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DANGEROUS LIAISONS: POLITICAL FINANCE AND ORGANIZED
CRIME IN LATIN AMERICA AND BEYOND

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P R O C E E D I N G S

DR. TRINKUNAS: Well, good afternoon, everybody. My name is Harold Trinkunas. I'm the Director of the Latin American Initiative, in the Foreign Policy Program here at Brookings, and I'd like to welcome all of you.

Thank you for joining us on the launch of this very interesting -- I think important -- book, *Dangerous Liaisons: Political Finance and Organized Crime in Latin America and Beyond*.

We're joined by Kevin Casas-Zamora, the Editor and Political Secretary at the OAS, as well as Brookings's very own Tom Mann and Eric Olson, from the Woodrow Wilson Center.

Before I say a few words to introduce our main speaker and our commentators, I just wanted to say that I really think you should definitely check out this book. I believe we have copies in the back.

It's a very timely book in many ways, because not only has democracy spread across Latin America -- we're really looking today at the first generation of Latin America that's grown up with democracy being the norm in many countries of the region -- and, obviously, the question of how to finance politics in a democracy is always relevant, important, and, often, produces very interesting scandals, as well as debate about how to handle the policy related to finance.

But we also have witnessed, across the last three decades, the growth of organized crime in the region -- especially organized crime associated with drug trafficking.

And the intersection of these two subjects, which is the focus of the book that Kevin Casas-Zamora has edited, I think is also one that's very difficult to study. If we think about the fact that organized crime, by its very nature, is enveloped in security, and it's difficult to gather data, and to perform analysis on it, think of the double difficulty of trying to study the intersection of political finance with organized crime -- because, obviously, that intersection is fraught for the political side of that equation, in terms of the impact it has on party reputations, individual reputations, and on the credibility and legitimacy of the democracy as a whole.

So, we're very glad to have this opportunity today to be joined by three experts on different aspects of this subject.

As I mentioned, Kevin Casas-Zamora is the Secretary for Political Affairs at the Organization of American States. But before that, he was a Senior Fellow in the Latin American Initiative here at Brookings, which is where he did the work on organizing this project and editing this book. He has a long history of working on issues of political finance, all the way back to his PhD at Oxford, I note, and he's also served, in a very practical sense, in politics as Minister for National Planning and Economic

Policy in Costa Rica -- as well as also having worked before at the Arias Foundation and at the U.N. Program for Development.

So, Dr. Casas-Zamora will speak first, and then he will be followed by Thomas Mann, who's a W. Averell Harriman Chair and Senior Fellow in Governance Studies here at Brookings. And I really can think of no one better to comment on the campaign finance aspect of this. He has studied the subject of Congress, campaign finance, polling for quite some time, with numerous publications, as I'm sure you saw in his bio.

And we're very grateful he could join us here today, because, given what's going on in Washington, he could very well be talking about *It's Even Worse Than It Looks*, which is the book that he published previously with Norm Ornstein, which is also a very lively, and interesting, and timely. A new edition is out now.

And, finally, we're also joined by Eric Olson, who's the Associate Director for the Latin America Program at the Woodrow Wilson International Center for Scholars.

Eric Olson is an expert in issues related to security, organized crime, and violence in Latin America. He's also written on police reform and judicial reform, has traveled extensively in the region, and previously has served in the OAS, in Amnesty International, and in the Washington Office on Latin America.

So, I can think of, really, nobody better to talk about the organized crime dimension of this project.

So, without much further ado, I'd like to welcome everyone, and turn this over to Dr. Kevin Casas-Zamora.

DR. CASAS-ZAMORA: Well, thank you very much, Harold, for that introduction, and thank you all for being here.

It's great to be back. So, the first I'm going to do -- I'm going to take off this tag that says "Visitor." I refused to be a visitor here at Brookings. So, I would also like to thank the whole team at FP here at Brookings -- at the Foreign Policy Program -- because they were just wonderfully supportive while I was here.

And I would also like to say how pleased I am to share this panel with, really, one of the preeminent experts on campaign finance in the world -- that is Tom Mann -- and my good friend, Eric Olson, who's an expert on organized crime and security issues in Latin America.

So, thank you all.

What is this book about? This book is basically a collection of articles on the interaction of organized crime and the funding of political activities in seven countries -- I mean, five of them in Latin America, plus two cases that are interesting for different reasons related to the role of organized crime in politics -- i.e. Italy and Bulgaria.

While it tries to be a book about political finance primarily, it is inevitable that it touches upon the wider interaction between organized crime and politics, which certainly goes well beyond the realm of political finance.

And why is it that we decided to put this book together? As we know well, the penetration of organized crime in campaign finance has long been the subject of endless speculation and fascination.

And it's not merely speculation, particularly in the case of Latin America. I mean, there's plenty of evidence in Latin America -- particularly Latin America, but not just exclusively in Latin America -- of the participation of organized crime in the funding of political activities, dating, at the very least, as far back as the 1970s.

And, you know, you take the cases of Colombia, Mexico, my own country -- Costa Rica -- Bolivia, Panama -- I mean, the list is long. Where the issue has popped up, it's often in very dramatic fashion.

But in actual fact, the issue of this interaction between organized crime and the funding of campaigns, you know, has been around for much longer than that. And it has a long history, for starters, here in the U.S., dating as far back as the Prohibition, and even before that.

And yet, in spite of all this speculation and all this evidence,

there's hardly any research on this issue. You know, somewhat to my surprise, I have to say -- and I guess I'm particularly proud of this -- this is really the first -- believe it or not, it's the first book that tackles this issue head-on.

Before we started working on this book, there was only one academic article on this issue -- at least that I could find. I mean, there was one article on Mexico, on the Mexican case, written by Leonardo (inaudible), who also wrote the case study on Mexico for this volume.

And I guess, you know, there was this perception, this assumption that doing research on this issue was virtually impossible. The premise of this book is different. The premise of this book is that precisely the prominence of the issue in many countries has meant that a surprising amount of evidence has made it into the public domain, in different ways -- either through journalistic investigations, through Congressional probes, such as the *proceso ocho mil* in Colombia, court cases -- the case of (inaudible) in Italy.

So, when you add up all that evidence, in actual fact, there's much more than people think. And, you know, we may have enough evidence to get some traction on, you know -- for the purposes of doing research on this issue. So, it might be worth taking a glance at that evidence, and see how far it takes us.

Now -- I mean, it is all very well to write the first book on the subject, but the first question that we have to ask ourselves is, you know, why this matters at all. I mean, might be a totally relevant issue -- you know, in which case, you know, writing the first book is no good.

And I guess, you know, the answer is that it matters because, you know, you're -- a drug lord is not your run-of-the-mill political donor, to put it shortly.

First, you know, this sort of criminal is endowed with an abnormal power to coerce the will. So, the normal codes of interaction between donors and politicians don't apply when it comes to organized crime. You know, there's no room for the politician that gets money from organized crime to exercise any autonomy -- to, so to speak, take the money and run.

And here, you know, the rule is defined by that quip that Pablo Escobar used to live by -- which is "*plata o plomo*" -- that is "money or lead" -- which is basically that if you don't take the bribe that is offered to you as a politician, you might as well resign yourself to taking a bullet.

So, the situation that a politician finds himself or herself under is completely different from the situation in which, you know, a legitimate donor comes around with money to donate to a campaign.

And there's also the potential to blackmail politicians. I

mean, it's not -- I mean, sometimes, it's something more subtle than "*plata o plomo*." I mean, in many cases, the fact that a politician takes money from organized crime is later used to blackmail him.

And the second reason is that, in most cases -- and Tom, you know, knows this very well -- I mean, most cases, political donors try to buy influence to shake the law in their favor. But in the case of organized crime, the goal is rather different. In the overwhelming majority of cases, the goal is to prevent the law from being enforced all together. So, in a way, this kind of interaction hollows out the rule of law.

And there's also the potential for organized crime to capture state institutions, and place them at the service of illicit pursuits.

And when this phenomenon spreads, it really becomes a threat, not just to the integrity of democratic process, but to the very viability of the state. And you only have to go and ask Colombians and Mexicans about this to see, you know, how serious this can become.

So, what I'm trying to get at is that the threat to the political process derived from the participation of organized crime and political finance is much more fundamental than any pathology, however serious, derived from the financial involvement of legitimate business interest in campaigns.

Now what is it that makes Latin America particularly

vulnerable to this threat? The short answer to this is that organized crime probably has a more pervasive presence in Latin America than in any other region in the world. But still, you know, that doesn't explain why this is a growing threat. And I'll give you four reasons.

The first reason is that elections are much more competitive in Latin America than ever before, and, therefore, they tend to be more expensive than ever before. You know, having competitive elections is a wonderful thing, in terms of, you know, having a real democracy, and having more transparency, and making politicians more accountable, and so on and so forth, but when it comes to the prospect of organized crime putting money into the parties' coffers, it's a danger.

And just to give you an idea of how competitive elections have become in the region -- if you take the first decade of this century -- between 2000 and 2010 -- in actual fact, opposition parties won the election over 50 percent of the time. So, that gives you a sense of how competitive elections have become in the region.

And if you talk about the cost of elections, I mean, this being a very inexact science, but, you know, just to give you one figure that I find staggering -- the case study in Brazil for this volume, written by Bruno Speck, estimates the cost of the 2006 presidential election in Brazil at a sum around \$2.5 billion, which is a lot of money for a developing country.

So, elections have become more competitive, and, therefore, more expensive, and, therefore, more vulnerable to the penetration of organized crime.

The second reason is that even though the region -- Latin America -- has made a real effort in terms of passing legislation to deal with political finance, the enforcement of all those laws is incredibly poor. I mean, the one case in which one identifies a real effort to enforce the law is probably Mexico. But other than that, the record of enforcement of political finance legislation is dismal.

And, you know, just to give you an example -- in Central America, we've had all sorts of shenanigans when it comes to campaign finance. And, you know, I can assure you that you're not able to find a single prosecution related to political finance laws. I mean, so that gives you an idea of how poor enforcement of these laws is. So, enforcement is very poor.

The third reason, I find interesting -- and very important from the practical standpoint. One of the things that we've witnessed in Latin America over the past two decades, I would say, is a very strong trend towards political decentralization -- virtually everywhere. And, you know, you might say a lot of good things about decentralization -- and surely there are very strong arguments in favor of political decentralization, but

when it comes to this, once again, it's a risk -- because, as we will see later, one of the things that is very easy to see when it comes to political finance is that whatever piece of -- I mean, whatever set of rules have been enacted to deal with political finance does not reach the local level.

So, the vulnerability of political systems at the local level is really quite remarkable. So, to the extent that you cede power to the local level of politics, you're creating a situation in which those local authorities become more vulnerable -- become more attractive for organized crime to intervene in campaigns.

And the fourth reason is that the region, at this point, has very precarious political parties. And this is important because one of the things that we're seeing throughout the region is that, you know, to cut short a long story, in order to be viable from an electoral standpoint, you don't really need to fund a whole national structure, you know, with branches all over the country; you only need to put together an often very flimsy electoral machine that can sustain an electoral bid.

And, you know, think of the case of Fujimori, of (inaudible) in Colombia, of Correa in Ecuador, or Martinel in Colombia -- they all won elections atop rather flimsy electoral machines -- the point being that, for organized crime to penetrate campaigns, it doesn't have to buy off an entire national political structure. It might well get by putting together an

often very flimsy electoral machine. So, the vulnerability and the flimsiness of political parties in Latin America adds to the risk.

So, when you put together all those things, you get a picture of a region that is peculiarly vulnerable to the penetration of organized crime in political finance activities.

Now what did we find? We found several interesting things. And here, I'm going to paint with a broad brush. I mean, I hope that you will find the book attractive enough to buy it and read the cases, but just to give you a sense -- the first thing that I find interesting is, I guess, the complexity and heterogeneity of this phenomenon -- of how organized crime penetrates campaigns.

You know, when we talk about this, we tend to imagine, you know, a guy in a dark suit going round with a suitcase full of bank notes, and knocking on the politician's door. And, you know, that happens, to be sure, but it turns out that there are many situations -- very relevant for campaign finance purposes -- which divert dramatically from that model.

Take the case of Italy -- which I find very interesting. The case of Italy -- you know, the (inaudible) investigation uncovered -- that is, the investigation on corruption in the mid '90s that, for all practical purposes, did away with the old political order in Italy -- uncovered evidence of extensive contacts between parties and crime syndicates.

Yet, it uncovered virtually no evidence of direct financial contributions from organized crime to the parties' coffers. So, we have a paradox here.

And the reason for this paradox is that, in Southern Italy, there was an implicit pact between organized crime and politicians that made money largely unnecessary. That was a pact that rested on the degree of political control exerted by the Democrazia Cristiana, and the degree of social and territorial control exerted by the mafia. And moreover, it was a stable arrangement.

So, the politicians were willing to limit the extent of law enforcement, on the one hand. And on the other hand, the mafia was willing to help politicians limit the extent of electoral competition, and the mafia was willing to mobilize its social influence in favor of certain parties and politicians.

And remarkably, there were cases of reverse money flows from the politicians to criminal organizations when the parties actually paid the mafia for their services to mobilize voters -- which is, by the way, the kind of agreement that is -- this kind of agreement is not exclusive to Italy. I mean, you also see it in Kingston, in Jamaica, for instance, and in certain (inaudible). So, instead of the guy in the dark suit going around with money for politicians, you see exactly the opposite.

And you also have the case of Brazil, which shows an interesting variation. I mean, in the case study on Brazil, Bruno Speck explores the case of the State of Espiritu Santo, as a case in which criminals may capture state institutions directly, use public resources to fund their own campaigns and those of their allies in order to remain in order, and then use that power structure to extract rents on a large scale.

So, this is not merely the purchase of political power to protect illicit activities; this is about instrumentalizing the state to perpetrate incumbents and extract rents on a grand scale. And what this tells me is that corruption of this sort is a form of organized crime that requires the funding of campaigns to protect its power.

What I'm trying to say here -- and I'm trying to show here -- is that if we are to prevent the participation of organized crime in the funding of politics, we have to think beyond the image of the paymaster knocking on the politician's door.

The second big finding is that the fundamental payoff for criminals in this equation is impunity. It is mostly about capturing law enforcement institutions for which exerting political influence is key, and that's why preventing political meddling in law enforcement institutions is truly vital.

The third important finding is -- and I already alluded to this -

- the crucial importance and vulnerability of the local level. This is truly one of the most important findings. Legal controls over political findings, as a matter of course, do not reach the local level. But, also, the press, which is very important in this story, pays little attention to campaigns at the local level.

And besides all that -- I mean, from the standpoint of organized crime, purchasing influence or capturing institutions at the local level is, frankly, cheaper and less conspicuous -- and frequently is exactly what the criminal needs.

I mean, you don't have to have the Minister of Public Security on your payroll; just the local police chief. You don't have to buy off the Minister of Finance, but the head of the local customs office -- or better still, the local mayor that appoints the police chief and the customs officer. So, the local level is, by a mile, the weakest link in this story.

And the last finding that I would like to mention is that -- and this is important from a standpoint of public policy -- is that more than just good political finance legislation is required in order to prevent the financial penetration of organized crime.

It is nearly impossible to prevent this penetration without a very vigorous and independent press. Most of what we know about this is the product of work of journalists -- very brave journalists, by the way.

You know, and in political finance in general, the press is the most important barrier to prevent shenanigans and impunity.

Now -- and with this, I finish -- what is to be done? You know, stopping this threat from becoming a reality takes far more than political finance controls, it takes far more than legislation. But a few reforms may help.

The first one is about bringing campaign costs under control. In order to minimize the chances of dirty money flowing into campaigns, it is essential to prevent electoral arm races to ensue.

You know, the evidence on spending caps is sketchy. I mean, they have worked in some places; they have been a disaster in other places. But there is good evidence that certain times of spending can be effectively brought under control -- and media advertising is an obvious candidate. The option of granting parties free access to media outlets is used, you know, as a matter of routine in Western Europe.

But increasingly, in Latin America -- and there are at least three interesting cases in which free access to media advertising by parties is coupled with a ban on the purchase of additional advertising -- that is, Brazil, Chile, and Mexico. I'm pretty sure that this example would, you know, in due course, spread throughout the region.

The second measure that's crucial is about improving

enforcement of political finance control. I mean, most of all, what is needed here is electoral authorities equipped with the legal, human, and financial wherewithal to enforce the law.

And here, I invite you to take a look at the example of Mexico. That's one in which there's an autonomous body with extensive powers to oversee campaign finance, including the ability to order audits, to carry out random inspections, to do all the things that need to be done if we want the law to be enforced properly.

And by all means, when it comes to enforcing legislation, pay attention to the local level. The next disaster, when it comes to campaign finance and organized crime, in most countries, will come via local elections.

Number three -- and I already mentioned this -- go beyond political finance controls. Parties and candidates must comply, in my view, with the same sort of obligations that firms must comply with in order to counter money laundering.

So, that means, in practice, that things like bank and tax secrecy must be lifted when it comes to investigating political finance activities. And some countries, including Costa Rica and Mexico, have already done so.

Number four -- protect the freedom of the press. With or

without good legal enforcement, the most powerful deterrent of irregular fundraising is a free press. Protect it from intimidation, and endow it with solid investigative skills.

Number five -- shore up public funding systems. State subsidies, give-and-take, have proven a blunt instrument to prevent questionable fundraising practices. Yet, imperfect as they are, public subsidies are a necessity in Latin America. You know, we may wax lyrical about the desirability of having campaigns funded by party members; in practice, however, the alternative to public funding in Latin America is simply to leave parties and candidates in the hands of an exceedingly small circle of business donors, legitimate or else.

So, all these steps would help reduce the risk of drug trafficking being channeled into campaigns. But I must caution that a dose of realism and moderation is essential in this discussion. There is no such thing -- and, once again, Tom knows this very well -- there's no such thing as a silver bullet in campaign finance regulation.

And in particular, a crucial rule ought to be borne in mind: The more difficult it becomes for parties and candidates to raise funds from legitimate sources, the more likely it is that they will raise the money through very opaque procedures and from questionable sources. So, a dose of moderation is essential.

And, ultimately, we must acknowledge that campaign finance is not the only -- or even the most important -- vehicle for the political penetration of organized crime. Keeping organized crime outside the gates of campaigns is hugely important; yet, it is barely a small piece in the task of protecting the integrity of democratic institutions in Latin America.

Thank you very much.

DR. TRINKUNAS: Thank you to Kevin Casas-Zamora for those wonderful comments.

Without much further ado, in the interests of time, I'd like to welcome Thomas Mann to offer some comments on *Dangerous Liaisons* and Kevin's work.

DR. MANN: Well, thank you, Harold. Kevin, it's a pleasure to be back with you.

Before our session began, we were reminiscing about an informal meeting in my office some years ago -- not too long after Kevin had come to Brookings -- in which he'd described his project to me, about really trying to get a handle on the connection between organized crime and political financing.

I seem to recall saying, "Are you nuts?" and, "Good luck." It struck me as a daunting task. Maybe I was simply reflecting my own

ignorance about the subject. I couldn't remember reading anything about it. And sure enough, that is in the scholarly literature -- and I think that's for a good a reason. There wasn't any.

And the first thing I simply want to say is that Kevin pulled it off with gusto. I think this book is very courageous, quite innovative. It's informative, and it's certainly provocative. I thought the only way you might have increased the latter was reversing the words and the title, and giving it a French pronunciation, and then adding "sex" to the subtitle -- and then nothing would be missing from all of this.

But it really is, I think, a signal achievement. And some of the individual chapters -- I mean, I learned something from every chapter, but some of the individual chapters -- and Kevin mentioned the one on Italy -- is especially rich and surprising in many respects. I told them, well, they've had decades of experience there, and scholars to work on this issue. So, I suppose we shouldn't be surprised.

I come before you humbly, which may not be my regular M.O. -- but I simply admit to having no knowledge of organized crime or of Latin American politics. I know a little bit about the experience of U.S. money in politics. I've written now a revised entry for an encyclopedia -- international encyclopedia -- on the behavioral and social sciences on party and campaign finance, in which I've tried to look more generically

across countries.

I've been organizing with others and participating in a World Forum on Governance. It's a little pretentious as a title. There are many organizations out there in a global governance world that work on these issues, but it's something with Norm Eisen's leadership -- he's now Ambassador to the Czech Republic.

We convene to really explore issues of corruption and governance in Central and Eastern Europe, but including other countries in Asia, Far East and South, as well as other parts of the world.

And as I've thought back and looked through my experience in those three domains, I simply never saw a reference to, much less a serious framing of an argument or even hypotheses for research of this question of the linkages between organized crime and political financing.

The closest I came in the U.S. experience was a case of a candidate for the -- this will not surprise you -- of the New York State Senate, who was prosecuted under an innovative theory which used the federal mail fraud statute for accepting and not reporting contributions from individuals known to be associated with organized crime.

Well, there's a case, an example, and New York is certainly - especially up in Albany -- is the kind of place we might think we would find things like that -- but, really, no clear examples.

And as I prepared the piece for the encyclopedia, and looked at sort of the problems confronted by democracies and aspiring or once-democracies with money, and politics, party financing, and campaign finance, I simply came across no evidence or argument about this subject.

Coming out of Prague and our first World Forum on Governance, we developed a set of principles for addressing the problem of corruption, which is acknowledged to be rampant in Central and Eastern Europe, and there's a fair amount of research suggesting the prevalence of corruption is inversely related to the levels of economic growth and income equality.

So, there are important questions, but let me tell you, the principles including bribery, personal financial disclosures, and conflicts of interest, the law enforcement system -- including police, prosecutors, and judges -- open government, transparency, corporate governance policies, investors and how they should deal with and approach problems of corruption, lobbying, whistleblowers, NGOs, and the media.

We had one small out of ten principle on campaign finance in which we talked about the importance of transparency, of all contributions and expenditures -- direct, indirect, and third party -- criminalizing official favors provided as *quid pro quos*, the importance of public funding, including small donor funding, either bans or strong limits

on corporate funding, and series of other things to mobilize corporate boards and large investors to set up decision-making structures for the allocation of campaign resources, where it's permitted by law.

Now think about that. We went through that whole thing, and didn't even consider the issue of organized crime. And yet, in the halls, in between sessions, I heard story after story about the penetration of organized crime in Central and Eastern Europe. There is no question that there has been a globalization of organized crime, that the products in which they traffic and the distribution networks extend well beyond the home locations of said firms, and it's sort of hard to believe that it isn't a relevant factor.

I think it's just the sort of problematics of actually addressing it -- and, frankly, the personal insecurity entailed in doing serious work on this issue constrains efforts.

And that's why I think the initiative Kevin has taken here is really important. He was mentioning in this context blackmail and extortion, and I was thinking, "Well, that's really not an issue here of organized crime. That's done openly by one of our major political parties in debates over government shutdowns and public defaults."

You know, we have removed limitations on money spent by corporations -- which was part of our law for a long time. We now have

formed new so-called super pacts, which are independent spending only political action committees -- which, even though most are formed by former party officials or candidate staff members, are theoretically engaged in absolutely independent expenditure campaigns -- and, therefore, there's no potential for corruption or even the appearance of corruption -- that is to say, the jurisprudence and the power of sort of free speech guarantees and Libertarian thinking on this issue and in the United States has put a premium on removing constraints, eliminating public funding -- which has virtually disappeared from the presidential election system -- and it's a sort of belief that -- it used to be deregulate and disclose; now it's just deregulate, because disclosure has become problematic here.

But it's a kind of a belief that we'll all do better in the Wild West, where individuals motivated to participate in politics in any way, through the campaign finance system, is a fundamental right of free speech and a good thing to pursue.

So, we have heated debates in the United States about various forms of legal corruption, ones that don't entail the kind of problematics that Kevin is dealing with here.

And what I find in the U.S. experience -- it really underscores one of the points made in the book, which is that the lower the level of

government, the greater the vulnerability of the system and the possible penetration of illegal funds -- and even organized crime.

We like to think the lower the level of government, the closer to the people -- and, therefore, the most honest, and pure, and innovative. But the experience has been just the opposite -- that it's these lower levels of government that are more vulnerable, and it's still the case that probably more direct sort of bribery and extortion by politicians of private interest is occurring on issues pertaining to real estate and licensing of various kinds, which are dominated at lower levels of government than here.

Well, all of which is to say -- and I'll conclude with this point - - that context is really important when you're addressing this issue. Some countries, like ours, are deeply influenced by organized crime and drug trafficking, but probably don't have the same levels of vulnerability in their national and federal politics as other countries do -- but that doesn't mean we don't have serious problems. We are no longer such a model for democracy.

But in other countries, many other countries and lower levels in our own, the vulnerabilities are apparent, and getting information, figuring out what is going on, and what the levers for change is extremely important.

And this book gets us off to a good start. Thank you.

DR. TRINKUNAS: Thank you, Tom, for those comments.

And I found it interesting to think about the fact that many of the prescriptions that are being followed in the United States are diametrically opposed to the ones that Kevin is recommending, in terms of solutions to this problem in Latin America.

But now I'm going to start to Eric Olson, and then we'll take time for some questions.

MR. OLSON: Thank you very much. Thank you, Harold, for inviting me, and congratulations again for your appointment here at Brookings Institution. I hope we at the Wilson Center can find many ways to work together going forward, and I'm delighted to be here.

And thank you, Kevin, for inviting me to be in this panel. It's always a delight to share the podium with you. And we were together at a meeting in Paraguay -- I don't know -- a year and a half ago, with legislators from around the world, and Kevin gave the keynote address, and I saw legislators' jaws dropping because he was being frank, and direct, and undiplomatic, and I stood up and cheered for him at the end.

So, I've been a fan of his for a long time.

DR. CASAS-ZAMORA: That was before my OAS days.

MR. OLSON: All right; good enough.

DR. CASAS-ZAMORA: I'm less frank now.

MR. OLSON: And congratulations to you on the book for what has already been said -- the fact that there aren't a lot of studies on this issue. That point's been made already.

Having edited volumes such as this -- I've done three now -- I'm looking at a fourth one, and I swear, every time, I'm never doing one again. Congratulations for putting together such a fine piece of work. It's always a challenge to have multiple authors, and come up with a central idea and focus. So, you've done a great job.

Kevin and Harold have asked me to think about this from the perspective of organized crime. I want to say, for sure, I've never been a part of organized crime, and I'm not talking from firsthand experience -- although I did work in Congress for a while, so I don't know if that counts.

But, nevertheless, I wanted to just think about, from their perspective -- from the perspective of organized crime, to the extent there is a perspective from organized crime -- how this might look.

And not surprisingly, of course, much of what I might say is very complementary to what people wrote about in the book, and you made in your opening comments.

First of all, the first point I would say is that the business model of organized crime is primarily a local phenomenon. Now there are

exceptions, of course. We saw in the book this interesting documentation of the experience in Colombia, of organized crime reaching into the presidential offices and into the presidential campaigns.

My idyllic view of Costa Rica was burst by your chapter, to find out that the paradise that I would like to retire in actually has had experience with organized crime influencing presidential elections.

Those things happened. But fundamentally, from a business point of view, organized crime is a local phenomenon. And in general -- and I'll over-generalize here -- there's sort of two business models that have grown up for organized crime over time.

The first is the more traditional view of it, which is the business model based on routes -- control of routes, control of trafficking entry points, protection of load, protecting the cocaine coming from the Andes into the United States. So, the focus is moving product from point A to point B, to the consumer.

And in that case, of course, the need for governmental protection is very inherently local. You're looking to bribe security forces that might be patrolling the highways. You're looking to bribe or control local authorities -- mayors, municipal presidents -- that may be in a port city where your product is coming through. But essentially, you're looking locally at protecting what is yours as organized crime, and allowing it to

move on these routes and through these access points.

You also would be interested in influencing federal agents at the borders, to the extent that there are federal agents at the borders -- especially on the U.S. side. They might, too, become a target -- but, again, it's very specific, very strategic, very local, primarily.

A second business model that's become more prevalent lately is one which we call territorial control -- *la placa*, if you will -- controlling an area, and trying to control all illicit economic activity in that space.

And this kind of model maybe was perfected by the *setas* that tried to dominate a particular region and all economic activity, and were in constant conflict with anybody else trying to use routes through that area.

Another example is the *familia mutuacana* and their counterparts or their descendants, if you will -- the Knights Templar -- trying to control economic activity -- not just trafficking of drugs from the Andes to United States, but engaging in other kinds of illegal activities, such as extortion -- *cogrando piso*, we call it in Spanish -- charging the local shops, the local market owners, kidnapping, carjacking, car theft -- all kinds of activity there, really trying to create a dynamic enterprise of illegal activity under the control of one particular group.

But again, as you see, the emphasis is local, territorial -- and the emphasis is on paying off municipal leaders, city mayors, maybe governors -- and there's certainly governors on the take -- or have been governors on the take in Mexico, in other parts of Central America.

In fact, in Honduras, they talk about the *narco alcaldes* -- mayors who are local people who have won elections but really are themselves the bosses of organized crime. And there, you see, you know, such a close relationship that they're almost indistinguishable, one from the other.

So, while there are examples, again, of organized crime trying to influence national elections, national politics, as you said, Kevin, that kind of enterprise is very complicated. To throw a presidential election or buy a presidential election in any country is highly expensive and complicated, and their business, at the end of the day, is moving and gaining rents at the local level, or ensuring that the trafficking is moving on.

So, I think that's, you know, one important element. And this, of course, coincides with what you were saying about maybe the two-edged sword that is decentralization -- good in some ways, in terms of bringing democracy closer to the people, but dangerous insofar as it's creating much more opportunity for organized crime to influence the local

structures that have devolved and become more powerful.

There's a couple of different ways -- and we've hinted at this -- in which organized crime influences the political system. And we've talked about direct financing. There's also indirect financing, whereby people in organized crime pay for items or pay for things that aren't officially on the campaign books, but become influential -- paying for buses, paying for transportation, paying for other kinds of goods and services that are peripheral to the campaign exercise, but, in fact, vitally important, as well.

They, of course, participate directly as candidates at different times, as I've mentioned. And that's often a very dangerous situation.

And then there's the problem of they're depressing or, conversely, incentivizing participation in elections. And we've seen this in several local elections in Mexico, for instance, where local criminal groups either threaten and, you know, make it difficult for people to participate in voting, or pay them to go vote for a particular candidate. And so that is another way.

And fourth and finally, you know, there's all the nonmonetary ways in which organized crime tries to impact not just campaigns, but public policy. One of the biggest and most significant sources of income and rents for organized crime is actually in natural resource extraction. I

am told -- I don't know this for a fact, but I'm told from friends in Colombia that natural resource extraction now is really rivaling the income from cocaine in Colombia. And you could kind of divide the country along that way.

I know that Pemex, the state-owned oil company in Mexico, reports that it loses up to \$5 billion a year -- not all to organized crime, but a lot to theft and illegal activity. So, that's an important element there.

Let me just jump ahead, in the interests of time, and say a bit about recommendations. I think the book has a number of recommendations dispersed throughout it. Kevin, you've done a great job of pulling some of that together. I guess I kind of wished for, as a reader, you know, a chapter that made it simple for me to grab a hold of those things. But they're definitely there.

But I do think that there are probably four or five things that need to be taken seriously into account, and some of them have been mentioned already.

As you said, the campaign finance ministry -- our mechanisms tend to focus much more on federal elections and presidential elections, ultimately -- the national -- and especially in places like Mexico, where you have strong local organized crime syndicates. It just cries out for more strengthening of those capacities locally, anywhere

in the region.

I think there's a tendency -- and I'm actually very interested in Tom's perspective on this -- to, you know, try to solve some of these problems by emphasizing the public contribution. And I'm not against a public contribution, but it seems that, unless you're willing to say there is no room for private contributions, you're going to have some kind of a combination of the two.

And the control mechanisms that have been devised have been more in the area of public contributions -- the reporting how those public funds are used -- less vigilance -- *vigilancia en Español* -- is given towards the private contributions.

Mexico, which may have the more sophisticated campaign finance system, still has very limited controls over private contribution. It caps it at 10 percent, and there's just a lot of ways around those limitations. And I think other countries don't do a particularly good job looking at the private elements of campaign financing -- and that's, of course, very important.

I think the other part is that we tend to want to think in terms of campaign finance controls. I think those are important. I'm not a Libertarian on this, either -- no controls -- but I think, rather than just focusing on more finance controls, we should do more to strengthen the

mechanisms of transparency and accountability -- because, ultimately, that's really the way to combat organized crime. They're successful to the extent that they can hide, create fear, operate behind closed doors.

And the more we can emphasize openness, accountability, transparency, maybe some basic mechanisms as wider use of personal -- what do you call it -- *declaraciones patrimoniales* -- I don't know how you say it in English -- but, you know, candidates describing or --

DR. TRINKUNAS: Disclosure.

MR. OLSON: -- disclosure. I knew there was a word -- public disclosure of all candidates -- not just the Presidents and the Senate, but all the way down the ladder -- more public disclosure -- more auditing -- and independent auditing.

I noticed even in Costa Rica, that's done a good job. It wasn't until 2009, I believe, that independent audits were required on all campaign finance. So, that's kind of late, and that's a good example.

I'm particularly concerned right now that Honduras has really no requirement for an independent audit. The parties spend money. They submit their reports, and are certified by the TOC.

And I have one minute left, so I have one more recommendation. But there's just not enough in terms of auditing.

And then fourth and finally -- and, again, you hinted at it -- I

think strengthening the peripheral mechanisms of control are very important. Strengthening the judiciaries and creating special prosecutor's offices who can investigate criminal acts of campaign finance violations is very important.

Strengthening the freedom of the press, as you mentioned -- most of this information comes from the press. They're on the frontlines already. So, that's absolutely essential.

But I'll leave it at that. Congratulations, once again, Kevin.

DR. TRINKUNAS: Well, thank you very much to everyone on the panel for your comments. I think we're going to have some time for some Q&A in a minute or two, but while we get set up for that, I have a question of my own. I'll take the moderator's privilege to lead off the discussion.

And we've had a number of recommendations from the panel here today on how to address this problem. And what I'd like to think about is the question of timing. I think when you think about the cases in this book, there's something particular about the time when you can effectively make the changes you're recommending.

And I'm thinking, for example, in Colombia, at certain points in time, you were able to make change. In Italy, judicial and prosecutorial activism obviously led to the (inaudible) of reforms -- the collapse of the

whole Italian party system after that. One of the cases that's not in the book -- but Peru, post-Fujimori -- I think it was an important space for some reforms there.

So, maybe if you could just reflect a little bit on, when is the right time to -- you know, when can you be most effective at pushing through these reforms?

DR. CASAS-ZAMORA: Well, thank you very much for the comments and the suggestions.

I would like to reflect on a couple of the things that were mentioned by Tom and by Eric, and then get to your question -- very briefly.

I mean, my first comment is about the issue that was raised by Tom about the globalization of organized crime -- which is, of course, a fact. And that has a very practical implication, which is that one of the things that need to be leveraged when it comes to preventing organized crime, you know, penetrating campaigns is international intelligence -- I mean, the sharing of international intelligence. I mean, this has to be treated in a similar way as, you know, any effort to counter money laundering.

So, you know, one of the things that needs to be marshaled is international intelligence. It's number one.

Number two, the issue of public funding that was raised by Eric -- I mean, that's very important, because, you know, as I mention in my comments, public funding is a very blunt instrument. I mean, don't believe everything people say about public funding, you know; that's a key rule.

Yet, you know, when you take a close look at what goes on when it comes to campaign finance in Latin America, it's a necessary evil. It's a necessary evil.

The Costa Rican case in particular -- it's a very striking example of how the existence of a robust public funding system is not able, in and of itself, to prevent campaign finance shenanigans -- because Costa Rica was a very precocious example of adoption of public funding. And yet, you know, time and again, the system broke down.

All that is true. But in spite of it all, I would say that the situation of Costa Rican political finance would be much more dangerous without a public funding system than in the presence of it.

So, you know, more public funding, but we have to be aware that that's not going to solve the problem. I mean, we can -- you know, the public purse won't be able to inoculate us against organized crime.

The timing of reforms -- that's a very tricky issue, but, you know, to cut the chase, I would say that, you know, one of the sad things

about political finance is -- and about political finance reform -- is that in 99 percent of the cases, it comes after a scandal. I mean, it's never preventive. I mean, take the case of the U.S. -- I mean, in the U.S., the big campaign finance reform came in the wake of Watergate.

And I'm afraid to say that it won't -- you know, you won't see another bout of reform before the current system, you know, breaks down in a terrible way. And that's the case everywhere. I mean, it's very rare that a country and that political actors are willing to sit down and, you know, come up with a diagnosis of what the system is missing, and come up with a set of reforms.

Having said that, there are a few interesting examples in which -- I mean, good practices that can be adopted by systems across the board.

And I'm thinking here of the example of Panama. Panama, up until this electoral cycle -- you know, for the past four or five election cycles -- did something very good -- which was that, right after the election -- you know, when the election was over -- say, you know, a few months after the election, all the political actors would come together, and sit down, and take a glance at the system and what had worked in terms of the electoral -- what had worked well, and what hadn't worked before the election -- you know, with an eye towards reforming the system, you know,

to address the shortcomings that were revealed by the past election cycle.

I mean, that's a wonderful practice, and it's just such a pity that, you know, precisely this election cycle, that good practice has not been continued in Panama. But that's example that -- you know, it's been applied in Panama to the electoral law in general, but you could do the same with regards to campaign finance laws.

But, sadly, that's very much the exception, and not the rule.

Thank you.

DR. TRINKUNAS: I think we have maybe 15 minutes for some Q&A. We have a microphone in the back. If you could just raise your hand, and when you get the microphone, if you could just identify yourself when you ask the question -- and I think we have some folks right here -- starting over here, maybe -- the gentleman on the aisle, and then somebody over here on the front.

MR. WOLF: Good afternoon. My name's Elliott Wolf, and I have two questions for Señor Casas-Zamora. Perhaps you'll take them with the tongue in cheek, but I think they should be asked.

Can you tell us what support you received from the Organization of American States for your research and your publication, and give us an example or two?

And secondly, going forward, do you see any impact on the

function of the OAS in validating Latin American elections, in the context of pervasive and very public corruption like this?

DR. CASAS-ZAMORA: Shall we take a few?

DR. TRINKUNAS: Let's take a couple more. There was one right back there, and then we have a couple more over here. Then we'll go ahead and --

SPEAKER: Hi. My name is Monica Hudon from Georgetown University, and this question's for Mr. Zamora, as well.

And, you know, I'm sorry I came a little bit late, so I don't know if you have addressed that before, but can you tell us whether -- should we feel concern about the election of Horacio Cartes?

I know that you are OAS now, so I don't know how candid you'll be able to be.

DR. TRINKUNAS: Okay, and I think we had two here -- these two gentlemen -- oh, I think we have microphones, and then we'll --

SPEAKER: Hello. My name is Raoul. I'm from George Washington University, and my question goes to Mr. Casas.

In Mexico, we have this reform that's going to allow open candidacies. I think it's a really good thing for democracy, but how can we prevent -- if we're already getting financed by the organized crime, how can we prevent those guys from running for office (inaudible)?

DR. TRINKUNAS: Okay, and then one last question, and then we'll open it for the panel.

MR. HERNANDEZ-ROY: Chris Hernandez-Roy from the OAS -- and no, this was not a staged question.

Kevin, I believe you said that you thought that campaign contribution limits were not particularly effective -- that there were good cases and good bad cases --

DR. CASAS-ZAMORA: Spending caps, spending caps.

MR. HERNANDEZ-ROY: That's what I meant -- spending caps. And both you and Eric also mentioned the importance of having much stronger regulatory controls or reporting controls on private contributions.

So, in a case such as Brazil, where you mentioned a \$2-something billion figure for an election -- aren't having controls on such vast sums of money almost unworkable?

And then you look at a case like Canada, my own country, where a member of Congress or a member of Parliament has a spending cap of \$87,000 per election cycle -- which is a laughable amount by most international standards.

So, isn't, really, the solution in that direction -- limiting severely what private contributions can be to elections, rather than other

constructs?

Thank you.

DR. TRINKUNAS: Okay, thank you. All right. If you want to start it, and then if Tom or Eric want to add anything --

DR. CASAS-ZAMORA: Okay. I mean, some of the questions -- well, thank you all for the questions. Some of them, I will answer really briefly.

Well, the first question about the OAS support is -- I did this research when I was at Brookings, almost -- I mean, the manuscript was practically ready when I left Brookings. And to that extent, the OAS has nothing to do with this project, and nothing I say can be taken to reflect the OAS's position or the position of the Secretary General. And I mean this very seriously. I'm responsible for whatever I say here. That's number one.

Number two, about the role of the OAS validating elections -- I mean, all I can say is that, you know, one of the things that I do from the Secretary of Political Affairs is precisely run the operation that the OAS has in terms of election monitoring.

And just to give you an idea, I mean, one of the things that we've been doing for the past couple of years -- because this is something that started out before I came on board, actually, so I claim no merit for

this -- is precisely to incorporate the monitoring of political finance as a key part of our election observation missions.

It's not really our function to detect all acts of corruption that can have an impact on election results. I mean, countries have national authorities for that. I mean, our role is different.

I mean, what we're trying to do is something that is a small but very significant contribution to the effort to determine whether elections in a country fulfill international standards or not -- which is to find out whether a country has adequate laws dealing with campaign finance, whether the regulations are in place, and whether the regulations that are in place are enforced or not.

And that's what we can do, and that's exactly what we are doing, you know, on a routine basis, as part of our election observation missions. Perhaps we will be able to go beyond that in the future, but for the time being, that's what we are doing, and we're taking it very seriously.

And we have -- you know, I won't go into details, but we have a very interesting methodology and a very comprehensive methodology to monitor that.

The question on Paraguay -- well, I mean, you don't expect me to answer that. I mean, all I'm going to say is that -- I mean, I'm not going to say if I have misgivings or not about President Cartes's election. I

mean, that's not my role.

But whatever misgivings I may have -- well, they run counter to the trust that was placed upon him by the Paraguayan people. So, that's what really matters here. And to that extent, you know, it's totally irrelevant what I may think about President Cartes.

And number three, the question about how to prevent -- I'm not sure if I understood your question correctly, but how to prevent criminals from running for office themselves.

Well, that's a tricky one. I guess, you know, to go back to one of the points that was raised by Eric -- transparency goes a long way. I mean, if people are willing to vote for a crook knowingly, it's their call. It's their call. But they should be aware of that. So, transparency goes a long way.

In some countries -- and I remember here, the Brazilian case study in the book goes into that -- some rules have been put in place to the effect of putting obstacles in terms of being elected for people that have criminal records.

You know, it sounds better in theory than in practice, because, ultimately, if you prevent people, you know, with a criminal record to run for office, you're creating a (inaudible) -- which is a perpetual punishment -- which is inimical to the spirit of democracy. I mean, the fact

that you have a criminal record should not prevent you from -- I mean, should not mean that you give up all your political rights.

So, that's a tricky one. I mean, you may put some obstacles. You might put some controls -- but, ultimately, I don't think it's appropriate for people to be -- you know, for any system to take away the political rights of anyone with a criminal record.

Now the question on spending caps -- well, Chris, I mean, you're lucky enough to come from Canada. I mean, and Canada is -- no, no, seriously -- and I don't mean this in a light way.

I mean, Canada is perhaps the most successful example -- not bereft of problems, by the way -- but is the most successful example of spending caps in the world. They've had a number of issues with spending caps. I mean, how you deal with third-party expenses in a campaign, you know, when those expenses that are not directly controlled by candidates -- I mean, that's been a tricky issue in Canada for a long time.

But, all in all, spending caps have worked wonderfully in Canada.

That experience has not been replicated in a perfect way elsewhere, sadly. For all sorts of reasons -- I mean, some of which you alluded to in your comment -- I mean, in some cases, it's just impossible to

keep track of the money that comes into campaigns, quite frankly.

So, that's why I tend to agree with Eric's point, once again. I mean, the fact that, you know, transparency is much more important than controls. I mean, and one of the disturbing things, I have to say, that has taken place here in the U.S., is not the fact -- it's just not the fact that the existing controls over the ability of business to contribute to campaigns are being eroded. I mean, that's bad, I think, but the really disturbing trend is how transparency rules -- where the main pillar of the U.S. campaign finance regulation system -- I mean, those transparency rules are under siege now.

And at this point, the really bad thing about U.S. elections is that you're no longer able to keep track the way you were able to keep track of the money that came into the political system, say, 20 years ago.

So, I mean, there are some kinds of spending caps that are much more effective, and I mentioned that in my presentation. You know, the notion that you can put a ceiling on certain kinds of expenditure that are particularly relevant mostly -- not exclusively, but mostly paid advertising. That's something you can do, and that has worked well in many countries. That's not a solution to the whole problem. Bear in mind that paid advertising tends to be, you know, a more reduced proportion of campaign expenditure than people make it out to be.

I mean, I did this research, you know, in Costa Rica a number of years ago, and, you know, people kept repeating this notion that advertising was, you know, 80 percent of total campaign outlays. In actual fact, it was close to 10 percent. Organizational expenses -- I mean, how you recreate a party structure every four years, how you open up branches all over the country -- I mean, that's expensive. That's expensive.

So, anyway, all that goes to saying that certain kinds of spending limits make sense.

And I'm just going to say something else. Even in the best of cases -- even in a case like Canada -- spending caps and campaign finance regulations in general are an exercise in damage limitation. And that's the spirit with which you should adopt campaign finance regulations. I mean, you won't be able to solve all the problem. You will be able, if you're lucky -- if you, you know, put in place well-designed regulations -- you will be able to control some of the worst manifestations of the problem.

But the relationship between money and politics is a tricky one. It's a very tricky one in the best of circumstances.

DR. TRINKUNAS: Well, we're almost out of time, but I'd like to give our other two panelists a chance, if you wanted to add any

comments to the discussion or observations on the question.

DR. MANN: Just a couple of brief points -- you're absolutely right about the U.S. situation, where the one thing we managed to do pretty well was disclose campaign contributions and expenditures, and that still obtains for the bulk of the funds involved in campaigns -- most of which is raised by candidates and parties. And that money has to be disclosed then -- is disclosed.

But for these so-called unaffiliated groups outside -- even the super PACs formally have to disclose their contributions and expenditures -- but what they do is form affiliated nonprofit organizations, which, by separate law -- they're supposed to be social welfare organizations -- can - - Chamber of Commerce has a trade association nonprofit status -- they can accept donations, and report them as anonymous, and then simply make a transfer of funds to some other political organization, and thereby obscure the funds. So, it's a growing problem.

I'm just struck by, with the Canadian example, how important it is to look at the context -- one, the constitutional limits. In the U.S. and now Australia and some other countries, you simply can't ban or limit paid political ads while other countries find it a very useful way of controlling spending -- and that is a way of doing it.

The other is, whether the system is really candidate-

centered or party-centered. You can have -- I mean, even in the U.K. when you had those -- it was more like \$15,000 a candidate for the House of Commons, but the important money was spent by the national parties, where there now is a limit for the first time, but it really matters what kind of system you have.

Final point -- I just wanted to reinforce the point about natural resource extraction. And it's no surprise that Danny Kaufmann, who was your colleague here at Brookings -- and is one of the world's real experts on campaign finance and corruption more broadly -- has gone New York to head an organization around these industries, because there really is a sense of real penetration, of organized crime, and it's one of the developing problematic globally.

MR. OLSON: Can I just -- really short --

DR. TRINKUNAS: Very -- just --

MR. OLSON: -- short -- I mean, just to reinforce Tom's reinforcement -- Chris and I were in Colombia not long ago, and we were visiting this particular region in Colombia. And one of the things that was -- you know, that people told us time and again was that, in that particular region in Colombia, it has a long history of illicit economies and all that -- you know, illegal mining really was the big thing -- I mean, rather than drug trafficking.

So, there's a real issue there.

DR. TRINKUNAS: Well, I'd like to thank our distinguished panel for their comments, and for the wonderful discussion.

I'd like to thank the participants for their great questions, and please stay tuned. We will be having additional events for the Latin America Initiative, including one this Friday on the coming elections cycle in Latin America, in the midst of social unrest.

So, we hope to bring together interesting events of this sort frequently in the future.

Thank you all.

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