the resource rents increase the incentives to stay in power, it also enhances the instruments available to ensure their position in power (Le Billon, 2001:567-569). The measures they take on are however not always democratic and legit, and bears the potential of harming the establishment of healthy democratic practices intended to hold governments accountable. Great resource revenues enhance the opportunities to reward supporters and finance a repressive security apparatus towards opponents. In other words, it facilitates patronage and clientelism and other direct or indirect repression of opponents (Humphreys, Sachs & Stiglitz, 2007:13-14; Le Billon, 2001:564-566). Patronage and clientelism may further ensure that trusted supporters are employed in important bureaucratic positions, intended to hold governmental power in check. Accordingly, this allow leaders to continue with clientelism, creating a vicious circle where corruption enables more corruption. Primary resource rich regimes are therefore often established and sustained by patronage and clientelism, leaving rulers' power unchecked by non-existent, non-efficient, and biased institutional structures (Le Billon, 2001:569). At least if necessary institutions are not in place to prevent clientelism to flourish in the first place. Nevertheless, if stately institutions prove unable or unwilling to prevent corrupt activities, the population still has the opportunity to demand transparency and accountability, at least in democracies. In fact, corrupt rulers cannot make the entire population a "client" to ensure support. Or can they?

Le Billon (2001:568) explains how primary resources rents are so great that they even grant rulers the ability to extend clientelistic practices to the general population. Distributing rents through public employment for example may be used as an efficient method to attract support. This might also correlate to the enormous bureaucratic sector that tends to be prevalent in resource rich countries (Robinson, Torvik & Verdier, 2006). Distributing rents through public employment is not necessarily bad, however, when a job is given in exchange for political support it starts to smell fishy. Public sector employment can in such cases be regarded as a form of clientelism. In addition, as the revenues received from primary resources are so great that they diminish the dependency on tax as a source of income for the state. Populations and interest groups who are lightly taxed, or not taxed at all, may be less concerned with potential abuse of power than the heavily taxed ones. Not demanding tax may therefore have negative implications for public accountability (Le Billon, 2001:567). The emergence of democratic institutions in early modern Europe is even partially credited to taxation and the populations' following demand; "no taxation without representation" (Ross, 2001). Ross (2001) explains how this has been a strategy for resource rich Middle-Eastern governments, like Saudi-Arabia who has deliberately increased social expenditures and kept a low tax rate to dampen public pressure for accountability and transparency. Historically, states and government institutions have been built through several such trade-offs between the state and the public, ranging from protection to social security, in exchange for tax. However, since oil states can sustain themselves without depending on citizen tax, due to an immense income from the oil sector, the institutions that emerge in oil rich countries are constructed separately from the public (Karl, 2007:278). Furthermore, in many resource rich developing countries, the resource-for-institutions bargain occurred between rulers and foreign oil companies, who had the capital and technology to utilize the resource. Moreover, for different reasons, both the rulers and international oil companies favored strong and centralized authority, further known to facilitate corruption. Overall, this path of state building weakens checks and balances (Karl, 2007:282).

It thus becomes clear that in addition to primary resources bringing more money to withdraw for personal gain, it also facilitates the process to do so. While stately political institutions may be pervaded by clientelistic procedures, and constructed apart from the population, the great revenues allow this procedure to be used on the population as well, disrupting the democratic accountability measure of elections. This creates a vicious circle in which corruption facilitates more corruption as illustrated in the flowchart below.

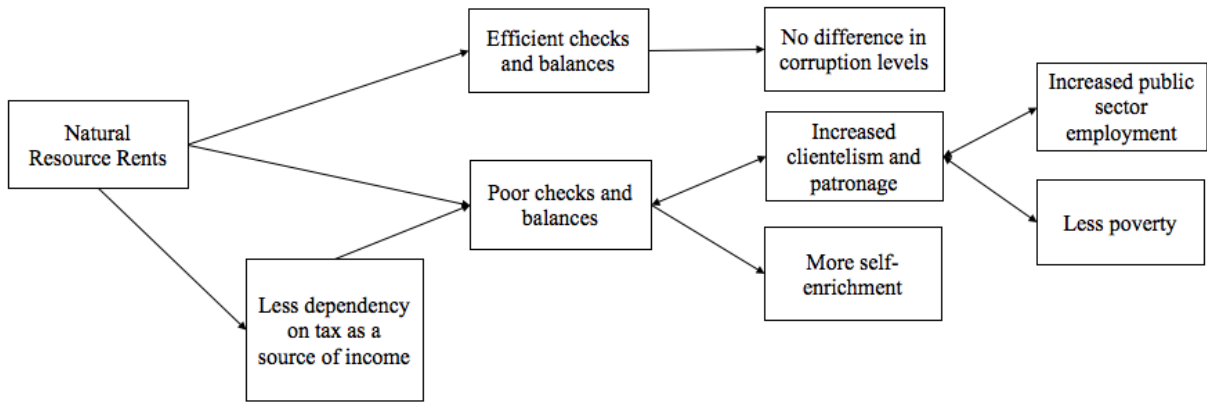*Figure 6: The connections and relationship between natural resources and corruption.*

Based on the theory and illustrations in the flowchart, we formulate the following hypotheses:

H10: Corruption depends on the efficiency of checks and balances at time of discovery

H11: Natural resource rents increase the amounts to withdraw for personal gain

H12: Natural resources rents provide funds to avoid checks and balances

Part III: Methods

In this thesis, we wanted to understand the phenomenon of corruption in the context of Venezuela under Chávez's rule. Overall, we wanted to explore why Venezuela's score on corruption and governance indicators worsened so drastically under Chávez, and how he was able to escape certain democratic tools that are supposed to be present in a democracy like Venezuela. Firstly, we wanted to give an overview of current issues circulating academia in relation to corruption. We discovered that corruption is not easily measured and that most corruption indices operate with perceived corruption levels rather than actually measuring experienced corruption. Thus, they mostly measure the likeliness of corruption to occur and the capacity institutions have to prevent it. Secondly, we discussed different theories that could be relevant to answer our research questions. A common theme in many of the theories was the importance of quality institutions with efficient checks and balances to counteract and uncover corrupt behavior. Additionally, the presence of natural resources was also highlighted as influential as it increases the amount to misuse. Thirdly, we tested these theories and evaluated how they could apply to the issue of corruption in Venezuela. The suggested cause and effects thus resulted in the following flowchart:
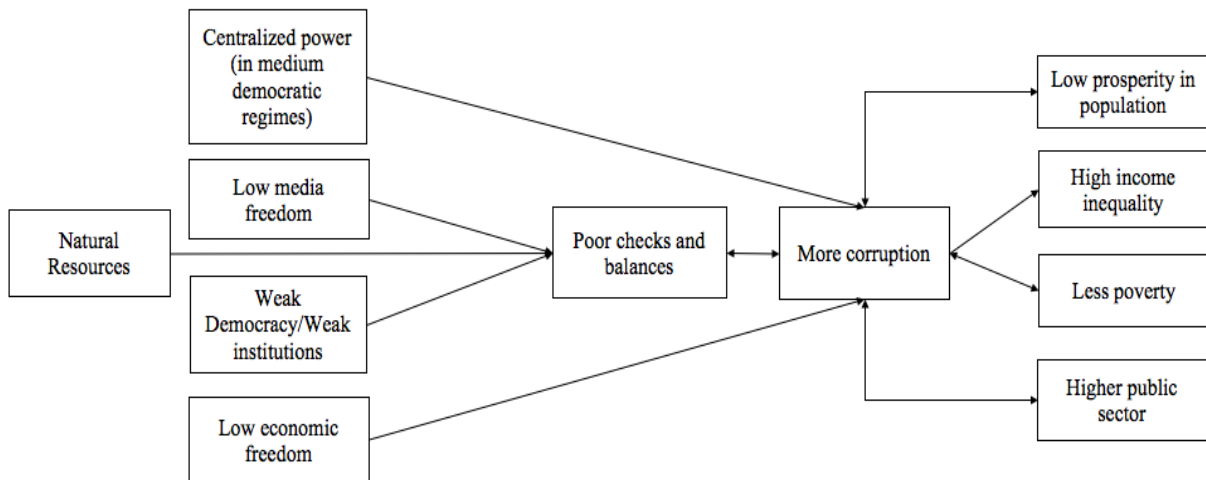

Figure 7: Flowchart demonstrating connections between theories of corruption.

Based on the illustrations in the flowchart, we seek to answer the following research questions:

- *Why has Venezuela's level of corruption increased after Chávez became president?*
- *How did Chávez avoid being held accountable for corruption during his rule?*

This chapter provides an overview of the research methods used to address the research questions and the limitations we have faced during the writing of the thesis.

3.1 Research Design

For the purpose of this research, we used the framework of a historical case study. A historical case study design allows for an in-depth study of a specific case and a rich and detailed, yet concentrated, analysis within a specific period of time. It is attentive to the complexity of a specific phenomenon and the nature of the case you are studying (Bryman, 2012:66). In this study, the historical case study relates to the period when Venezuela was ruled by Hugo Chávez, and further, how the phenomenon of corruption developed under his rule. As we did not have the opportunity to gather data ourselves, we decided to conduct a desk study. Relying on secondary data presents several issues relating to quality and validity. Yet, the sources used are closely examined in respect to both quality and validity, which will be discussed subsequently in this chapter. However, relying on secondary data also has its advantages. While we saved time and resources by not collecting our own data, it also enabled us to collect historical data and further conduct a historical analysis which we most likely would not have the opportunity or access to if we relied on primary data alone. Overall, this fits with our historical case study design.

The research questions were investigated using a mixed methods approach. Combining both quantitative and qualitative methods gave us a wider range of tools in analyzing the data, rather than relying on one method alone. Especially since we did not gather our own data this was regarded as important in respect to the quality of the thesis. It gave us the ability to evaluate the trustworthiness of the data by triangulating the information given, and thus to see if the different data corresponded (Bryman, 2012:635). The qualitative approach is however dominant to the quantitative approach, because some aspects of corruption is not easily captured by quantitative data. While the quantitative data allowed us to test the relationship between corruption and other variables likely to affect corruption, the qualitative data gave us the ability to reach a deeper understanding of the context we were studying.

Mixing two approaches that tend to operate alone also has its disadvantages. The main argument against mixing the two approaches revolves around that they have different research strategies and should therefore not be combined (Bryman, 2012:614). Quantitative approaches have its origin in natural sciences, and has thus tended to aim at generating generalizing laws from the reality, which we can research through the use of our senses. Further, if someone were to repeat the research, they would ideally arrive at the same result. Qualitative approaches on the other hand, have emerged as

a counterpart to this position. In their view, the reality is socially constructed and it is therefore not possible, nor an aim, to make generalizing laws. Their emphasis is to explain why things are the way they are, and to reach a deeper understanding of an isolated phenomenon within a specific context. In other words, while quantitative research tends to take on a deductive approach, which aims at making and testing generalized theories, qualitative research tends to take on an inductive theory, aiming to reach a deeper understanding of a phenomenon in a specific context (Tuli, 2011). Yet, these are just tendencies and not absolute truths. Qualitative features can be applied to quantitative research, and quantitative features can be applied to qualitative research. Furthermore, they can be mixed, like in this research (Bryman, 2012:614-618). From theories, we have generated hypotheses that we further tested in statistical analyses, a typical approach for quantitative research. On the other hand, we have complemented these results with qualitative data, which has given the statistical results a broader meaning in the Venezuelan context. Moreover, we have not aimed at generating a generalizable theory, but rather at understanding the reasons for why corruption is so widespread in Venezuela.

For the mixed methods research strategy, we applied both what Creswell (2009) refers to as the Sequential Explanatory Strategy and the Sequential Exploratory Strategy. The first strategy signifies an emphasis on quantitative data collection and analysis as the first step. The second step involves explaining and interpreting the results from the quantitative analysis with the help of qualitative data analysis. In this strategy, this means that the quantitative results dictate the qualitative follow-up data. The main purpose of this strategy is to explain and interpret a relationship (Creswell, 2009:211). The second strategy signifies the opposite, and in this case, the qualitative data collection and analysis have the most weight. Quantitative data is here used to build on the qualitative parts, and according to Creswell (2009), its main focus of use is to explore a phenomenon, expand the qualitative findings, and assist in its interpretation (pp.211-212). In this study, both strategies involve the use of theoretical perspectives to test and explain our findings.

3.2 Data Collection Methods

Our data collection was dictated from what theories suggested would affect corruption levels within the country. To be able to answer our research questions, we gathered both qualitative and quantitative data. As the thesis was based on a desk study approach, none of the data in neither the qualitative nor the quantitative parts were collected personally, but were based on secondary sources. Relying on secondary sources has its advantages. It enabled us to examine several aspects of the Venezuelan state and society that we most likely would not have had the time for, or even access to, if we were collecting it on our own. We needed access to historical data, as a country is likely to be affected by its past alongside contemporary events, and obtaining this information personally would have presented its challenges, particularly in respect to quantitative data. However, depending on secondary sources presents several challenges as well. First, we had to find out which data we needed to answer our resource questions. Secondly, we had to ensure access to the data, and thirdly, we had to evaluate the quality of the data (Hox & Boeije, 2005).

With support in theories related to corruption, we learned which data we needed to answer our resource questions. This data mainly revolved around how the stately institutions were organized, how they functioned and further which characteristics that are expected to exist in a society highly affected by corruption. Further, as a change in government does not equal a fresh start, but often carries some practices and procedures from the past, data collection on the system prior to Chávez have also been regarded as beneficial. However, as some variables only date back to the mid 1990s, obtaining quantitative information from this period has been difficult. Qualitative data has thus been an important source of data in understanding the system Chávez inherited. In respect to the quantitative data collection, we gathered data from several datasets and indices ranging from governance quality to natural resource rents. The quantitative data enabled us to conduct time series analyses with our main corruption variable, Corruption Perception Index, and further laid the ground for understanding the development of the Venezuelan state and society in correspondence with the development of corruption levels. Most of the data was gathered from well-recognized organizations like the World Bank and Transparency International, both of whom have been subjected to a fair share of critique, but at the same time are widely used in research projects. Other quantitative data was collected from the IMF, OPEC, The Heritage Foundation, the National Statistical Institute of Venezuela, among others, all of which will be further accounted for subsequently in this chapter.

Bryman (2008:131) explains how social researchers frequently are put in positions where they have to take sides. That some research is funded for example, may affect the outcomes of the research in which funders often have a vested interest in the results. As Chávez is heavily criticized by some and praised by others, to obtain data that we could label as completely unbiased has been particularly challenging. Yet, while it has been more difficult to evaluate if the quantitative data has been affected by biases, the qualitative data has expressed quite clearly who is pro, who is anti and who has been able to present a more nuanced picture of Chávez. Therefore, trying to balance the information between the anti-Chávez and pro-Chávez strands has been one of the most challenging parts in this thesis. While we probably have collected data from both strands, we have been aware of this potential bias through the entire process. Further, our mixed-method approach has helped us in this respect, as it has enabled us to see whether the qualitative data can be backed up by quantitative data and vice versa. However, we have not been able to crosscheck all the qualitative and quantitative data due to lack of access to both data types on every variable. Yet, we have tried to obtain as much information as possible on all the variables and especially on the variables where we have not been able to triangulate with different methods.

3.2.1 Measurements of corruption

Corruption is not only difficult to define, it is also difficult to measure appropriately. The consequence of having a disputed definition of a phenomenon is that not everyone agrees when it comes to the means of measurement. Different definitions require different variables and indicators to come up with a proper measurement for corruption. As we have chosen to use one of the most inclusive definitions, we were also enabled to employ a variety of variables in our measurements that explores the issue of corruption from several angles. So, how do you measure something that is meant to be hidden? Since 1995, Transparency International's Corruption Perception Index (CPI) has been the dominant tool for measuring corruption. Because poor governance may facilitate more corruption, other important tools also include the World Bank's Worldwide Governance Indicators (WGI), media freedom, economic freedom, democracy and several other indices we find relevant to the study. The problem with many corruption indices is that they measure the perception of corruption, and are thus very much prone to bias and subjectivity. What some will label as corruption, will not necessarily be regarded as corruption by others, and so forth. This is especially true for the CPI, even though it is largely based on surveys drawn from country-specific experts with extensive knowledge about the country in question, and not "outsiders". Yet, it is still solely based on perceived corruption (Heywood, 2015:137-138).

Heywood (2015) points out some of the limitations of using the CPI, which are important to be aware of; there is a disparity between perception and experience of corruption, it does not differentiate between types of corruption and the sectors it occurs in, and it disregards the understanding of corruption which is often culturally linked (pp.138-140). Emphasis should therefore be put on the cultural perspective of corruption as it has a lot to say for perception-based indices. People in different cultures have different opinions on what is acceptable and what is not. This degree of "acceptability" hinges on if people perceive specific acts as legal or illegal, legitimate or illegitimate, if the gains are small or large, and whether or not the person stating their opinion is the victim or the beneficiary of such acts (Rose-Ackerman, 2006:xxii). In addition, Heywood (2015) uses business people as an example on perceptional bias, because they often regard corrupt acts as something else than regular citizens and would therefore report and evaluate corruption differently. Many of the limitations of the CPI are also applicable to the other indices (e.g. the WGI, Freedom House, etc.), but not all. Therefore, employing a number of them in the same study may make them complementary to each other, as we are enabled to look at an issue from several perspectives (Heywood, 2015:140). Heywood (2015) also points to the fact that criticism of the CPI is in some cases just made towards some of the indicators, and not CPI as a whole.

Transparency International's Corruption Perception Index has since its establishment in 1995 been a valuable contributor to data on corruption and corruption research. The index is compiled from a range of different sources, and the composite indicator reveals perceptions of corruption in the public sector on a scale from 0-100 (0=worst, 100=best). Surveys from business people and country experts are collected from at least three (normally 7-8) individual sources for each country, each year (Saisana & Saltelli, 2012). The sources used are thoroughly investigated beforehand to make sure that the data they gather can be used in the CPI. Any additional sources that are included in the CPI are carefully screened so that they fit the criteria put forward by Transparency International, and sources are removed if they suddenly do not. One might argue that the reliability increases and the bias decreases by aggregating data from several different sources, but at the same time one must critically assess the quality of each one. In 2012, the methodology for creating the CPI was improved so that it would compensate for possible source-errors, and research has found it to be balanced, non-redundant and non-biased (Saisana & Saltelli, 2012). An additional issue with measurements of corruption is that corrupt acts are usually hidden for the benefit of those who are corrupt, thus it becomes an extremely difficult phenomenon to measure accurately. However, due to the CPI stemming from many different sources (many of them non-western), the CPI was

believed to have the least amount of bias. Despite the shortcomings of the CPI related to the limited amount of time available (1995-2014) and measurement issues, it is regarded as the best fit for this research as it covers the main analytical focus period (the era of Chávez's rule). Still, it is important to keep these issues in mind when using the data for research purposes.

The Worldwide Governance Indicators is a dataset summarizing the perceptions on governance quality in 215 countries, ranging from 1996-2014. It was produced by Kaufmann and Kray and presents an aggregated score on six broad dimensions of governance; Voice and Accountability; Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption. The scores are based on survey results gathered from several enterprises, citizens, experts, think tanks, non-governmental organizations and international organizations, in both industrial and developing countries (Worldbank.org, 2015b). As all of the six indicators may affect corruption levels in a country, as well as reflecting it, we have decided to use WGI as a corruption variable alongside CPI. CPI and WGI do in fact share a significant amount of sources.

As WGI only reports every two years between 1996 and 2002, and from then on annually, we had to make our own calculations for the missing years (1997, 1999, and 2001) in order to be able to conduct our quantitative analyses. To estimate scores for the missing years, we simply calculated the geometrical mean between the year prior to and after the missing score. Further, in order to have one complete institutional variable that we could apply to other variables, we aggregated the individual scores into one complete WGI score. In order to do so, we calculated the average of all the different scores, as they all use the same range (from zero (worst) to 100 (best)). However, own calculations may cause accuracy issues and challenges the reliability, which one should be aware of.

WGI has become one of the most widely used datasets of governance and has therefore been subjected to a fair amount of critique. Among them are that the changes cannot be given too much weight as they might reflect a change in data sources rather than an actual change in governance levels. However, Kaufmann, Kray and Mastruzzi (2007) state that empirically, changes in data sources account for very few statistically significant changes in governance scores. Yet, WGI should only be used to analyze trends over time (Worldbank.org, 2015b). Among the critiques that are most relevant for us is that WGI give more weight to the views of businesses and elites in calculating the scores (Kaufmann, Kraay & Mastruzzi, 2007). This is particularly relevant for us in the sense that Chávez's greatest criticizers are indeed businesses and elites. On the other hand,

they include a broad set of information from non-governmental and non-profit organizations as well. Despite the amount of criticism, we have found WGI to be relevant and useful for the purpose of our study. In fact, all widely used measurements should receive critique in order to improve. WGI gives us the ability to observe trends over time, which can be further evaluated by applying qualitative data. Biased data is nonetheless something we should be aware of in all of our data collection and analyses, especially since the views on Chávez are so polarized.

3.2.2 Causes, Symptoms and Effects of Corruption

In our theoretical framework on natural resources, it became clear that there is a positive relationship between natural resources and high levels of corruption. On the one hand, the lootability of natural resource revenues increase the ability to withdraw funds for personal gain. On the other hand, natural resources release great funds available for clientelism and patronage, which further weakens checks and balances, enabling even more corruption. The revenues presented are even so great that corrupt leaders can transfer clientelism to the population as a whole. In this research, we use different natural resource measurements to test their relationships with WGI and CPI. While there exist a number of different attempts to capture resource dependency in a country, the most commonly used is the share of primary export to GDP (Béland & Tiagi, 2009:13). This measurement does however have its weaknesses as it captures the economical explanations to the resource curse rather than the institutional explanations (Smith, n.d). Thus, this measure will not necessarily cover what we want to discover as the corruption-natural resource connection is largely based on how resource rich states can use their wealth to avoid checks and balances. When we test *H12: natural resource rents provide funds to avoid checks and balances*, the variable *Natural Resource Rents Per Capita* is probably more appropriate as the core of the claim is that resource revenues are so great that it enables governments to apply clientelism in the total population. Natural resource rents per capita enables us to see how much funds the government has available for using on each citizen and how this correspond with declining WGI and CPI scores. However, when testing *H11: natural resource rents increase the amount to withdraw for personal gain*, the variable *Total Natural Resource Rents* will be used. To calculate total natural resource rents and natural resource rents per capita, we have collected data from Worldbank.org (2016a). They have both natural resource rents as percentage of GDP, total GDP and population numbers available online, and is therefore a better alternative than calculating the variables from other sources who did not have all the necessary numbers. Different sources are likely to operate with different numbers, and this would make the final calculations and results more inaccurate than collecting all the data from one source.

However, even though the natural resource rents variables may tell us whether there is a correlation between high resource revenue and corruption levels, it is favorable to examine through which channels this potential clientelism has occurred, and again, how these variables correspond to declining CPI scores. As clientelism is an act of corruption in itself, the most favorable variable in this respect would have been a variable that measures clientelism and again test this against a check and balance variable. However, we have not found a variable that accurately captures different types of clientelism in its rightful sense. Therefore, we had to use other variables as proxies that potentially could reflect such procedures. The first proxy we use to test *H12: natural resource rents provide funds to avoid checks and balances* is *Percent of Public Sector Employment in Total Employment*, as it can work as a proxy for clientelism in the bureaucracy. Increased public sector employment may imply the use of clientelism within the bureaucracy, further disrupting institutional checks and balances, eventually leading to more corruption. The variable is collected from the National Statistical Institute of Venezuela (Ine.gov.ve, 2016). The second proxy used is, *Social Expenditure as Percent of GDP,* which is used to test the claim that resource abundance enables governments to transfer clientelistic procedures to the public, and so is *Percentage of Population under National Poverty Line.* If social expenditures have increased substantially and further led to a decrease in poverty, it is plausible that this would lead to significant public support, which again will affect checks and balances adversely. Poverty statistics are collected from Worldbank.org (2016a) and social expenditures as percent of GDP from Interwp.cepal.org (2016a).

Democracy is an important concept to look at when one is assessing a political regime and corruption's ability to flourish in that regime. However, democracy in itself is not measurable, so it has to be measured through other proxies. When we test *H1: high levels of democracy lead to low levels of corruption,* we will use Polity2 as a variable. The *Polity2* variable is a combined measure between the autocracy scale and the democracy scale of the Polity IV project dataset, which measures a country's political regime dating back to the 1800s. Polity2 is calculated by subtracting the autocracy score from the democracy score, thus giving each country a score between -10 (full autocracy) and +10 (full democracy). By using the polity2 score instead of the autocracy/democracy score, it is possible to conduct a time-series analysis (Systemicpeace.org, 2014). The polity2 measurement has been criticized for reporting higher levels of democracy before or after a country's interim period, and for using a so-called garbage can definition of democracy where everything that is good and functional about a country is included. There are some conceptual and methodological issues to be aware of when using this variable in a study. One of these issues relates to the use of a decision tree to weigh the importance of each of the components

(leaves) the variable (branch) is made up of. By measuring this way, the results might be biased because there is a greater chance of being selected if one branch has more leaves than the other (Gleditsch & Ward, 1997). However, the polity2 variable was judged as being the most appropriate for this study, as it includes the competitiveness of political participation and executive recruitment, the openness of executive recruitment, and constraints on the chief executive (the executive constraint being the most important one). The polity2 variable was especially relevant due to its "political" perspective, seeing as this was a main focus of the study. In addition, the polity2 variable captures both the essence of autocratic and democratic regimes, not just one of them. Thus, due to the importance of researching changes during the Chávez regime, the polity2 variable was also chosen over the autocracy and democracy variable.

In relation to the theoretical framework on democracy, we also found that there is a connection between the level of freedom the media in a country enjoys, and corruption. Without media freedom, corruption is easily hidden, as one of media's most important roles is to deliver objective information to the public and be the watchdog in a society. As a determinant for democracy (from a more society-oriented perspective), the media is a valuable tool for keeping up checks and balances as it exposes corruption to the public. For the purpose of studying the relationship between corruption and the freedom of the media, the variable *Media Freedom* was used to test *H2: lower media freedom leads to more corruption.* The variable is based on data collected from the Freedom of the Press Index, a survey-based index that scores the level of media freedom in a country on a scale of 0-100. A score of 100 relates to the media being not free, while a score of zero is related to the media enjoying full freedom. Several components make up the Freedom of the Press Index. There are 23 methodological questions divided into three different categories: the legal, political, and economic environment. The legal environment includes laws and regulations influencing the media; the political environment includes political control over the media, news diversity and censorship; and the economic environment includes the ownership of the media, distribution, production and subsidies (Freedomhouse.org, 2016a). The criteria for the study are universal and based on the Universal Declaration of Human Rights' doctrine that ensures everyone the freedom of expression, opinion and information (Freedomhouse.org, 2016a). Published annually since 1980 by the watchdog organization the Freedom House, the Freedom of the Press Index is the most complete data set available. However, the Freedom House has only been able to gather data from Venezuela since 2002, which inhibits its quantitative usefulness in a time-series analysis intended for a much longer period. Nevertheless, it was still used in a regression analysis to assume its relationship to corruption. In addition, we investigated trends during the years reported and

reported in a more extensive way the connection between the actions of the government and the media during the Chávez regime.

As a symptom of corruption, the variable *Economic Freedom* was used to test *H6: low levels of economic freedom lead to more corruption.* According to theory, economic freedom increases competition and implies that good policies are in place for the protection of people's rights. Without competition and good policies, there is a space for people to take advantage of the system or other people by influencing, bribing or enriching themselves through corrupt acts. The variable Economic Freedom reveals more about the social aspects of a society than the purely political ones do, hence it was found to be a valuable addition to the analysis. The Heritage Foundation/Wall Street Journal created the Index of Economic Freedom in 1995. The index is a graded on a scale from 0-100 (0=worst, 100=best), and is based on four categories (Rule of Law, Limited Government, Regulatory Efficiency, and Open Markets) where each one is weighted equally (Heritage.org, 2016). The first two categories are comprised of two factors each; property rights, freedom from corruption, and fiscal freedom, government spending. The last two categories are comprised of three factors each; business freedom, labor freedom, monetary freedom, and trade freedom, investment freedom, financial freedom (Heritage.org, 2016). Economic freedom indices often include a corruption aspect, and this index is no exception in relation to the Rule of Law category as it does list Transparency International's Corruption Perception Index as one of its sources. The Rule of Law category is comprised of two main indices (Property Rights and Freedom from Corruption), where the one related to the CPI is also compiled of several other sources (Heritage.org, 2016). This inherently creates some bias, especially when used against the CPI variable, because they to some degree measure the same thing, which is important to be aware of when assessing their relationship. Either way, this annual variable made it possible to assess the impact of the political sphere on the society through economic means.

Economic freedom in itself does not say anything about how the wealth in a country is distributed between the citizens. Thus, when testing *H7: high levels of corruption leads to high income inequality,* the *Gini Coefficient* was chosen as a variable to investigate this aspect. The claim that high inequality and high levels of corruption are linked is supported by the same theory as economic freedom, as it claims that policies are often favorable for the elite, which diverts funds and opportunities away from the less powerful in a society (Gupta, Davoodi & Alonso-Terme, 1998). A perfect distribution or score on the Gini Index would indicate a perfectly equal society in relation to income. However, in a corrupt society the rich care about enriching themselves, thus they might engage in corrupt behavior to accomplish this. For this study, it was chosen to use the

Gini Index created by the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC) (complete databases and statistical publications are provided by CEPALSTAT). The Gini coefficient variable ranges from zero (full income equality) to one (full income inequality), covers Venezuela on a national level, and the data is collected through household surveys (Interwp.cepal.org, 2016a). However, due to some missing years the geometric mean between the value before and the value after was calculated by the authors (this concerns the years 1995, 1996, 1998 and 2003), which needs to be taken into account in relation to accuracy-issues and reliability of results.

The Gini coefficient only shows the level of income equality between people, and not their level of prosperity, which also is known through theory to have a relationship with corruption. In other words, it only shows how income diverge relative to the rest of the population in a country, and not whether or not they are well-off or live on a minimum income. Because the theoretical framework related to economic factors claim that corruption deters investment, it is reasonable to assume that a country's income and the prosperity of its people has gone down. Thus, *GDP per capita at purchasing power parity (PPP)* was used as a variable to measure *H8: Higher levels of corruption leads to lower levels of prosperity in a population.* As a variable, the GDP per capita PPP units are shown in current international dollars (2015 Intl. $) (Imf.org, 2016). It was used to show the prosperity of the people in Venezuela, as this is an aspect not covered by (but possibly correlated to) the Gini coefficient. It does have its limitations, e.g. not measuring personal income, but it gives an indication of which direction living standards are going. In addition, it takes into account inflation. Therefore, on the background of corruption being linked to several economic variables, it was used in connection to exploring this relationship (Gupta, Davoodi & Alonso-Terme, 1998).

3.3 Method of Analysis

Based on our theoretical framework and the data drawn from it, we have tested theories' relevance to the phenomenon of corruption in Venezuela under Chávez's presidency. The resource curse theory, democracy, economic theories and decentralization theory were the main perspectives chosen to help analyze and explain our findings. Thus, we have taken on a quantitative approach in which we generated hypotheses from theories and tested them accordingly. Yet, our aim was not to generalize our findings, so they could be applied elsewhere as well, but rather to reach a deep understanding on what has allowed corruption to breed in Venezuela. Hence, we have also taken on the measures of a qualitative approach in our analysis. We have understood corruption as a socially constructed phenomenon, and analyzed it in the environment of Venezuela. We applied two sets of strategies in our mixed methods analysis that weighs qualitative data and quantitative data differently (Creswell, 2009:211-212). In this research, we found it useful to build on, and support, the results from the qualitative analysis using quantitative data. In other cases, the results from the quantitative analysis showed surprising results, which led it to inform the rest of the analysis, and further examine the results in a more detailed manner (Creswell, 2009:211).

A limitation in our data analysis is the limited number of observation, created both by necessity and because it was beyond availability. Although it would have been interesting to analyze data from the last 40/50/60 years to have some comparison and reference, it would not have been beneficial to include several decades in the analyses as the study was centered on the rule of President Chávez (and the major changes during his regime). In addition, a lot of the data we found had its starting point quite late in the 1990s, (e.g. CPI in 1995 and WGI in 1996), which naturally limited our analysis. For some of the variables the time-span was so short that it did not even cover the Chávez regime (e.g. Media Freedom). Still, these variables were also included in the statistical analyses, due to its usefulness in providing at least some idea of a relationship. Qualitative analysis was subsequently used for illustrating and supporting this relationship. Overall, the general issue that permeates the whole research is the objectivity of the information gathered, as it in some cases is quite clear that the sources are either anti-Chávez or pro-Chávez. This has an effect on what they choose to disclose, and how they analyze their findings. However, this diversifies the range of information, which is important for our objectivity and provides us with several sides of the same issue. Furthermore, our mixed methods approach allows us to triangulate the results from both the qualitative and quantitative analyses to see whether they correspond (Bryman, 2012:633).

For the quantitative part of the analysis, the gathered data was collected from several sources and the data had to be manually assembled into one data set. Thereafter, the data was analyzed using the statistical tool-package provided by Excel. Through Excel, we conducted several bivariate regression analyses to test the strength and direction of the relationship between two variables. The model used was an Ordinary Least Squares (OLS) simple linear regression, which is the most commonly used model in social sciences. OLS regression analyses are often used when Y is an interval/ratio variable and the goal is to minimize the sum of squared errors and find the best-fitted line (Pohlman and Leitner, 2003:118). In this study, the OLS model fit was applied to analyze the relationship between the chosen dependent and independent variable. For testing out hypotheses through a simple linear regression analysis, we used the following equation:

$$y = a + bx$$

However, as there was reason to believe that the effect of the independent variable would not be an immediate one, but rather have an effect on the dependent variable one year later, the regression analyses were conducted using a lag-structure with the following linear equation:

$$y_t = a + bx_{t-1}$$

Additionally, in some cases theory caused uncertainty as to whether the independent was an effect of the dependent variable or the cause, or in fact maybe both. The dependent and independent variables were in such cases tested both ways to be able to identify the cause and effect relationship. The alternative linear equation, still with a lag structure, is expressed as:

$$y_{t+1} = a + bx_t$$

After testing the suggested relationships both ways, the model that provided the best fit was reported, while both results were used for further discussion. Selectively disregarding results that do not support what we intended, could be a source of bias. However, all the results of each regression analysis are included in tables following the relevant chapter in the Results and Analysis section. In some cases, it was difficult to identify the relationship, as the regression outputs were strikingly similar. Further complicating matters, this can imply that the variables are symptoms of the same thing, and thus likely to occur in the same environment. If the models were so similar that it became difficult to choose, both were included in the discussion.

In relation to the relationship between democracy and corruption, theory assumes that the effect of the independent variable on the dependent variable wears off at some point, and then starts dropping. By using a squared term, we can test this type of relationship. This is the only

multivariate regression analysis in this research. The hypothesis is thus more general, as we only assume the directionality of the relationship in an inverted U-shape, and run it through a multivariate regression analysis. Using a squared structure with lag, the equation becomes:

$$y_t = a + bx_{t-1} + cx^2_{t-1}$$

3.3.1 Results from the Analysis

Our findings show that there are several variables that correspond with corruption as all of the results have given a high R^2 and reached a very high statistical significance level. This tells us that the dependent variables have been overly explained, and that it is likely that several of the independent variables measure the same phenomenon. Furthermore, the results may indicate that the variables might be symptoms of the same thing, and thus likely to emerge in the same environment, creating a spurious relationship. In fact, certain variables in this research include some form of institutional quality measure, which might explain the overall strong results, because all are measuring the same thing, namely institutional quality. Those variables include CPI, WGI, polity2, media freedom and economic freedom, all of which have some common indicators based on either corruption or institutional quality. Conducting a multivariate analysis with such variables cause them to add to each other's explanation-value, thus the analysis ends up being overly explained. In addition to this, the within-variance and the between-variance is small when there are few observations. Few observations, and thus also few degrees of freedom, cause the final results to be excessively influenced in one direction. Furthermore, as we wanted to explore the relationship between two variables rather than explaining which variable had the strongest effect on corruption.

Part IV: Results and Analysis

In the theoretical chapter, we speculated on and discussed various theories on how and why corruption exists in certain contexts. We discussed the effect of decentralization on corruption, where decentralization entails more division of power and more accountability (Bardhan & Mookherjee, 2006; Treisman, 2000). As an addition to this, there has been research on the relationship between institutional quality and corruption, where research shows that institutional quality indeed does affect the level of corruption in a country (Bhattacharyya & Hodler, 2010; Collier & Hoeffler, 2005). We have also seen how resource abundance can adversely affect political institutions and democracy (Auty, 2001; Collier & Hoeffler, 2005; Karl, 1997; Mehlum, Moene & Torvik, 2002). Furthermore, as the natural resource industry is usually led by the state, the natural division between the economic sectors and state diminish. This does not automatically have negative implications, for example if political institutions were of high quality prior to the discovery of natural resources. However, if the institutions were poor prior to the discovery, they are not likely to improve after the discovery of natural resources either.

In this chapter, we provide a discussion of the research questions based on the theories discussed above. Through statistical analyses, we were able to test the variables thought to have an explanation-value for the issue of corruption in Venezuela, which were further explained by literature on Venezuela. We start by discussing democracy and institutional quality, as these were highlighted by several researchers to have the biggest impact on corruption levels. After this, we go on to discuss centralization and economic factors, and finally how natural resources have strengthened unhealthy practices in relation to corruption and governance. Hopefully, this will enable us to explain (or at least understand) the prevalence of corruption in Venezuela during Chávez's regime.

4.1 Poor Institutions and Corruption

Over the years, scholars, academics and researchers have investigated a number of issues connected to the quality of institutions, where the issue of corruption is among one of the most prominent (Rose-Ackerman, 2006; Tanzi, 2002; Treisman, 2000). Institutional quality, and how corruption unfolds in various contexts, can be decisive for a number of issues. Additionally, corruption can have severe effects on several aspects of institutional quality itself. Corruption affects how a country is being governed, and the transparency and accountability of the system and people in a society (Lambsdorff, 2007). How governments are selected, civil liberties, basic human rights, formulation and implementation of good policies, rule of law and the quality of public services are all affected by how a system of rule is defined, how it operates and its response to corruption (Tilly, 2010). Without quality institutions, all the aforementioned characteristics will be severely compromised. There is also a need for organizations and systems that can provide control and insight into whether or not the features of institutional quality are in fact in place. This is where democracy and its tools come in. In fact, a free, independent media has been highlighted as one of the most important tools for uncovering and reducing the gains from corrupt acts due to its efficient checks and balances (Elliott, 1997:225). Additionally, a free media provides greater transparency in electoral and policymaking processes, which provides a good basis for improving the quality of institutions.

Treisman's (2000) study revealed that being democratic today is not necessarily sufficient because the shift from autocracy to democracy does not automatically further a complete change of systems and traditions. Additionally, the struggles between rulers and subjects does shape how the state operates, and that process takes time (Tilly, 2010). A country needs time and practice to ensure efficient checks and balances and create new ways of doing things (Karl, 1997:13). For example, if systemic corruption is already deeply entrenched, it will take more than democracy to get rid of it. Therefore, even though this thesis' main focus is on the Chávez era, it is relevant to take a quick recap to how Venezuela's political system was prior to Chávez. Understanding how checks and balances have worked in the past, might help explain why corruption has become so epidemic under Chávez.

4.1.1 The Making of a Democracy in Venezuela

In 1958, after the overthrow of the last military dictator, the three biggest political parties, AD, COPEI and URD, gathered to discuss the future of the Venezuelan democracy. They agreed upon a common set of political principles that was to remain, despite which party came to power. Later

known as the Pact of Punto Fijo, the agreement ensured "an exceptional political and social stability" with peaceful transfers of power (Riise, 2013:29-30). In fact, to protect the fragile democracy from unravelling at the interest of other powerful forces, who all in the past had triggered violent shifts in power, pacts combined with the liberal use of oil money became a way of appeasing all opposing interests (Karl, 1997:98). Through the eyes of Tilly (2010), as a strategy for state organization, it is clear that the dominant strategy had shifted from pure coercion at the hands of the government, to a combined strategy between capital and commitment (Tilly, 2010:267). However, the practice of appeasement proved difficult to dissolve once the democratic system stabilized (Karl, 1997:99), supporting North's vision that the structures of institutions create powerful beneficiaries which will resist altering the structures that benefit them (Philip, 1999:362). Overall, this practice made everyone into a direct or indirect client of the political elite (Karl, 1997:231). Thus, what started out as a constructive system to ensure the survival of democracy soon became an effective instrument to safeguard power in the hands of the major parties (Riise, 2013:31). In fact, it was not until decades later when the income of the state drastically fell due to the fall in oil prices, that AD and COPEI faced significant political competition, as they were not able to sustain their clientelistic relationships. In addition, corruption had penetrated all levels of the system, from stately companies and all the way up to the political elite. Only from 1984 to 1989, the abuse of public funds was estimated to have reached the staggering number of 36 billion dollars, a clear indication that checks and balances did not work as one would expect from a democracy (Riise, 2013:31-32). According to Philip (1999), the central problem was that the dominant political parties had excessive control over the entire bureaucracy (p.363). There was no clear separation of powers, and the judiciary branch was to a high degree controlled by the political elite who operated within their own private trust network (Tilly, 2010).

Overall, it seems clear that Venezuela never has been able to fully break from its authoritarian past, with the practice of clientelism and patrimonialism surviving the transformation from dictatorship to democracy. As Karl (1997) implies, a regime change does not instinctively induce a clean slate (p.13). Yet, the political classes are left with two choices; one, altering the system's present characteristics, or two, reinforce the already existent practices. Unfortunately for Venezuela, much points in the direction of latter (Karl, 1997:92). It is thus important to bear in mind that the pervasive corruption that penetrates the Venezuelan state today, is nothing new. It can seem like corruption has pierced the political system from the dawn of time. Recognized as systemic corruption, the political elite has created a practice which is difficult to break away from, where every relation in the system of rule are in constant struggle for power, and are not afraid to use

certain strategies to achieve this power (Tilly, 2010:271-272). When everyone is corrupt, there are few incentives not to join in, as this can lead to a loss of power (Shaxson, 2007:1126). In such an environment, the winners represent those who most efficiently draws support by illegitimate means. However, with Chávez, corruption has gone from bad to worse, despite coming to power with the promise to eradicate corruption. Furthermore, a dysfunctional democracy was replaced by what many will characterize as a hybrid regime, known in theory to be even more corrupt than fully autocratic states (Riise, 2013:18). But how did this happen and what exactly did Chávez do to cause this deterioration?

4.1.2 Corruption and Democracy

The last decades have been devastating for the Venezuelan people in relation to democracy and human rights. While other Latin American countries experienced the so-called third wave of democracy in the 1980s, this mark the decade when the Venezuelan democracy started to unravel. Moreover, the election of President Hugo Chávez in 1998 has not turned the country into what was imagined as his ideology has made Venezuela more and more authoritarian according to governance and democracy indices. According to Marshall & Cole (2014), disruption of a country's long-standing political processes can suddenly send it in the opposite direction, which is exactly what happened to Venezuela in the hands of Chávez. He did not appreciate the neoliberal democratization of his predecessor, and his political views thus charged him in the opposite direction. The level of democracy fell steadily as soon as Chávez began changing the country and adopted a new Constitution at the end of the 1990s, here illustrated in Figure 8:
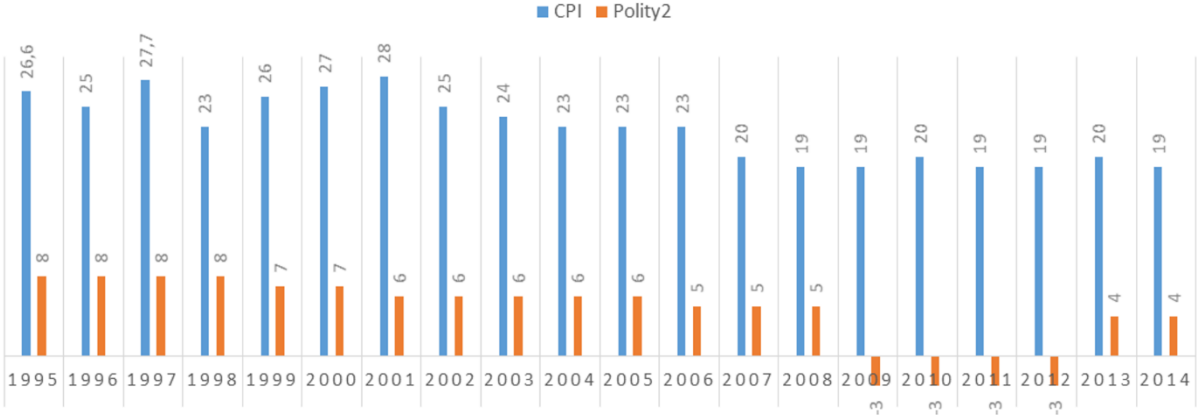

Figure 8: The level of democracy in relation to the level of corruption displayed annually. Source: Transparency.org, 2015 and Systemicpeace.org, 2014. Note: the democracy variable is not in squared terms.

Democracy entails that there is transparency, accountability and protection of human rights in a country. Lack of such democratic features can lead to corrupt actors bypassing rules that are meant for everyone, which further aggravates corruption as it becomes a necessary tool to get ahead in a society (Rose-Ackerman, 2006). However, there is evidence that this is only true in relation to countries who are fully democratic (or fully authoritarian), not those who have hybrid regimes and are only semi-democratic (Corrales, 2015). In relation to the Venezuelan context, Chávez has been able to obscure the already established Venezuelan democracy by discarding its values and turning in the opposite direction. His rise to the presidency was a consequence of the discontent lingering in the Venezuelan society, and the people's ache for change in a period of crisis (Riise, 2013:15). However, in the people's quest for a brighter future, an opportunity was created for establishing a more authoritarian regime. According to Riise (2013), the competitive authoritarianism now existing in Venezuela, is a combination of democratic rules and authoritarian methods, where democratic institutions merely works as a smokescreen so that the people in power can exercise their own agenda without fear of repercussions (p.17). Due to the international community's condemnation of having a full-blown autocratic political system, this became the golden mean for Chávez and his allies that allowed him to avoid the scrutiny and pressure internationally, and continue to abuse his power. What separates Venezuela's history of authoritarianism from others, is the fact that Venezuela's authoritarianism is the result of an already established democracy, and not a dictatorship (Riise, 2013:16-18).

In 1999, the new constitution that was intended to give the sovereignty to the people of Venezuela was adopted, after which the election bylaws for the Constituent Assembly were alternated. The Constituent Assembly was subsequently defined in such a way that inhibited the setup of a true, plural political body. The 1999 Constitution (and its additional articles and amendments) made sure that the president would be in complete control over all the branches of government, even the Supreme Tribunal of Justice whose purpose is to provide a control on power and checks and balances. Thus, by using democratic tools, the government became both authoritarian and centralized (Brewer-Carías, 2010:1-2). Regime types who exhibit a mix of both democratic and authoritarian features is referred to as hybrid regimes (Corrales, 2015). Lambsdorff (2007), who has also found that there is more corruption in "medium-democratic" regimes than in full authoritarian regimes, supports this. Venezuela, as a member of the Organization of American States (OAS), has signed the 2001 Inter-American Democratic Charter. By signing the charter, they agreed to exercise democracy through government transparency, righteousness, responsible public administration, freedom of expression and the press, respect for social rights, rule of law, and

various other components necessary for a democracy (Brewer-Carías, 2010:7). However, in 2009 Venezuela reached an all-time low at meager -3 points on the polity2 index, placing the country in the category "closed" anocracy, which lasted until his death in 2013. Today, Venezuela is regarded as an "open" anocracy, and the level of corruption is considered very high.

As previously stated, corruption is only reduced by democracy once a threshold is passed (Lambsdorff, 2006a:11). Based on the theoretical framework, we assume that corruption is negatively affected by the level of democracy, but only at a certain point. Thus, the hypothesis is that *high levels of democracy lead to low levels of corruption (H1).* The first multivariate regression analysis with the individual variables was conducted by using CPI (corruption) as the dependent variable and, and the variable for regime type called polity2 (i.e. the level of democracy) with and without squared terms as independent variables. By using the democracy variable in squared terms as an additional variable, we manage to explore the relationship between regime type and corruption in the bell-shaped form expressed in theory. Additionally, there is reason to believe that the effect of corruption will not be expressed immediately, thus we used a one-year lag structure on the democracy variables. We found that there is a positive relationship between corruption and regime type at a 0,01 significance level (p-value: 0,0000228282670893102). The regression analysis output gives us an R^2=0,737 revealing that almost 74% of the variance of the corruption variable can be explained by the level of democracy. This supports the idea that there is less corruption in societies with a high level of democracy. However, because the coefficients of the regression results are both positive, we cannot support the idea of that corruption levels are higher in hybrid regimes with our results. When the values are placed in a graph to illustrate their relationship, we can see that lines move worryingly similar to each other (see Figure 9):
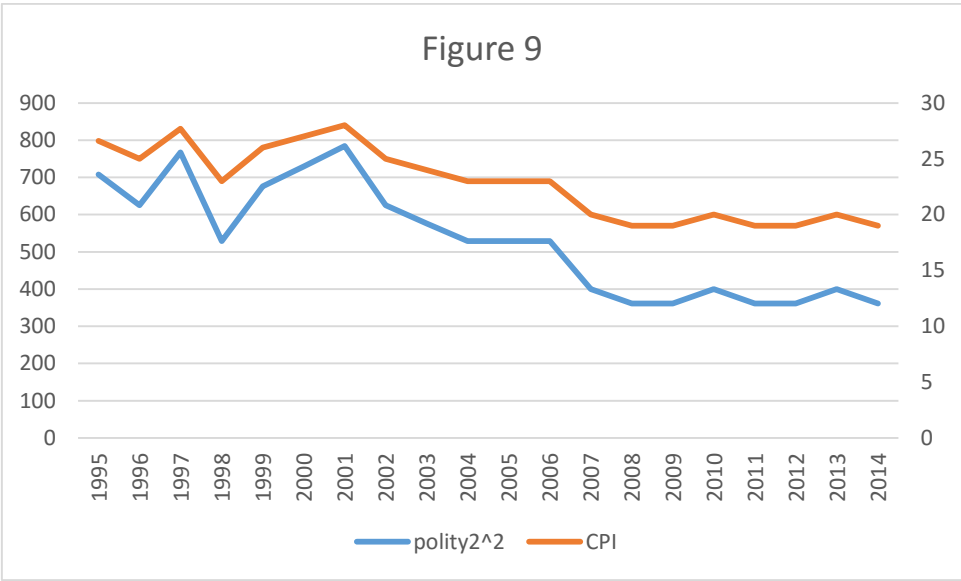
Figure 9: The relationship between democracy (polity2^2) and corruption (CPI) displayed annually. Source: Transparency.org, 2015 and Systemicpeace.org, 2014. Note: Lower CPI scores indicate a higher level of corruption.

Moreover, when the variables were tested in a multiple regression without a lag structure, it was revealed that almost one hundred percent of the variance in the corruption variable could be explained by the democracy variable. This is highly unlikely, which entertains the idea that these two variables most likely are symptoms of the same issue or measure the same. Therefore, other variables and factors with an explanatory value that should be tested as well, and the relationship further explored qualitatively. Placing the values of the regression results in a table, illustrates the points previously made (see Table 1):

Table 1. The results of the regression analyses between democracy and corruption. Dependent variables on top row.

	Model 1: CPI	Model 2: CPI
Polity2$_{t-1}$	0,32158* (0,14329)	
Polity2$^2_{t-1}$	0,01155** (0,00385)	
Polity2		0,02811* (0,01297)
Polity2^2		0,02110* (0,00034)
R-squared	0,73709	0,99788
Intercept	15,66024	11,49627

Note: ordinary least squares (OLS) coefficient estimates with standard errors in parentheses. Significance levels; **p<0.01, *p<0.05. Dependent variables are displayed in the top row; independent variables (with lag and/or in squared term) are displayed in the first column.

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4.1.3 Corruption and Media Freedom

Freedom of expression and freedom of the press are very important for a well-functioning democracy due to their ability to provide checks and balances in a political regime. A free, independent media is a great tool for strengthening democratic governance because it works as a watchdog, an agenda-setter and gatekeeper (Waisbord, 2010). Without the media exposing corruption and holding those who commit corrupt acts responsible, it is probable that corruption will flourish. Therefore, one might claim that higher levels of media freedom provides checks and balances which in turn lower corruption. Thus, we hypothesized that (*H2) lower media freedom leads to more corruption*. We tested the relationship between media freedom and corruption by running a bivariate regression analysis with corruption as the dependent variable and media freedom as the independent variable. The analysis found that there is a negative relationship between corruption and media freedom at a significance level of 0,05 (p-value: 0,0130562766393305), with an R^2 of 0,476. This means that almost 48% of the variance in the corruption variable can be explained by the media freedom variable. Therefore, we can confirm our hypothesis and state that lower levels of media freedom increases corruption.

Because corrupt people want corruption to stay hidden so that they can continue their corrupt acts, they might go to great lengths to keep it that way. Being exposed as corrupt might involve great risks, so those who have the power to do so, might be inclined to restrict media freedom. Thus, as they become corrupt, they want to gag the media. In some cases, great powers are used (or misused) to achieve strict restrictions on the media and on access to objective information. With the media eliminated or gagged, the threat of exposure is minimized (Elliott, 1997). This idea caused uncertainty of the cause and effect-relationship between the variables because it is plausible to think that corrupt people want corruption to stay hidden, thus they use undemocratic measures to ensure this, which in turn lowers media freedom. In light of this, these variables were also tested the other way around to ensure that the cause and effect relationship was right. A second bivariate regression analysis was run with media freedom as the dependent variable and corruption as the independent variable. The analysis found that there is a negative relationship between corruption and media freedom at a significance level of 0,01 (p-value: 0,001199378860352), with an R^2 of 0,666. As we can see, the second model gave stronger results than the first, supporting that media freedom very much can be the result of more corruption. Nevertheless, both models can be regarded as strong,. This might indicate that media freedom can be both a cause and effect of corruption.

However, corruption and media freedom might also be symptoms of the same problem, namely poor checks and balances.

Media freedom in Venezuela is a hotly contested issue where the opinions vary greatly. Those who are pro-Chávez insist that the media have silenced him, while the opposition claim that Chávez is the silencer of the media. Either way, there is no doubt that Chávez enticed the public with his speeches and rhetoric, and he was widely recognized for his ability to engage those who belong to the lower classes of society (Gott, 2011:6). In such a manner, he was able to attract large parts of the Venezuelan people to participate both socially and politically. Because of his impact on the poor population, and his way of expressing himself, he also managed to enrage the middle and upper classes. Most places (at least democratic ones) the media works as the watchdog and the gatekeeper, exposing those who do wrong while providing accountability. The media's role as a watchdog adds checks and balances to the government in its actions. Portrayed as the "Fourth Estate", the media is supposed to be separated from the government (Coronel, 2010). When the media is privately owned, this kind of separation is often achieved. This is true in the case of Venezuela as well, due to the state owning just a tiny share of the media shares, while over 90% is owned privately, most often by the elite. However, the media is also supposed to be promoting a wide array of different opinions while promoting public interests, which is not the case in Venezuela (Waisbord, 2010). In addition, the lower classes of society (aka the supporters of Chávez) do not have the same access to the media, or the media-savviness as the elite does, further inhibiting the diversification of news. This means that access to objective information might be quite poor. This will be discussed subsequently.

Before Chávez, the majority of the media was privately owned by the economic elite and those with valuable international connections. The privately owned media was extremely politicized. Few of the TV- and radio-channels were objective because of their support by, and towards, the political elite, and most worked as promoters for certain political views and were pro-government (Corrales, 2015). This is also an indication of poor democracy in Venezuela in the past, where checks and balances were not working properly, since virtually all media stations were owned by people closely linked to the government. When the government pays to spread support propaganda, and the private media are all allies to the government, the access to objective news is severely compromised (Collier & Hoeffler, 2005). After Chávez, this has all changed because the previous supporters of the government, aka the private media, have now become the opposition. The media conglomerates of that time has not been pleased with seeing their political allies being thrown over, and has not appreciated Chávez's political ideology which meant that they would lose power,

money and influence. The media as a whole has become even more politicized and polarized after Chávez's rise to presidency. The politicizing might contribute to the community, and especially those who support Chávez, possibly not believing the media when they report about high corruption. The politicization of the media prevents them from being a trusted source of information, at least for the poor. The poor and those who have become less poor under Chávez, accounts for a significant share of Venezuela's population. Since Chavez manage to win elections and is not being held responsible for the widespread corruption in the country, might be attributed to the fact that the opposition, which is not trusted by the poor, owns the media.

Over the years, Venezuelan private media has not only been criticized by Chávez and his supporters for promoting the American lifestyle and culture while suppressing their own, all while being backed and owned by the elite. It has also been criticized for encouraging the opposition to carry out a coup in 2002, and for its role in the slandering of Chávez and censoring of information (Gott, 2011; Vold, 2013). Even the international community (who were mostly siding with the opposition in their portrayal of Chávez) condemned the actions of the private media. In 2007, RCTV, one of the biggest private television channels in Venezuela, was not granted a new broadcasting license. This enraged not only the opposition who often used the channel to promote its agenda, but also spurred a huge debate abroad on the issue of press freedom (Gott, 2011). The opposition, who already claimed that Chávez was controlling the media, now claimed that he was turning the media into his own empire. According to Corrales (2015), privately owned television media decreased from 88% in 2000 to only 56% in 2014. However, others claim that the state's ownership of the media only amounted to under 5% over a decade after Chávez came to power (Vold, 2013). A large amount of the decrease in privately owned television media is actually due to an increase of payment TV, not necessarily a takeover by the state, which is not always clear in literature and reports. It is therefore important to take note that the figures on ownership of the media is extremely diverging depending on the source, and should thus be viewed with caution. On a more important note, research shows that the actual share of viewers has not changed that dramatically towards either the state owned or privately owned media. At the beginning of 2000, the share of viewers was 80.79% for private channels, 2.04% for state channels, and 17.17% of the audience were watching paid TV. In 2010, these numbers were 60.97% for private channels, 5.13% for state channels, and 33.90% for paid TV (Weisbrot & Ruttenberg, 2010). In other words, even though the market share of media fluctuates, the share of viewers has not been dramatically shifted towards either of the political sides, rendering the opposition's argument of a state takeover obsolete because that is clearly not what is most important.

Even though the issues with ownership may not be that severe, the Freedom House' Freedom of the Press Index shows a clear downward spiral in Venezuela since 2002 (see Figure 10).
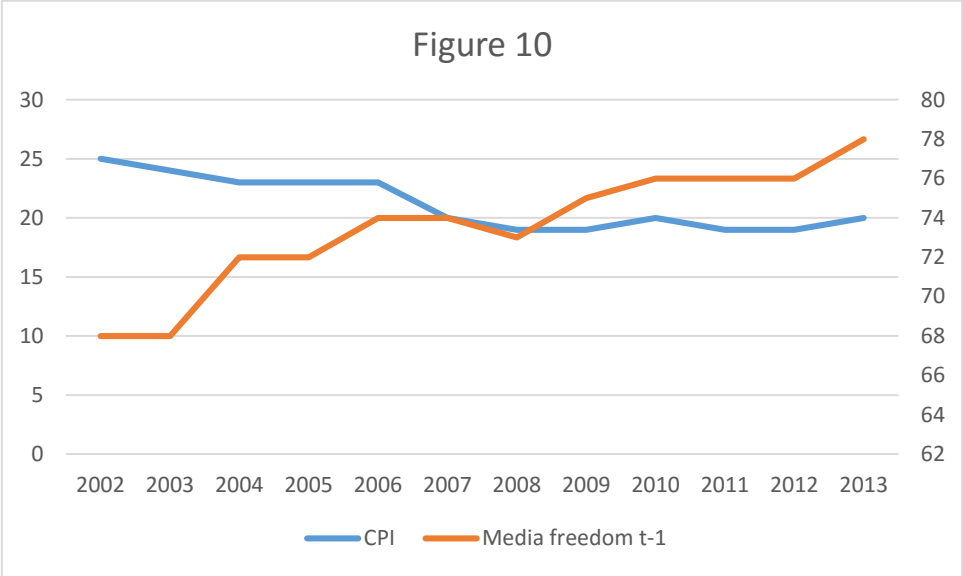

Figure 10: The level of corruption as related to the press freedom the media enjoys. Source: Transparency.org, 2015 and Freedomhouse.org, 2016b. Note: higher press freedom scores indicate less freedom.

The index is based on a survey, where media freedom is split into three categories; legal environment, political environment and economic environment. The reason for these bad scores can therefore be attributed to aspects of media freedom, other than ownership (Freedomhouse.org, 2016a). Those who are especially relevant in the case of Venezuela are issues of content being impacted by bribery and corruption, independence and diversity of the news, political influence, freedom of information, reporter's freedom from harassment, and legal and constitutional freedom of expression. All of these have been negatively affected in some way for over a decade, and probably also even before that. According to Vold (2013), media freedom in Venezuela (as established and protected by the 1999 Constitution) is one of the freest in the world. However, with the provisions of i.e. the Telecommunications Law, Chávez started to impose limitations and restrictions on the press under the umbrella of e.g. defamation and racism (which in Venezuelan media is very apparent and visible), although he himself was quite racist (Brewer-Carías, 2010; Corrales, 2015). However, these restrictions and limitations were mostly imposed on the opposition, while those who were pro-Chávez were mostly allowed to do as they pleased. The judicial branch has also been criticized for its ruling in the favor of the President in several cases involving the right to information and the right to response, which is especially damaging since it is well known that the separation of powers in Venezuela are severely compromised. Over the years, there has also been a large amount of reports on violence against reporters and journalists,

and reports on foreign reporters being discriminated and threatened (Freedomhouse.org, 2016b). This has severely compromised the freedom of speech and the freedom of press.

Even though a massive percent of the media is owned by the elite and are broadcasting anti-Chávez "propaganda", the freedom of expression must still stand, especially in a claimed democratic state. Without proper democratic tools to enforce human rights, corruption is given space to grow because it is not handled. According to Freedom House (2016b), the government has made additions to the Constitution that allows for criminal prosecution of those who defame the president. Allowing clear violations of the constitutional (and human) rights of the people to express themselves, while at the same time indirectly controlling what the press can and cannot do, is directly undemocratic. The laws passed on the media, and how the judicial branch (controlled by Chávez) interprets the 1999 Constitution, violates those democratic principles (Corrales, 2015). In addition, the government has imposed restrictions on import of e.g. printing paper, which clearly inhibits the printed media, all while they give subsidies to those who are pro-government (Freedomhouse.org, 2016b).

In addition, the self-censoring of the press (both local and foreign) due to fear of reprimands and continuous threats to their safety, pose as a big problem for the freedom of speech. The fact that the media is not diverse enough to cover a large array of opinions in the public is also a massive issue in Venezuela (Waisbord, 2010). The media continues to be a platform where the majority of the civil society is not welcomed, quite possibly related to the elite's iron grip on the media outlets. In addition, the media's politicized role has paved the way for a monopolized and distorted distribution of information, especially during political conflicts (García-Guadilla, 2007). This, combined with the malfunctioning role of the media as a watchdog with independent power and values, is in severe opposition to democratic principles. Either way, these reflect poorly on the freedom of the press and the freedom of expression. In essence, it provides a possible explanation for the continued prevalence of corruption in Venezuela because it shows the deterioration of democratic tools that are vital in the battle against corruption. All the results from the previous analyses are presented in Table 2:

Table 2. The results of the regression analyses between media freedom and corruption. Dependent variables on top row.

	CPI	Media Freedom
CPI $_{t-1}$		-4,07031* (1,35103)
Media Freedom $_{t-1}$	-0,58879** (0,13175)	
R-squared	0,66635	0,47580
Intercept	64,44237	153,95313

Note: ordinary least squares (OLS) coefficient estimates with standard errors in parentheses. Significance levels; **$p<0.01$, *$p<0.05$. Dependent variables are displayed in the top row; independent variables with lag are displayed in the first column.

4.2 Corruption and Centralization

Those who supported Chávez, the so-called *chavistas*, were in the eyes of the opposition seen as poor, manipulative, violent and undeserving people. In reality, they consisted of people from all parts of the Venezuelan society, many of whom had experienced and committed their support to revolutionary processes. By supporting Chávez and the Bolivarian Revolution, they believed that they were voting for direct participatory democracy, more power to the civil society, human development, and a power-shift on a national and international level (Ramírez, 2007:132). In addition, the *chavistas* represented a diverse majority of the society, who often felt overlooked and marginalized by the elite and the government. The Bolivarian Revolution, seen as a counterhegemonic social movement led by Chávez, therefore attracted a lot of support from parts of society the elite could not sway with its politics. The 1999 Constitution thus incorporated all the values Chávez's supporters believed the Bolivarian Revolution would bring. However, because of the social organizations that have formed (who essentially are either pro- or anti-Chávez), the civil society have become extremely polarized and politicized because of their urge to defend their own interests and values. The result has thus become a segregated and socially different society where violence, class struggle and conflict is threatening democracy (García-Guadilla, 2007).

Studies have shown that decentralization is connected to democracy and corruption (Bardhan & Mookherjee, 2006; Karlström, 2015). According to theory, decentralization only leads to less corruption when there are strong institutions in place, and the regime is democratic with functioning checks and balances. However, as we have come to know, Venezuela federal system exhibits traits from both an authoritarian and democratic regime, and that the power of the regime is considered centralized. In accordance with this, we developed the hypothesis that *decentralization leads to more corruption (H4)* in medium-democratic countries, or so-called hybrid regimes. Centralized countries like Venezuela often have low levels of democracy (evident by limited economic freedom, media freedom, and other variables) combined with high levels of corruption (Karlström, 2015). Through centralization and decentralization, one can either demolish or promote democratic values, which can have an effect on corruption. In other cases, corruption just shifts between different layers independent of the level of decentralization. This gives us the hypothesis; *decentralization has no effect on the level of corruption (H3).* Because centralization has been a tool for accomplishing the Bolivarian Revolution, and the implementation of the 1999 Constitution necessarily involved undemocratic measures, the democracy in Venezuela has been destabilizing. The increased centralization is evident when you regard how Chávez slowly has taken control over all the branches of government and the Constitution itself (Brewer-Carías,

2010). Thus, power is in the hands of the new elite and corruption is allowed to grow. This is not a new phenomenon since Venezuela has struggled with corruption for many decades. As the political history shows, the dominant political parties were allowed an excessive amount of power over crucial institutions, and thus ruled pre-democracy Venezuela. At the same time, the electoral system made effective competition virtually impossible. This made sure corruption stayed hidden and was allowed to flourish. This suppressive system came to be inherited throughout the years, even at a time when democracy seemingly made its entrance. Fighting such a system was seemingly important for Hugo Chávez at his entry to the presidency, but his great focus on power allowed for an increasingly centralized state in the name of socialism and democracy (Brewer-Carías, 2010).

As stated in the theoretical chapter, power in a federal state is divided between at least two levels of government, where the states have autonomy. However, the provisions of the 1999 Constitution directly violates this because the national government is highly centralized, and does not allow autonomous political institutions on a subnational level. In addition, separation and independence of the branches of government are eroded, as the president either controls them all, or have appointed close allies to important positions. Even the constituent process itself was part of this erosion (Brewer-Carías, 2010). For instance, when the 1999 Constitution was written, Chávez gave control over promotions in the military at all levels and reinserted a unified command structure to the presidency. At the same time, the military was given the right to vote in elections and responsibility of implementing development work (Derham, 2010:260). In 2002, an election was held to form a national constitution assembly to rewrite the constitution. In the election, Chávez's candidates won 121 out of the 131 seats (among them his wife and brother). The assembly was granted the power to rewrite the constitution and thus form the base for Venezuela's political system. They dismantled the congress, and for some time Chávez even ruled without an elected legislative body (Norden, 2003:101-102). Several of Chávez's former military companions also found their way to the politics through appointments. One became state intelligence directorate, another private secretary to the president, and others throughout the entire bureaucracy. Many of these companies were removed from their positions or resigned voluntarily, revealing an unhealthy practice where the president can appoint close friends to important positions (Norden, 2003:102-103). Shortly after Chávez became president, he also regained control over the national oil company and took over the renegotiation of contracts, which Hammond (2011) suggests increases government officials' opportunity to demand bribes. The role of the Energy and Mines Ministry was also strengthened, closing the gap between the oil industry and the government, which had been expanded for years (Parker, 2007:64). Regaining control over PdVSA also meant (in addition

to eased access to funds) the ability to insert supporters in powerful positions, further aggravating a society characterized by clientelism.

According to Brewer-Carías (2010), none of the components of a democracy, which were mentioned earlier in relation to the 2001 Inter-American Democratic Charter, exists in Venezuela today. Neither fundamental freedoms, nor separation of power. These have all been challenged by 1999 Constituent Assembly, the 1999 Constitution, and its provisions in the hands of the government. Supposedly, the 1999 Constitution was meant to decentralize and distribute power towards local governments, which would provide balance and counterweight. In relation to the hypothesis that *decentralization leads to less corruption in fully democratic regimes (H5),* providing local governments with fiscal and administrative power increases accountability and competition, which in turn decreases corruption (Karlström, 2015). Although the Constitution and federal system itself provides for decentralization defined as territorial distribution of governance, it does not provide them with any substantial power (Brewer-Carías, 2010). Nevertheless, without an effective democracy, there can be no effective decentralization. Combined, subnational governments are the link between the center and the communities. Still, the municipalities are as disconnected from the center as before as the state of Venezuela has become more and more authoritarian. If Venezuela had strong institutions, decentralizing a fully authoritarian regime would still entail more corruption than decentralizing a fully democratic regime, but both would still lead to less corruption than decentralizing a medium-democratic one. This is also supported by the hypothesis that decentralization leads to less corruption. Several examples of undemocratic and centralistic incidences can be put forward to illustrate the severity of centralization and authoritarian behavior. According to the 1999 Constitution, judicial functions, e.g. the power to remove people from office in the judicial branch, were also bestowed upon a commission instead of a court, severely violating legitimacy and due process. Judges have also been removed from office as decided by the President, and the government has ignored judicial decisions (Brewer-Carías, 2010).

The consequence of having a highly centralized medium-democratic state is that there are few checks and balances. Transparency and accountability are almost completely gone as the real power has been concentrated in the hands of the government. Fiscal, political and bureaucratic decentralization has not been achieved in the hands of Chávez. Rather, the concentration of power has led to a resurgence of corruption (Karlström, 2015).

4.3 Corruption and Economy

The effect corruption has on an economy has been a widely discussed and debated topic ever since the connection between the two was made. Some believe that corruption severely inhibits a country's economic growth and efficiency, while others believe that corruption is an effective way to counterweight excessive amounts of bureaucracy and red tape (Islam & Montenegro, 2002; Pieroni & d'Agostino, 2013; Johnston, 2005). Either way, a stunted and poorly governed economy does have its downsides, which is often evident through poverty and inequality indicators. Corruption can lead to misallocation of resources, low investment in human capital, an increase in rent-seeking activities and a decrease in productivity and profitability. In the cases where high levels of corruption and low levels of governmental quality operate together, the economy often exhibits flaws in relation to income distribution and the well-being of a population (Pieroni & d'Agostino, 2013). According to Elliott (1997), economic competition is the key to reducing corruption, mainly because economic competition and an open economy does reduce opportunities and possible gains from corrupt acts (p.225).

4.3.1 Economic Freedom and Corruption

The degree of economic freedom enjoyed by the people in a society says a lot about people's ability to control their lives and their own liberty. Economic freedom entails everything from property rights to the freedom to invest, and dictates what the people in a society can and cannot do. Several studies have found that economic freedom deters corruption and that corruption thrives in countries with low economic freedom (Chafuen & Guzmán, 2000; Graeff & Mehlkop, 2003; Paldam, 2002). With full economic freedom, people are allowed to do as they please with what they own and can maximize their returns, and there is a limit to state intervention in the economy. Economic freedom also entails that people have the right to labor and participation in the economic sphere. As an indicator of democratic values and institutions, low economic freedom entails that the state to a large degree intervenes in the economy and that economic alternatives are limited (Johnston, 2005). Therefore, logic dictates that economic freedom creates opportunity. Low economic freedom means that other actors can further their own agenda because there are few policies in place to protect one's rights, and few economic alternatives (Johnston, 2005). Therefore, people in a society might become more dependent on economic alternatives that may be considered corrupt, or become vulnerable to influence by other corrupt actors who wants to further their own interests (Johnston, 2005). The relationship between corruption and economic freedom is here illustrated in Figure 11:
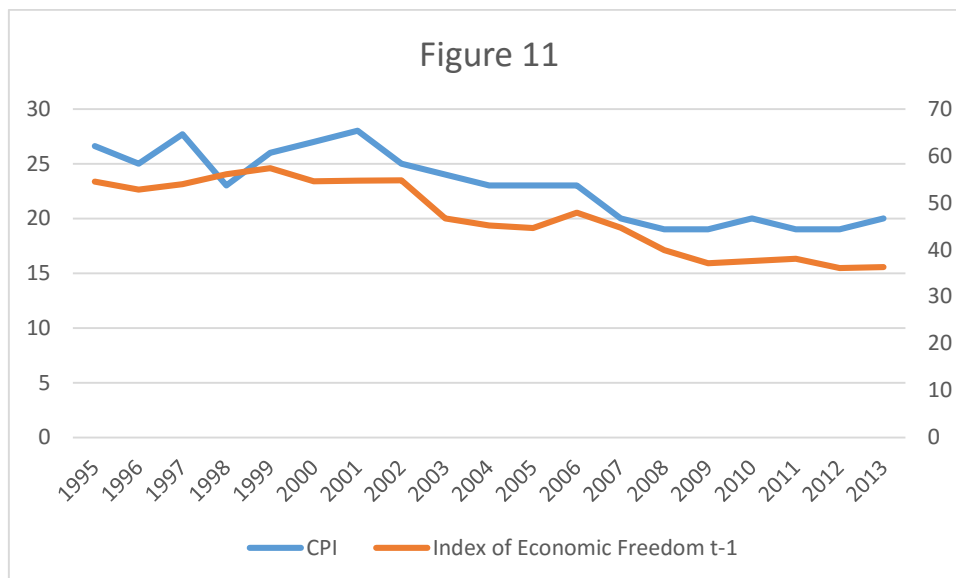
Figure 11: The level of corruption in relation to economic freedom. Source: Transparency.org, 2015 and Heritage.org, 2016. Note: Lower CPI scores indicate a higher level of corruption.

Economic freedom also entails economic openness, which might encourage increased competition. An approach to achieving greater economic freedom is to liberalize and open up the market. When markets are liberalized and open, trade and investment (both national and international) will go up, which in turn is favorable for a healthy economy and society. We found it useful to investigate the relationship between corruption and economic freedom in Venezuela, thus we tested the hypothesis that *low levels of economic freedom lead to more corruption (H6).* We further tested the relationship between economic freedom and corruption by running a bivariate regression analysis with corruption as the dependent variable and the variable for economic freedom as the independent variable. The analysis found that there is a positive relationship between corruption and economic freedom at a significance level of 0,01 (p-value: 0,00000143771873030054), with an R^2 of 0,812. This means that 81% of the variance in the corruption variable can be explained by the economic freedom variable. Accordingly, the analysis reveals that corruption has increased while there has been set more and more limitations on people's economic freedom. We find it possible that economic freedom and political freedom are linked, and that centralization of power and less democratic policies are crippling to such freedoms. To account for the fact that more corruption could be the effect of less economic freedom and not the other way around, the bivariate regression was also run with the economic freedom as the dependent variable and corruption with one-year lag as the independent variable. It is plausible to think that those in power would benefit from people not having any economic alternatives, thus they use undemocratic (and corrupt) measures to keep people from having those alternatives. However, the model revealed that this is not the case

as the fit was considerably worse. This means that it is possible to confirm our hypothesis, which means that lower economic freedom is the effect of more corruption in Venezuela.

Over time, Venezuela has become more and more centralized, less liberalized and corruption has flourished as the separation of government power has diminished, which might explain the fact that Venezuela is continually receiving a lower score on economic freedom. The 1999 Constitution initially established a mixed economic system, allowing the citizens great economic freedom based on democratic principles. In 2001, the Supreme Tribunal even went as far as declaring the state of Venezuela as a "social State that is opposed to authoritarianism" (Brewer-Carías, 2010:158). After the adoption of the 1999 Constitution, additional amendments and articles have turned Venezuela in another direction. Since 1999, the political system spearheaded by president Chávez, has allowed for the development of an authoritarian government, increased the state participation in the economy, and reduced people's economic freedom (Brewer-Carías, 2010:164). The consequence of low economic freedom is often the prevalence of a large informal economy, which will also increase corruption levels. An example of violation of the economic freedom in Venezuela occurred in 2003, when 19.000 workers were dismissed from their jobs (violating their labor rights) after a general strike. Subsequently, the National Guard evicted them from their homes with violence. In addition to this, the state has been known to systematically violate property rights (Brewer-Carías, 2010:390). In sum, the state is in full control over the economy and can make regulations as it likes.

4.3.2 Income Equality, Prosperity and Corruption

To gain a more in depth knowledge about the relationship between income distribution and corruption, we look at the Gini Index. Income equality may indicate something about who really benefits in a society, whether it is the elite who reaps the revenues or if the revenues benefit the common good. Theory states that corruption leads to higher income inequality due to the core functions of government being compromised (Gupta, Davoodi & Alonso-Terme, 1998: 29). Based on this, we then hypothesized that *high levels of corruption leads to low income inequality (H7).* We used a bivariate regression analysis to test the relationship between corruption and income equality, with corruption (CPI) as the dependent variable and income equality (Gini coefficient) as the independent variable. We found that there is *positive* relationship between corruption and income equality at a 0,01 significance level (p-value: 0,00000117280691740393), with an R^2 of 0,781.

Even though theory states that income inequality is higher in countries with high levels of corruption, the regression shows that the income distribution has improved and inequality has gone down while corruption has gone up. This means that we cannot confirm our hypothesis because it directly violates our findings. In most cases one would probably see a negative correlation between the two variables (i.e. an increase in corruption would lead to a decrease in equality, and vice versa), but seeing that Chávez was deeply engaged in pro-poor policies and improving the lives of the poor, this is not the case for Venezuela. Basically, this analysis may represent Chávez's ability to create an equal society (which is also reflected by the decrease in poverty and increase in GDP per capita) and improve the well-being for the poor, despite the fact that corruption traditionally affects the poorest the worst (Odi.org, 2004:1). In turn, it might explain his popularity among the poorer part of the population. The reasons for the increased income equality might also be related to more investment in human capital, meaning more schooling and work experience. On the other hand, rising income equality could also be attributed to the rise of the informal economy sector (Freije, 2014). Still, it is important to keep in mind that the Gini coefficient only reflects the income equality between people in a society, and not their actual prosperity. In other words, the whole population could be dirt poor or filthy rich in a society with total equality. Either way, there has been a positive development of equality in Venezuela (see Figure 12).
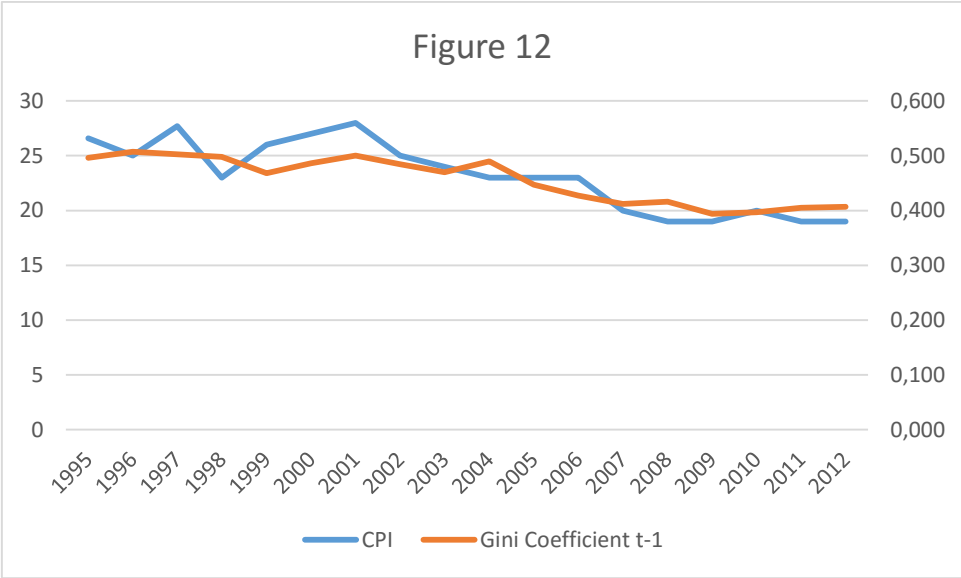

Figure 12: The relationship between corruption and the level of equality. Source: Transparency.org, 2015 and Interwp.cepal.org, 2016a. Note: Lower scores on the Gini coefficient indicate a more equal income distribution.).

Because of the limitations of the Gini index, it is also beneficial to look at Venezuela's GDP per capita at purchasing power parity to see the cost of living and its relationship to corruption. Theoretically, people should be less prosperous in the lower parts of society when there is

corruption. This is because funds are diverted away from the poor and "weak", and into the pockets of the mighty elite because they have the power to manipulate and employ mechanisms that allows them to do so. This means that there should be high income inequality in Venezuela. However, as Venezuela has become more equal in relation to income, it is thus worth it to investigate whether or not it is likely that the society has become richer or poorer. According to previous studies, corruption lowers investment, growth and competitiveness, which are then reflected in reduced welfare levels for the population (Gupta, Davoodi & Alonso-Terme, 1998; Jain, 2001; Pieroni & d'Agostino, 2013). Therefore, we hypothesized that *higher levels of corruption leads to lower levels of prosperity in a population (H8)*. The statistical analysis shows that the negative relationship between corruption (dependent variable) and GDP per capita PPP (independent variable) is statistically significant at a 0,01 level (p-value: 0,00000488333696248604), with an R^2 of 0,783 signifying that 78% of the variance in the corruption variable can be explained by Venezuela's GDP per capita at purchasing power parity. The relationship between them is illustrated in Figure 13:
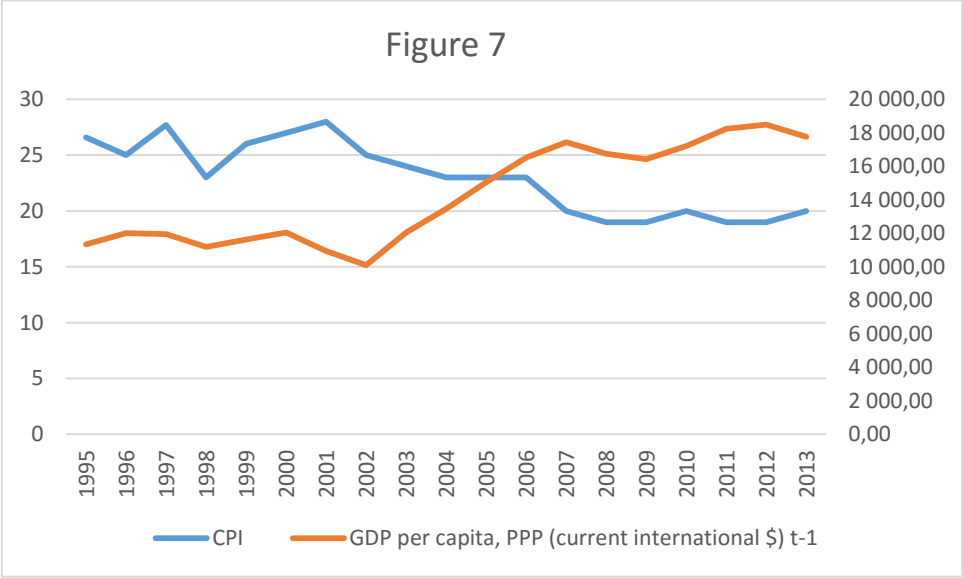

Figure 13: The relationship between corruption and GDP per capita at purchasing power parity. Source: Transparency.org, 2015 and Imf.org, 2015.

The relationship between the two was also tested with the GDP per capita PPP as the dependent and lagged corruption as the independent to reveal if corruption could be the effect and the GDP per capita PPP the cause. The reason for this was that theory also claims that corruption might reflect a population in need, as stipulated by Blind (2014). According to Blind (2014) there might be certain conditions that makes people in need turn to corrupt acts to supplement a low income. The hypothesis was thus that *lower levels of prosperity leads to more corruption (H9)*. The second

model revealed only a slightly weaker result, with an R^2 of 0,742, and a significance level of 0,01 (p-value: 0,00000219183649664699). In other words, both models showed very strong results. However, as both models illustrated a negative relationship, it is not possible to confirm either of our hypotheses because they both stipulated a positive relationship between corruption and high prosperity. The results also reveal that corruption can be both cause and effect of a high prosperity level.

A rise in the GDP per capita PPP reflects the amount of goods a person can acquire in their country. In addition, and in relation, to the Gini index, this rise confirms that the Venezuelan people are more equal while at the same time more prosperous. The reason for the increase in corruption simultaneously with the increased prosperity and equality might be relatable to Chávez's pro-poor platform. He was very preoccupied with minimizing foreign trade and influence over his country, while at the same time providing social benefits for his people. Therefore, he initiated many pro-poor programs and policies, and created more employment opportunities. This has increased the prosperity of the people in the lower sectors of the society and evened out the income inequality gap. In addition, he invested larger and larger chunks of the GDP in the health, education, social security and housing sectors. In total, social public expenditure almost doubled from 1997 to 2012 (see Figure 14).
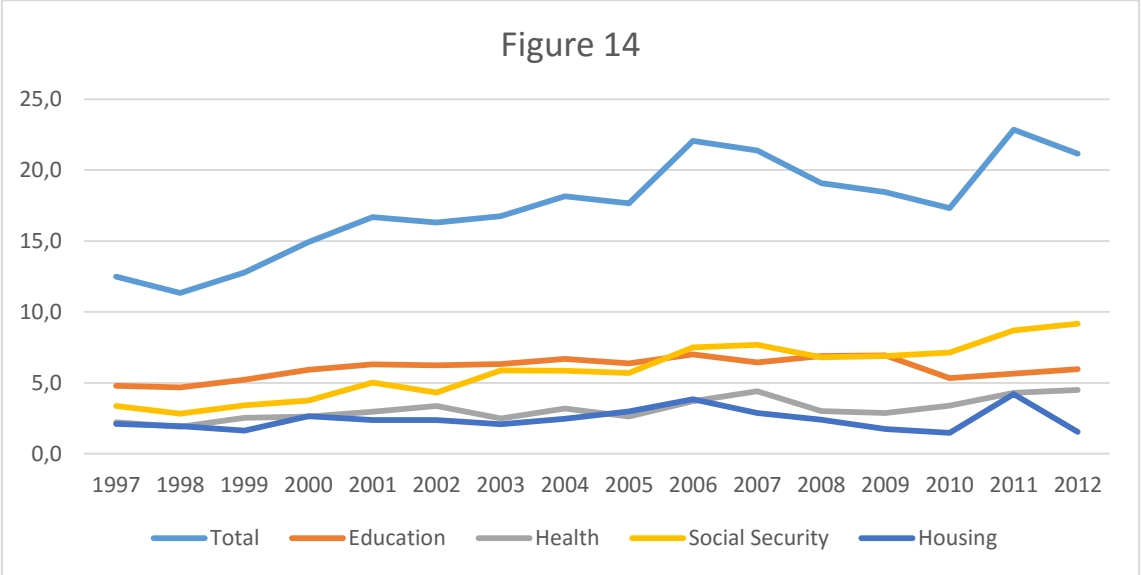

Figure 14: Social public expenditure as percentage of GPD, displayed by sector. Source: Interwp.cepal.org, 2016b.

The connection between increased equality and prosperity, and increased corruption is not only attributable to social public expenditure, but also to the taxation system in Venezuela. In theory, if the revenue comes from taxation of citizens, it makes the state more accountable for their decisions

and their actions (Fisman & Gatti, 2002; Lockwood, 2006). Taxation heightens the expectations the society has, and makes the people more eager to participate politically. Political participation affects the power of politicians, who in turn will only stay in power if they are re-elected. If the people experience that they are not getting what they deserve and that revenue is not going where it should go, while the political elite enriching themselves at the same time, they might be inclined to overthrow their corrupt leaders. Thus, corruption might be quickly clamped down on from several sides: both from politicians ensuring there is no corruption within their party or political affiliations, and from the society keeping their politicians under control. In Venezuela, people are expected to pay taxes on a rate from 6% to 34% (Kpmg, 2016). Further, Venezuela has a tax system that varies between very progressive (personal income tax and social security contributions) and mildly regressive (value-added tax) based on income, where the total fiscal system is regarded as somewhat progressive. In addition to the progressive tax system, the social expenditures are progressive as well, only in the opposite direction (i.e. the poorest receive the largest share of social expenditures) (Freije, 2014). It thus becomes clear that even though Venezuela under Chávez has promoted a progressive tax system, the people of Venezuela do not work as controls on corruption. An explanation for this might then be attributed to the actual tax system and its progressiveness, being that Chávez's largest group of supporters is the poor and middle class who are more likely to pay less in tax, as well as receiving the largest portion of social benefits. Thus, they have little incentives to hold Chávez accountable for corruption. Nevertheless, it is not possible to attribute high inequality and low tax rates to the widespread corruption as the theories suggested. On the other side, the increased social spending combined with a progressive tax system may indicate that Chávez has taken on another measure known in the theory of resource curse to dampen pressure on accountability and transparency. This strategy will be further discussed in the following chapter, concerning the resource richness of Venezuela and how this possibly has had adverse implications for corruption. All the results from the previous analyses are presented in Table 3:

Table 3. The results the regression analyses between the economic variables and corruption. Dependent variables on top row.

	CPI	Economic Freedom	CPI	Gini Coefficient	CPI	GDP per capita PPP
Economic Freedom t-1	0,37427** (0,04373)					
CPI t-1		2,07149** (0,30717)		0,01095** (0,00173)		-772,27931** (110,53833)
Gini Coefficient t-1			67,45431** (8,93873)			
GDP per capita PPP t-1					-0,0010** (0,00012)	
R-squared	0,81165	0,72791	0,78066	0,70235	0,78291	0,74169
Intercept	5,42334	1,39363	-7,57447	0,21040	36,76707	31373,02701

Note: ordinary least squares (OLS) coefficient estimates with standard errors in parentheses. Significance levels; **p<0.01, *p<0.05. Dependent variables are displayed in the top row; independent variables with lag are displayed in the first column.

4.4 Natural Resources and Corruption

Previous in the discussion it has become clear that Venezuela's democracy has experienced several democratic drawbacks since the 1980s. What was paradoxical, was that the deterioration of democracy happened after 40 years of a relatively stable democracy and a decade of high oil prices. It became apparent that the system praised internationally, surely had its weaknesses with inefficient checks and balances. Furthermore, after Chávez became president it seems like the system has become even worse. Venezuela's political history is heavily affected by the presence of oil. As Tinker Salas (2007) puts it, "The history of the oil industry is critical to an understanding of contemporary Venezuelan society and politics" (p. 35). Thus, with support in theory which state that natural resources has adverse implications for checks and balances, further enabling more corruption, a discussion of the deterioration of institutions in correspondence with the oil sector is favorable.

One of the many elements in the resource curse is the claim that institutional quality at time of discovery is vital as resource abundance adversely affects the emergence of good governance institutions. Thus, actually being able to understand the development of institutions in correspondence with natural resources, means that we must take a quick recap to Venezuela's political system when oil first was discovered, and how institutions emerged around it. In other words, we start with discussing *H10: corruption depends on the efficiency of checks and balances at time of discovery.* In addition, we try to recognize *H11* (*natural resource rents increase the amount to withdraw for personal gain*), *H12 (natural resource rents provide funds to avoid checks and balances).* Nevertheless, as we were not able to gather the necessary quantitative data from this period, *H10* will only be discussed using qualitative methods.

4.4.1 The Oil Adventure Begins

When Venezuela started its oil adventure in early 20th Century, Venezuela was ruled by the military dictator Juan Vicente Gómez. Since the 1920s, both the production and export of oil rose sharply and by 1928, Venezuela had earned the title as the world's largest oil exporter (Salazar-Carrillo & West, 2004). When Gómez seized power in 1908, he took over an underdeveloped country with low administrative capacities that relied on personal authority, informal justice and clientelistic forms of recruitment (Karl, 1997:77). As Shaxson (2007:1123) states, the poorer and weaker a country is prior to the discovery of oil, the bigger its chances of being affected by the resource curse. In the Gómez period, the Venezuelan state system was not easy to distinguish from the president himself, and in many ways, he represented the state. As an effect, the industry became an

instrument for maximizing Gómez and his supporters' personal fortunes (Salazar-Carrillo & West, 2004:39). For Gómez, the commercialized production of oil meant a stronger concentration of power with increased opportunities to suppress opponents and award supporters. The oil industry thus reinforced the already high degree of centralized power in Venezuela (Karl, 1997:77,80). Overall, this supports the resource vision of unhealthy political practices being strengthened by the great value of resource rents when a country lacks the minimum degree of checks and balances in the first place. This will accordingly have implications for the future as well, which will be discussed subsequently in the chapter. Nevertheless, after Gómez's death in 1935, there was new hope as the country entered into a period of democratic reforms. Apart from a ten year break with military dictatorship from 1948-1958, much pointed in the direction of Venezuela being on right track in terms of democratic reform and development.

In 1958, the constructors of the Venezuelan democracy met and signed the pact of Punto Fijo. The pact laid the ground for what was to become a stable democratic period, where the major political parties agreed upon a mutual set of principles and vowed to support electoral outcomes, despite which party came to power (Riise, 2013). However, as Gómez used the country's oil wealth to protect his position in power, much has pointed in the direction of this practice being transferred to the Punto Fijo democracy as well. Whether natural resources are present or not, a regime change does not routinely bring with it a completely new system. Yet, this is particularly true for oil states where there are several powerful forces with a personal interest in the system remaining the same (Karl, 1997:13,92). Furthermore, Philip (1999), explains how the practice of oil revenues being directly transferred to the government through profit taxation, reinforced the already existing rent-seeking and clientelistic trend in Venezuela's stately institutions (p.361).

Traditionally, states and institutions have been built through bargaining between the rulers and the public. For example, the public has paid tax in exchange for certain services that the state could provide (Karl, 2007:278). This type of bargaining has led to greater transparency and accountability claims, as states have to justify how they spend public tax funds, and further led to the emergence of democratic institutions (Ross, 2001). However, resource rich countries can avoid this type of bargaining with the public as they have enough funds to sustain themselves through resource revenues. Therefore, the institutions that emerge in resource rich countries, are often constructed in isolation from the public, having adverse implications for accountability and transparency (Karl, 2007). Furthermore, this was very much true for the building of Venezuelan democracy as well, as very little tax was collected outside the resource sector (Philip, 1999:364). In fact, the building of

democratic institutions happened between the political elites, and was accepted by the public through unsustainable use of oil funds (Karl, 1997).

Venezuela's history is a history heavily influenced by several coups, which furthermore is more likely to occur in oil rich countries like Venezuela (Le Billon, 2001). Thus, to prevent the recurrence of yet another coup, the new system that emerged was based on a principle of appeasing all competing interest through the deliberate use of oil revenues (Karl, 1997:98). This type of spending is however not favorable for the emergence of good institutions as it dampen broad political debate, and eventually turns everyone into a direct or indirect client of the political class. The approach thus facilitated for a poor system that was sustained by the continuation of patronage and clientelistic practices, leaving rulers' power unchecked by inefficient checks and balances, enabling more abuse/misuse of public funds. Accordingly, as long as the state has the ability to apply this clientelistic approach, the system is likely to persist (Le Billon, 2001:569). However, as oil dependent states make themselves entirely tied to the swings in the international markets, this is a strategy doomed to fail at some point or another. This was exactly what happened to the Venezuelan democracy.

Paradoxically as the resource curse suggests, the unravelling of the Venezuelan democracy sat pace after the sudden increase in oil revenues in the 1970s. The increased funds intensified Venezuela's subsidized democracy, yet, as soon as the income started to decline, the critique of the ruling parties increased accordingly (Karl, 1997). The investments in education, housing and other social measures were redirected to fund the overly employed public sector, meet debt payments and make up for industrial losses (Derham, 2010:53). In other words, the government thus prioritized nursing its clientelistic relationships with politically powerful groups, instead of addressing the root of the problem; totally unsound and unsustainable use of oil money. However, the population was not okay with this skewed prioritization, and with corruption scandals popping up everywhere, the anger was further fueled and the support for the traditional parties declined (Lalander, 2010:141). Hence, as soon as the government did not have sufficient revenues to fund its subsidized democracy, checks and balances started to work more efficiently. The government could no longer hide its weaknesses and the population was outraged. The late 1980s and early 1990s thus represent the beginning of the end of the AD and COPEI dominated democracy. Nevertheless, one man's trash is another man's treasure, and this created a perfect scene for Chávez to attract followers.

4.4.2 Chávez and the Oil Money

In the 1998 election, Chávez campaigned with the promise to eradicate corruption and clean up politics. Reflecting the people's desire for a complete shift in politics, Chávez won the election with 58 percent of the votes (Lapper, 2005; Sylvia & Danopoulos, 2003:66-67). However, Chávez, like the previous regime, linked Venezuela's new development model to the oil sector and was therefore reliant on a rise in revenues to reach his goal (Parker, 2007:64-65). In other words, he seemed to step into the same trap that had led to the collapse of the former system. By reinitiating cooperation with OPEC through mutual respect for exploitation quotas, the oil price steadily rose. Further, due to a new hydrocarbon law that introduced a new way of collecting revenues through royalties, the income to the state grew even more (Mommer, 2003:140-141). Furthermore, like the former system proved unable to break away from all the practices of their authoritarian predecessor with widespread corruption and clientelism, much has pointed in the direction of Chávez failing equally bad to fulfill his promise of eradicating corruption. As we will see, Chávez was very much like the previous regime, in which he was in desperate need of funds to ensure the survival of his rule.

After Chávez became president and revenues steadily increased, there was also an increased perception of the society being corrupt (see Figure 15). In its simplest sense, the lootable character of resource revenue increases the opportunities to withdraw funds for personal gain. Thus, we test *H11: natural resource rents increase the amount for personal gain*. When testing the relationship between CPI as dependent variable, and natural resource rents as independent, with a one year lag, the R^2 is 0,756 and the result is statistically significant at a 0,01 level (p-value:0,00000276669814387791).
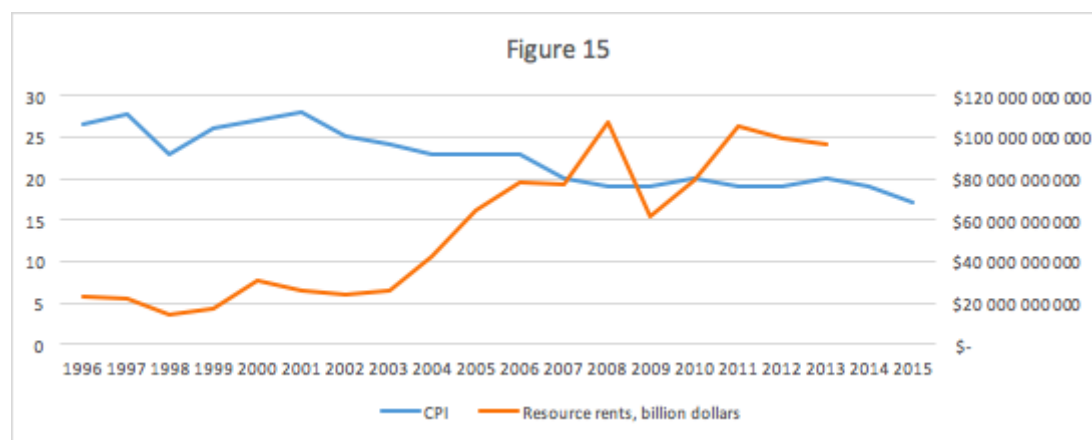

Figure 15: The relationship between CPI and Resource Rents. Source: Transparency.org, 2015 & Worldbank.org, 2016a.

Figure 15 clarifies the relationship and shows how the two variables are related. Resource richness is however also known to have adverse implications for the quality of institutions, further creating a friendly climate for corruption to breed, and it is therefore favorable to see if this happened under the Chávez regime as well.

The resource curse explains how a sudden increase in revenues foster behavior which is harmful to democracy and thus also to the institutions intended to prevent corruption. Because the value of holding power is so great, rulers in resource countries tend to apply several measures to secure their position. However, the measures they take on are not always democratic or legit, and bears the potential of affecting governance and democracy undesirably from a public goods perspective, but desirably from a corrupt leader's perspective as it enhances their opportunities to continue with unhealthy practices (Karl, 1997:15). Lootable resource rents release great funds to spend on clientelism and patronage, which adversely affect checks and balances and good governance. As resource revenues increased after Chávez came to power, it is possible that this happened in Venezuela as well. Thus, it is favorable to test the effect natural resource rents has had on the overall governmental quality. When testing *H12: natural resource rents provide funds to avoid checks and balances,* with WGI as dependent of natural resource rents (one-year lag), the R2 is 0,710 and the result is statistically significant at a 0,01 level (p-value: 0,0000113970460065094). Hence, the result supports the assumption that quality of governance decreases when there is an increase in revenues. However, as resource revenues provide leaders with effective instruments for obtaining support, it is also likely that rulers will increase production to be able to have a greater capacity of holding on to power. Thus, it may be favorable to test the relationship the other way around as well. When applying the same data while simply changing which one is dependent and independent variable, the result is strikingly similar with an slightly increased R^2 of 0,733 and the result is also here statistically significant at a 0,01 level (p-value: 0,0000114247377130613). This underline the difficulty in deciding which way the relationship goes, but overall supports the existence of a relationship.

Moreover, it is fully imaginable that the relationship goes both ways, and that increased revenues both can be an explanation and an effect of decreasing WGI scores. On the one hand, it is reasonable to believe that high resource revenues enabled Chávez to deploy measures that weakened checks and balances through clientelism and patronage. On the other hand, it is also imaginable that Chávez intensified his efforts to increase oil revenues to be able to spend more money on patronage and clientelism, and thus also to ensure his position in power. Furthermore, Chávez invested millions of dollars to increase Venezuela's oil and gas production, even at the

expense of his anti-neoliberal attitude with promises to protect foreign investment assets (Sylvia & Danopoulos, 2003:70), an indication of how desperate Chávez was to ensure high levels of revenues from the oil sector in order to achieve his goals.
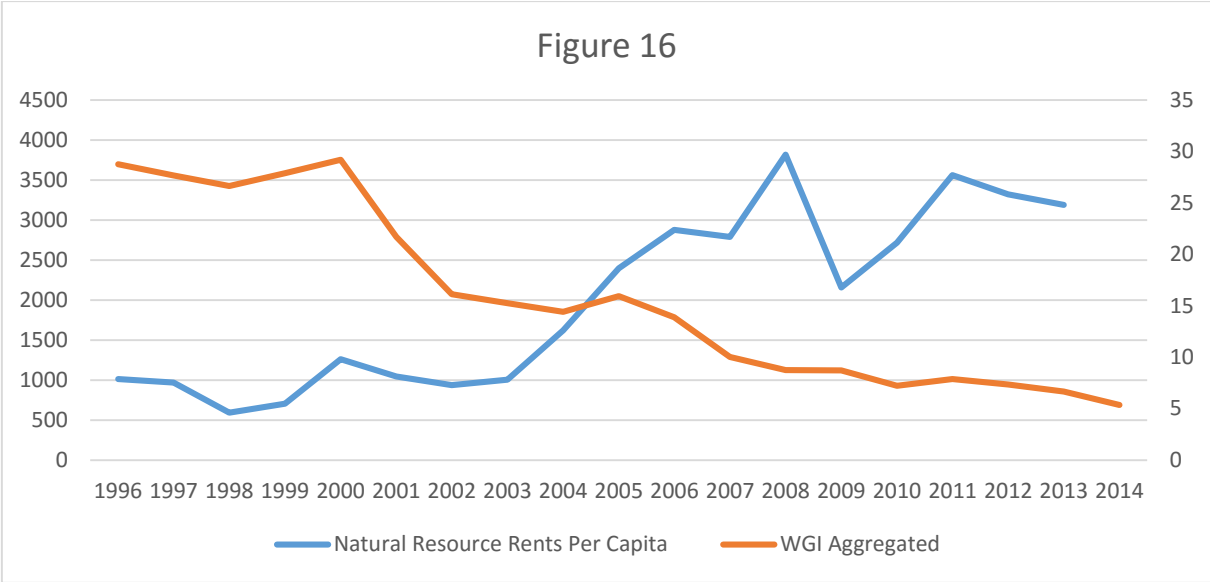

Figure 16: The relationship between Natural Resource Rents Per Capita and WGI aggregated. Source: Worldbank.org, 2016a & Worldbank.org 2016b.

Either way, the relationship is easily captured in Figure 16 as it illustrates the experience of WGI declining while natural resource rents per capita increase, and vice versa. However, while this test reflected how resource rents affected institutional quality in an overall perspective, the essence of this chapter is how oil wealth has facilitated corruption. Resource revenue release great lootable funds, available to be spent on escaping checks and balances. Eventually, this triggers a vicious circle where corruption assists more corruption, as the mechanisms to hold the government accountable weakens. Thus, while WGI reflect several governance features, CPI is more relevant for the remaining tests as it reflects the perception of actual corruption as well as the perceived likeliness of institutions being able to prevent corruption.

4.4.3 Oil Rents and Clientelism

Countries with resource abundance like Venezuela face a greater risk of political instability, conflicts and coups (Le Billon, 2001). Further, as Chávez's rise to power represented a shift from a forty-year period of centrist and neoliberal-friendly governments to an extreme leftist government, the endurance of Chávez's regime was extremely uncertain. While the shift to leftist politics attracted supporters, it undoubtedly alienated others (Corrales, 2015). Chang and Golden (2010) address how corruption is likely to increase in authoritarian settings where rulers are uncertain of how long they will rule (p.3). This effect is further amplified if natural resources are

involved, as it increases the incentives to stay in power as well as enhancing the instruments to secure their position in power. Even though this parallel is intended to apply to authoritarian regimes (where the shift in power is less predictable than in democracies), it is possible to draw lines to Venezuela as countries with a vast oil fortune face higher risk of coups and undemocratic shifts in power. Moreover, coups have indeed affected Venezuela's political history. Overall, in such an environment clientelism and patronage is likely to emerge, which again will have adverse implications for detecting corruption. Further, the more money they have available, the higher the likeliness of this strategy being deployed.

When testing *H12 (natural resource rents provide funds to avoid checks and balances)* again, now with CPI depending on resource rents per capita, the R^2 is 0,732 and the result is statistically significant at a 0,01 level (p-value: 0,0000585605). We also tested the relationship the other way around, since the previous test with WGI revealed that the increase in natural resource rents could be an effect as well as the cause of declining WGI scores. The alternative model where natural resource rents per capita depend on CPI also presented a good fit to the with an R^2 of 0,687, statistically significant at a 0,01 level (p-value: 0,00000276669814387791). Thus, as with WGI, it can seem like resource rents per capita can be both a cause and effect of a declining CPI. On the one hand, as the amount to "bribe" every citizen with increased, the likeliness of detecting or holding the Chávez accountable for corruption decreased. On the other hand, it is plausible to believe that in order to maintain the already weak political system, highly characterized by clientelism, Chávez intensified his efforts to increase the oil rents to the state. Moreover, Corrales (2015) highlights how corruption, impunity, and patronage were deliberately used as strategies to keep Chávez's coalition together and thus also to secure his position in power. Either way, it seems like natural resource rents indeed has helped Chávez to secure his position in power (see Figure 17). What remains, is to understand through which channels resource rents has been spent to cause this deterioration to happen.
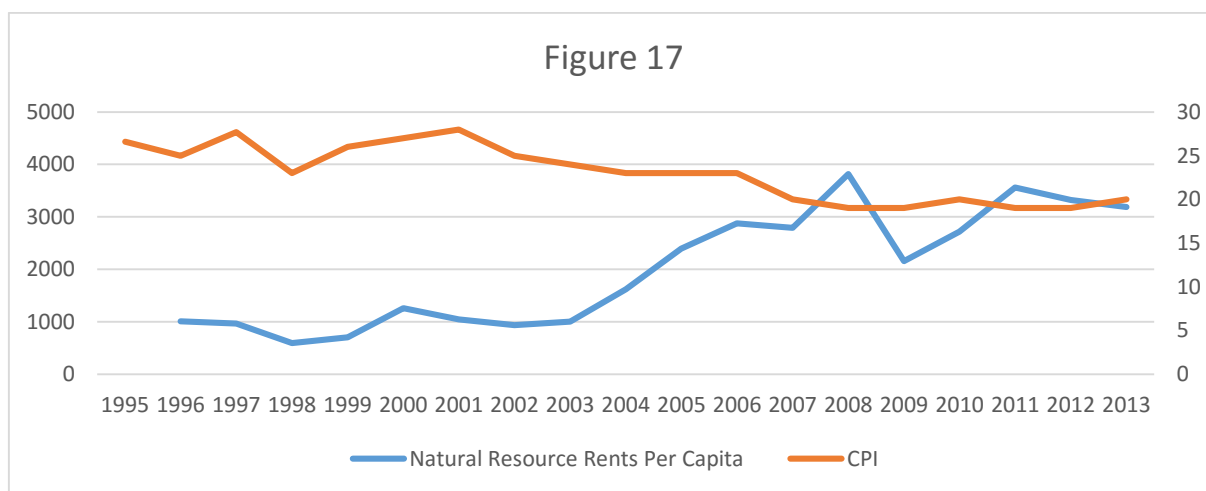
Figure 17: The relationship between CPI and natural resource rents per capita. Source: Transparency.org, 2015 & Worldbank.org, 2016a.

As resource rents release great funds to finance a large public sector, one of the possible explanation for the deterioration in checks and balances may have been extensive clientelism in the bureaucracy. In fact, Norden (2013) states that the presence of clientelism in the bureaucracy after Chávez's inauguration, was notable by high levels of military officers in important government positions, some of whom were directly appointed by Chávez himself (p.103). The military, who on several occasions had participated in the overthrow of presidents, was probably an important unit to ally with. If military personnel were on Chávez's payroll, they were less likely to oppose his regime, at least as long as the money kept pouring in. However, as there is no data that reflects clientelism in the bureaucracy directly, it is not possible to analyze those suggestions quantitatively. Yet, public sector employment as percentage of total employment may be an alternative as it may reflect increased clientelism in the bureaucracy as suggested in theory.

In general, public sector employment tends to be higher in resource rich countries as a way of distributing oil rents to the population, which is not necessarily a bad thing. However, if jobs are granted on clientelistic principles it will have adverse effects on corruption as the institutional checks and balances can be controlled by people who has vowed their support in exchange for jobs. Moreover, even though the job is not explicitly given in exchange for political support, it nevertheless creates a bond between the government and the employee. Employment ensure some form of long-term "bribe" in form of wage, and thus represent a more durable patron-client relationship than simply paying a bribe once. On the other hand, as clientelism entails some form of corruption in itself, it is possible that increased public sector employment is an effect rather than a cause of corruption, or alongside a cause. In other words, that more corruption indicates more clientelism, as reflected in an increase in public sector employment. It is therefore favorable to

apply the data in two regression analyses with lags to be able to assume which way the relationship goes. Hence, we test *H12: natural resource rents provide funds to avoid checks and balances* both ways, between public sector employment and CPI. When testing the relationship between CPI and percentage of public employment in a regression analysis, with a one year lag and CPI as dependent variable, the R^2 is 0,519 and the result is statistically significant at a 0,01 level (p-value: 0,000336410223902812). This implies a strong relationship, with poorer checks and balances as an effect of increased public sector employment. However, when applying the same data with CPI as cause rather than effect, the model reveals a much better fit with an R^2 of 0,774, statistically significant at a 0,01 level (p-value: 0,000000143518969432862), implying that the increased sector employment reflect clientelism (corruption). Nevertheless, both models illustrate good fits, and public sector employment may therefore be both an effect and a cause.
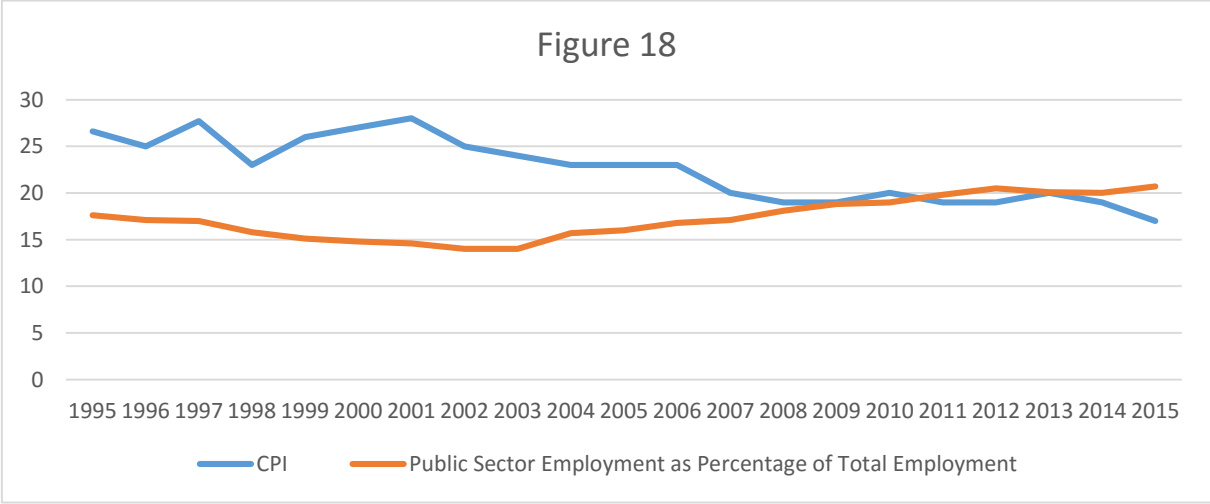

Figure 18: The relationship between public sector employment as percentage of total employment and CPI. Source: Ine.gov.ve, 2016 & Transparency.org, 2015.

Figure 18 illustrates this relationship. Yet, even though the bureaucracy was filled with pro-chávistas, the population should still have been able to hold Chávez accountable for the abuse of power through elections, so why did this not happen?

4.4.4 Resource Rents and Public Accountability

Le Billon (2001) explains how the income from the oil sector is so great that it enables governments to transfer clientelism out of the institutional arena and onto the general population as well (p.568). For example, according to Ross (2001), this has been a deliberate strategy of Saudi Arabia who has used their oil wealth to bypass social pressure for accountability and transparency. Through high social spending and low tax rates, Saudi Arabia has been able to reach high human development levels while still ruling the countries by undemocratic principles, two factors that rarely correlates

in traditional development theory. Therefore, in addition to oil increasing the amount of money to withdraw and harming the establishment of efficient institutional checks and balances, it also grants the government with funds to distract public channels intended to hold governments accountable through elections. And the higher the revenue, the greater the opportunity to bypass public pressure for accountability and transparency. Venezuela, like many Middle-Eastern governments, has enjoyed this type of great funds and it is therefore possible that Chávez has deployed the same measures as Ross (2001) identifies. The question is: through which channels is it likely that Chávez has deployed these measures on his population?

In a democracy where the people decide the ruler, one of the most important groups to "distract" are the voters. One method for applying clientelism to the total population is to increase social expenditures. In fact, after obtaining power and enjoying immense revenues due to a high oil price, the Chávez administration did amplify its social expenditures. Health centers for the poor, educational programs inside the slums, committees distributing books and organizing physical activities, food programs, etc. were all financed by oil money (Strønen, 2012:140). According to both Ross (2001) and Le Billon (2001), this would affect public checks and balances adversely. Yet again, we test *H12 (natural resource rents provide funds to avoid checks and balances)* in this case being noticeable through increased social spending. Testing the relationship with a one-year lag and CPI as dependent on social expenditures gives an R^2 of 0,618 and the result is statistically significant at a 0,01 level (p-value: 0,00030353540464309). However, as many of the former tests have illustrated that several variables have been both a cause and an effect (e.g. with public sector employment) it may be beneficial to test the relationship the other way around as well. When applying social expenditures as dependent on CPI, also here with a one year lag, the R^2 is 0,351 and the result is statistically significant at a 0,05 level (p-value: 0,0154168233181295). The first regression output therefore illustrates a better fit of the model, supporting the resource curse theories' claim of corruption being an effect, instead of the cause, of increased social expenditures as public claims for accountability weakens (see Figure 19).
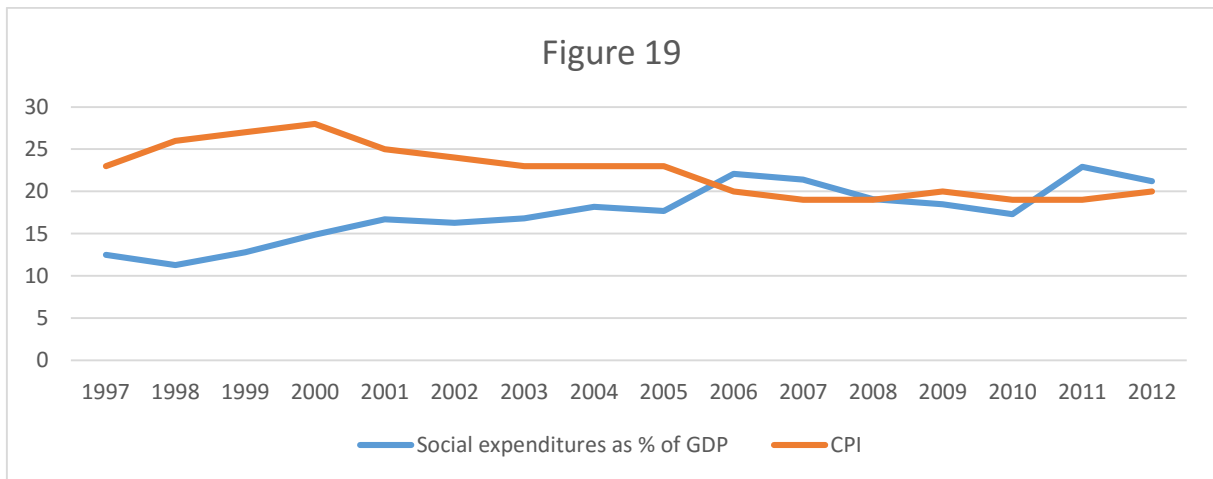
Figure 19: Relationship between CPI and Social Expenditure as Percent of GDP. Source: Transparency.org, 2015 & Interwp.cepal.org, 2016b.

Also a regression analysis with CPI as dependent on poverty rates, with a one year lag, illustrates a strong relationship with an R^2 of 0,489 and the result is statistically significant at a 0,01 level (p-value: 0,00256720007951192). Overall, since the relationship between CPI and poverty is positive and not negative (see Figure 20), it quite controversially, in a traditional understanding, suggests that there is a strong relationship between high corruption levels and decreasing poverty rates.
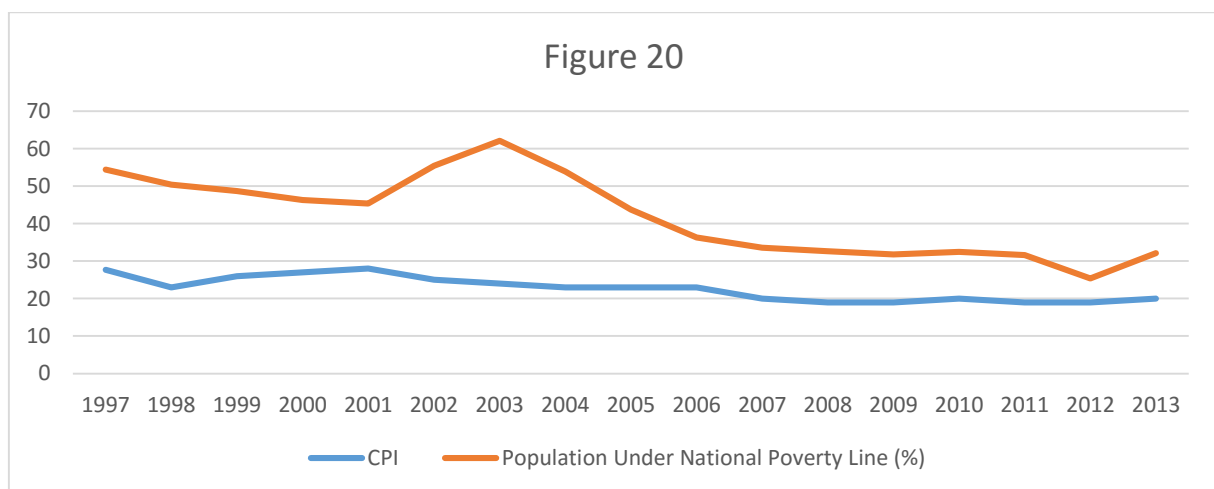

Figure 20: the relationship between CPI and Population under National Poverty Line. Source: Transparency.org, 2015 & Worldbank.org, 2016a.

It may seem like Chávez has deployed the "Middle-Eastern strategy" Ross (2001) identifies, at least towards his biggest supporters; the middle and lower classes, as they are most likely to benefit from his increased social spending and pro-poor programs. In the years prior to Chávez, living standards steadily declined, so, when they rose under Chávez it gave the impression that whatever was wrong with the previous system, Chávez was able to fix (Hausmann & Rodríguez, 2014). The noteworthy investments in social programs thus granted him significant political support,

especially from the lower classes (Parker, 2007:72). The increased social spending with a corresponding decline in poverty, may therefore explain why Chávez was not held accountable in elections, despite the widespread perception of the society being corrupt. Furthermore, if a population has the impression of politics being corrupt by nature, which in respect to Venezuela's political history is reasonable to assume, they are less likely to criticize the one corrupt politician who is actually benefitting them. The alternative could in fact be a president who is equally corrupt while the policies are not providing them the same benefits. Yet, it is important to bear in mind that increased social expenditure principally is a good thing in contrast to clientelism in the bureaucracy. Moreover, it is not possible to claim that social expenditures were deliberately increased just to bypass accountability rather than being a part of Chávez's socialist vision. Weakened accountability demands can be regarded as a beneficial side effect. However, there is another measure resource rich leaders can take on as well, which has not been discussed yet. We have therefore a second opportunity to evaluate if Chávez used the oil wealth to avoid being held accountable.

The resource curse stress how the presence of large oil reserves reduce the government's dependency on tax as a source of income, and how this potentially have negative implications for accountability (Collier & Hoeffler, 2005; Ross 2001; Le Billon, 2001). Keeping a low tax rate is known to weaken public demand for accountability and transparency, and can therefore be applied as a measure to avoid being held accountable. Citizens who pay significant sums in tax are more likely to demand transparency and further hold the government accountable for how they spend the tax, than a non-taxed or lightly taxed population (Le Billon, 2001). At first glance, it does not seem like the Chávez administration has taken on this strategy of implementing a progressive tax system. The tax rate ranges from 6 to 34 percent for citizens and 15 to 34 percent for corporates and businesses, in addition to supplementary taxes dependent on size, sector, etc. (Deloitte.org, 2015). Doingbusiness.org (2015) even ranks Venezuela as 188 out of 189 countries when comparing different tax policies relevant to small and medium sized domestic businesses, indicating a difficult environment for businesses. Venezuelan residents may on the other hand be granted deductions for certain personal- and family expenditures like medical expenses, school payments, insurance policies, dependents under the age of 25, and so forth (Deloitte.org, 2015). Thus, even though Chávez has not deployed the same strategy as many Middle Eastern governments has, the tax regime corresponds to his socialist vision in which he takes from the rich and gives to the poor. It also becomes clear that the tax system actually reflects the critique of Chávez, as the group who is most affected by tax, namely the elites, is also the group who is most

outspoken about the negative sides of Chávez's government. On the other hand, those who pay the smallest amounts in tax, in addition to being the group who is most likely to benefit from his social programs, are among his biggest supporters. Moreover, as a majority of Venezuelans belong in the lower classes, his biggest supporters also hold a bulk of the votes in elections, further contributing to understanding why Chávez has not been held accountable for the widespread perception of corruption being present in the government. The results from all the previous analyses are presented in the following table (Table 4):

Table 4. The results of the regression analyses between natural resources and corruption. Dependent variables on top row.

	CPI	WGI	Resource Rents Per Capita	CPI	Pub. Sector Employment (% of total employment)	CPI	Resource Rents Per Capita	CPI	Social Expenditure (% of GDP)	CPI
Resource Rents $_{t-1}$	-8,396E-11** (1,191E-11)									
Resource Rents Per Capita $_{t-1}$		-0,00632** (0,00101)				-0,00249** (0,00038)				
WGI $_{t-1}$			-113,06936** (17,59750)							
Pub. Sector Employment (% of total employment) $_{t-1}$				-1,15570** (0,26194)						
CPI $_{t-1}$					-0,59793** (0,07397)		-282,83122** (47,63512)		-0,65491* (0,23750)	
Social Expenditure (% of GDP) $_{t-1}$								-0,69632** (0,14623)		
Population Under National Poverty Line (%) $_{t-1}$										0,19555** (0,05341)
R-squared	0,756	0,710	0,733	0,519	0,774	0,732	0,687	0,618	0,351	0,489
Intercept	27,11650	27,6487	3966,60823	42,09176	30,89060	27,52296	8555,05566	34,54757	32,69567	14,01408

Note: Ordinary least squares (OLS) coefficient estimates with standard errors in parentheses. Significance levels: **p<0,01, *p<0,05. Dependent variables are displayed in the top row, independent variables, with lags, are displayed in the first column

Part V: Conclusion

After Chávez came to power in 1998 with a promise to eradicate corruption and clean up politics, Venezuela's score on several corruption and governance indicators have deteriorated. This paradox resulted in an interest to investigate the underlying causes of the seemingly rising corruption during Chávez's regime. Further, as the previous regime was ousted for being corrupt, we were interested in understanding why this did not apply to Chávez as well. In light of the situation in Venezuela during Chávez's regime, we have explored the relationship between corruption, democracy, decentralization, economy and natural resources. It is not abundantly clear what caused the steady increase of corruption in the Chávez era, as the former regime was also utterly corrupt, at least towards the end. Yet, Chávez's ability to institutionalize an authoritarian regime through democratic means seem to be a vital element as it severely compromised the likeliness of the Chávez government being held accountable through efficient checks and balances. We found that because Venezuela is a hybrid regime, there is a higher prevalence of corruption. By appearing democratic and allowing some democratic measures, there is more space to engage in corrupt acts. Additionally, appearing democratic may have allowed Venezuela *some* leeway internationally. In Venezuela, the democratically crafted constitution has shifted all the power into the hands of the presidency, which had made the regime more authoritarian and corrupt.

Through the 1999 Constitution and its amendments, Chávez made sure that the power was centralized in the hands of the presidency. This was a crucial move because it eroded horizontal checks and balances between the executive, legislative and judiciary powers, known for its importance in containing corruption. Although the constitution was supposed to be a democratic tool ensuring the sovereignty of the people and protection of their human rights, it rather became a tool in Chávez's takeover of Venezuela and his quest for power. We also found that decentralization is linked to democracy and corruption. Decentralization is supposed to be a tool for devolving power, both horizontally and vertically, between several layers of society. When power is decentralized in a democratic regime, it curbs corruption because it provides more checks and balances on and between each layer of government. However, our main findings are that due to the Chávez regime being a hybrid regime, these decentralized structures are not working properly due to the subnational governments not having any real power. In fact, Venezuela has not decentralized at all. Instead, there has been a shift towards more centralization of power, further separating the government from its citizens. This has eroded the civil society's ability to hold the government accountable, as the distance between them is far too great.

In addition, media's role as watchdog suffered tremendously under Chávez's regime. Transparency was critically impaired, preventing the media to fulfill its role as the fourth estate. While the constitution initially ensured that press freedom in Venezuela was one of the most liberal in the world, additional amendments have posed significant restrictions on the freedom of expression, by for example banning defamation of the president. By limiting the freedom of the media, Chávez has severely compromised civil society's ability to access objective information, and media's ability to inform the public of executive misuse of power. The media is supposed to work as checks and balances, to control and expose corruption, and act as a source of diverse news and information. However, in Venezuela, the media is so politicized and the access to the media is severely skewed and unvaried, especially for the lower classes. Moreover, both foreign and local media have been self-censoring in fear of reprimands.

We also found that the economic freedom in Venezuela has become worse, which can be attributed to the anti-neoliberal policies initiated by Chávez. This has severely affected economic openness and trade, and has been a contributory factor in the creation of informal markets. As a consequence of low economic freedom, corruption has erupted as both the elite and public officials want to maximize their own return and further their own interests by bringing about regulations that do precisely that. Additionally, we found that limited economic freedom has taken its toll on the competitiveness and transparency that comes with an open economy. This means that Venezuela has lost the benefits that comes with trading with others, like adopting good policies and increasing transparency, often required by trading partners. Corruption is supposed to negatively affect a country's income as it deters economic activity and directs funds to the elite and those who engage in corruption. Consequently, the overall income per capita will be lower because there is more rent-seeking activities than those who engage in actual production. In addition, this makes the income distribution skewed between those who are able to engage in corrupt activities (the elite and the powerful) and those who are not (the lower classes with little power). However, surprisingly enough, these features were not found in Venezuela. We found that the society has become more equal and more prosperous, which directly violates the theories on corruption-riddled societies. Nevertheless, these findings do lead us to find even more support for the resource curse being present in Venezuela.

The deterioration of democracy and freedoms under Chávez's rule has caused corruption to flourish. However, the great income from natural resources has allowed it to happen. Being one of the world's most oil rich nations thus has its costs. In fact, ever since the oil production was commercialized in the 1920s, it has enhanced Venezuelan rulers' opportunity to reward themselves

and their supporters, while repressing their opponents and competitors. Moreover, oil revenues have enabled governments to efficiently avoid checks and balances through the deliberate use of funds, further allowing them to continue unhealthy practice and keep their position in power, and with Chávez this was no exception. Especially evident by his pro-poor programs, oil revenues have created a space for Chávez to conduct corrupt acts without being held accountable. He became like a modern day Robin Hood, in which he took from the rich and gave to the poor. But in this story, Robin Hood was also corrupt.

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