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Business Elites in Panama: *Sources of Power and State Capture*

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Between Elite Power and Social Mobilization**

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Acronyms

PAN	Panameñista Party
DC	Democratic Change (Party)
PDR	Democratic Revolutionary Party

Abstract

A well-established line of academic inquiry argues that state capture emerges in contexts of weak governance institutions. However, Panama is an outlier case featuring high levels of state capture despite strong governance institutions. To better understand state capture in Panama, this paper investigates the sources from which business elites draw their power—income control, business cohesion, political campaign contributions and revolving doors. Results show that state capture arose in Panama along with high income concentration among top elites, cohesion among a small cluster of family business groups, big businesses coordinating their electoral contributions, and appointments of businesspeople to strategic government positions. In closing, we suggest possible avenues of research to continue deciphering state capture, and provide some policy recommendations to reduce state capture in Panama.

Keywords

Business cohesion; business groups; campaign contributions; Latin America; network analysis; revolving doors

Bios

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¹ <https://redelites.networksprovidehappiness.com/>

Introduction

State capture occurs when state functions are modified to serve particularistic interests (Dal Bó 2006). For instance, when a regulatory public agent who has been appointed to act in defense of public interests operates instead for the benefit of a group of firms or industries, state has been captured (Hellman et al. 2003). Similarly, large corporations might capture the state as a regulatory agent when those corporations influence policies intended to regulate them (Innes 2014; Acemoglu and Robinson 2012). When the state has been captured, it operates as a vehicle for a narrow set of private interests.

Panama is a puzzling example of state capture that combines high state capture with strong regulatory institutions. According to the World Bank Governance Indicator “control of corruption”, which measures the extent to which public power is exercised for private gain (used as a proxy for state capture), Panama ranks far below the mean of Latin American and Caribbean countries, where lower values indicate higher levels of state capture (World Bank 2018). Since Juan Carlos Varela became President in 2014, Panama fell from the 46th to the 36th percentile rank. Moreover, judicial independence in Panama is among the weakest in the region according to the Global Competitiveness Report 2016-2017 (World Economic Forum 2017). Further, former Panamanian President Ricardo Martinelli (2009-2014) came third on a worldwide ranking of the most corrupt political leaders (Transparency International 2016).

Most literature on this topic points to institutional weakness as one of the main macro-level explanatory conditions of state capture (Hellman et al. 2003; Innes 2014). States are more likely to be captured when governance institutions are weak. However, in the worldwide classifications that measure the degree of institutional development and stability, Panama performs relatively well. Whereas Panama is above the 60th percentile in voice and accountability, government effectiveness, political stability, and regulatory quality (where higher rankings indicates better performance), in the control of corruption it falls below the 35th percentile (World Bank 2018). This puzzling divergence between strong regulatory institutions and high state capture in Panama indicates that other theoretical approaches might be necessary to understand state capture.

To address this puzzle, we turn to theories of business power that have largely agreed that business elites occupy a privileged position in the policy process, and that political influence is exercised through several sources of power.² “Elites’ sources of power” encompass all means and mechanisms that strengthen elites’ bargaining position and influence. In accordance with elites theorists, having access to valuable resources, belonging to influential networks, and occupying strategic positions constitute the main sources of power (Domhoff 2013; Mills 1956). Moreover, the unequal distribution of sources of power generates unequal access to the state and, thus, an unequal influence over politics (Durand 2019).

This paper uncovers the sources of business elites’ power in Panama to better understand this particular case of state capture in a context of stable regulatory institutions. Specifically, we study income concentration in the wealthiest decile, business cohesion through a network analysis of interlocking directorates, campaign contributions in presidential elections, and appointments of businesspeople to government positions (a phenomenon known as the revolving door). Despite the burgeoning interest in studying business elites in Latin America, there are very few empirical

² Fairfield 2015; Culpepper 2010; Bernhagen 2007.

studies on Panamanian elites (Hughes and Quintero 1987). Therefore, this paper constitutes a benchmark for future research on Panamanian business elites.

The paper is organized as follows. Section 1 develops the analytical framework, focusing on business elites' sources of power. In Section 2, we describe the political context of Panama. Methods and data are outlined in Section 3. In Section 4, the configuration of power structures that characterize Panama are presented. The last section discusses the findings, suggests avenues of future research and offers policy recommendations.

State Capture and Business Elites' Sources of Power

The study of sources of power has been extensive and varied. Since Max Weber's work (1978[1922]), there has been a constant effort to define and identify the elements that strengthen power, influence and authority. More recently, Fairfield (2015) divided economic elites' sources of power into two broad categories: structural and instrumental power. Structural power refers to the fact that states depend on business elites to invest and generate growth, employment and prosperity. Instrumental power allows business elites to carry out political actions through different sources such as campaign finance, revolving doors, partisan linkages, technical expertise and media capture. These political actions and state dependencies grant business elites the power to intervene in the political arena and influence policy outcomes (Bril-Mascarenhas and Maillet 2019).³

Regarding structural power, a well-established line of inquiry argues that state capture is deeply rooted in inequality (Acemoglu and Robinson 2019; Durand 2019). High levels of income inequality weaken organized civil society such as trade unions and social movements that could veto state capture (Durand 2019). Put simply, when business elites are strong and civil organizations are weak, state capacities to regulate business elites are limited (Acemoglu and Robinson 2019). As a result, politically powerful business groups create obstacles to the emergence and development of redistributive political projects that can threaten their privileged position.

Regarding instrumental power, previous studies on state capture have pointed to two sources of power: business-politics connections and business cohesion (Fairfield 2015). Business-politics connections materialize in two ways: i) recruitment of businesspeople into government posts, and ii) business contributions to political campaigns (Carpenter and Moss 2013; Dal Bó 2006). First, the movement of businesspeople into politics, also known as revolving doors, can become a transfer of business efficiency to government, but also a source of conflicts of interest, cronyism and corruption (Aragón-Falomir and Cárdenas 2020; Brezis and Cariolle 2015). Further, contributions to presidential elections can be a mechanism for business elites to enforce political parties' dependency and build relationships of reciprocity with parties and presidential candidates (Segovia 2005). This is especially true when there is little transparency on electoral financing, which is the case in most Latin American countries (Casas-Zamora 2005).

In addition to business-politics connections, the literature on business power and tax politics argues that business cohesion is one the most efficient resources to influence politics. When business elites form a united front, prospects for influencing policy tend to be stronger than if each faction acts independently (Castañeda 2017; Fairfield 2015). However, other scholars

³ Elites' sources of power must be differentiated from actions, such as kickbacks, bribes or extortions, which represent the capture itself or the immediate inducements.

disagree and show that business cohesion can allow the state to have control over business and give rise to more inclusive policies (Cárdenas 2020; Schoenman 2014). Whether business elites are organized cohesively or fragmented does not only provide information about the internal organization of business but also about the structure that enables business elites to influence the state. While previous studies inferred the extent of business elite cohesion on the basis of the existence of business associations,⁴ this paper analyses networks among large business corporations to uncover to what extent business elites form cohesive structures.⁵

The extent to which top corporations are connected is uncovered by examining the presence or absence of interlocking directorates and the configuration of corporate networks. Interlocking directorates refers to the practice of members of a company serving on the board of multiple corporations. When corporations create an interlocking directorate, they share information and common practices, minimize conflicts and restrict outsiders (Cárdenas 2016; Heemskerk 2007). If corporations are highly interconnected through board members, a cohesive corporate network is configured. If corporations are poorly connected to each other, a fragmented or non-cohesive corporate network arises. Although business elites can connect through other means—family ties, membership to exclusive clubs, school attendance and business associations—board interlinkages involve the top-echelon leaders of the business sector. Moreover, research on corporate networks has broadly demonstrated that interlocking directorates are fundamental for organizing corporate political unity (Mizruchi 1992; Murray 2017). Cohesive corporate networks facilitate knowledge and information transfer among businesspeople, reduce transaction costs, and thus increase the probability of collective action by business. A large number of studies explore business elite networks via interlocking directorates, especially in North America and Western Europe. Research on Latin American countries is burgeoning, but until now it has focused almost exclusively on the large nations of the region: Brazil, Mexico, Chile, Peru and Colombia (Cárdenas 2016; Salas-Porras 2017). This is the first inquiry on networks of interlocking directorates in Panama.

Political Context of Panama

The US invasion of Panama in 1989 marked the end of two decades of de-facto rule by a military junta (Luna and Sánchez 2009; Pérez 2011). The invasion allowed the development of an institutional framework based on two main principles: demilitarization of government and political parties, and strengthening of an autonomous electoral committee (Casas Zamora 2003; Pérez 2011). The demilitarization consisted of a constitutional prohibition of the establishment of armed forces that were in control of defense, political parties and public security. This achievement was possible thanks to the crucial role played by the United Nations Development Programme in promoting a dialogue among different powerful groups, including Panamanian business elites. The new institutional framework combined with the handing back of the Panama Canal from the United States to the government of Panama in 1999 created a positive scenario for business elites with incentives to promote and develop a liberal regime in the country (Pérez 2011). Seven different presidential electoral processes considered fair, free and competitive have taken place in Panama since 1989. Currently, Panama comes in fourth among the most democratic Latin American states in the Freedom House ranking (Freedom House 2020).

⁴ Fairfield 2015; Castañeda 2017; Durand and Silva 2000.

⁵ Business associations are a traditional mechanism for building political cohesion among business elites in Latin America. Nevertheless, due to the higher economic transnationalization, big business groups have reduced their participation in these traditional national business associations.

But along with the strengthening of economic and political institutions, Panama has also been the epicentre of various global corruption scandals. The perception that the highest levels of the state are captured by private interests has spread widely in Panamanian society. The Latinobarómetro, a large-scale survey which measures public opinion throughout Latin America, reflects that there has been a marked increase in the social perception that the state is concerned primarily with the interests of a few dominant groups. In 2009, 44 percent of the Panamanian respondents agreed with the statement that the country is governed for the benefit of a few powerful interests rather than for the good of everyone. This proportion increased considerably to 69 percent in 2015, and to 85 percent in 2018. In the same survey, trust in private companies decreased from 56 percent in 2009 to 43 percent in 2015. Moreover, 66 percent of Panamanian respondents indicated in 2018 that they believe that everyone, or almost everyone, among the political elite (president and his officials) is involved in corruption, a rate 10 percent higher than the average in Latin America (Latinobarómetro 2018).

Several reports for Panama raise serious concerns about corruption, state capture and impunity which directly affect the justice system and the highest levels of government (Freedom House 2020). For instance, millions of leaked documents from the Panamanian law firm Mossack Fonseca, known as the Panama Papers, revealed the country's role in global tax evasion and corruption schemes (Obermayer and Obermaier 2016). Also, the Odebrecht case, a massive corruption scheme centred on a Brazilian construction firm that bribed politicians in several Latin American countries, implicated more than 80 top politicians, lawyers and businesspeople in Panama, including former presidents Ricardo Martinelli (2009-2014) and Juan Carlos Varela (2014-2019). Martinelli was accused of accepting around 56 million US dollars from Odebrecht to grant the Brazilian company public contracts. Varela admitted in November 2017 to having received donations for his 2009 vice-presidential campaign from an individual with ties to Odebrecht. Further, two cabinet members from the administration of former president Martinelli were arrested in September 2017 for alleged money laundering in connection with the Odebrecht case.

Looking closer at events that took place during the administration of these two former presidents might help to reveal the prevalence of abuses of power and the effect it has had on the country. In addition to being president, both Martinelli and Varela were prominent businessmen in Panama. Martinelli was the owner of a large retail chain, Super 99, and Varela's family is the largest producer of alcohol in the country (Quintero 2014). Ricardo Martinelli founded the party Democratic Change (DC) and became President in 2009 in a political alliance with the pro-business right wing Panameñista Party (PAN) led by Juan Carlos Varela. The coalition between

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