

# How to Subvert Democracy: Montesinos in Peru

John McMillan and Pablo Zoido<sup>1</sup>

April 21, 2004

*Abstract:* Which of the democratic checks and balances—opposition parties, the judiciary, a free press—is the most forceful? Peru has the full set of democratic institutions. In the 1990s, the secret-police chief Montesinos systematically undermined them all with bribes. We quantify the checks using the bribe prices. Montesinos paid a television-channel owner about 100 times what he paid a judge or a politician. One single television channel's bribe was five times larger than the total of the opposition politicians' bribes. By revealed preference, the strongest check on the government's power was the news media.

*JEL codes:* P160, K100, L820

Of the checks and balances that underpin any democracy, which is the most forceful? Peru has in place the full set of democratic mechanisms: a constitution, opposition parties, regular elections, a presidential term limit, safeguards for the independence of the judiciary, and a free press. In the 1990s, Peru was run, in the name of President Alberto Fujimori, by its secret-police chief, Vladimiro Montesinos Torres. In the course of exercising power, Montesinos methodically bribed judges, politicians, and the news media.

Montesinos kept meticulous records of his transactions. He required those he bribed to sign contracts detailing their obligations to him. He demanded written receipts for the bribes (see Figure 1). Strikingly, he had his illicit negotiations videotaped.

In what follows we use Montesinos's bribe receipts and videotapes to study the breakdown of checks and balances. Montesinos and Fujimori maintained the façade of democracy—the citizens voted, judges decided, the media reported—but they drained its

---

<sup>1</sup> Graduate School of Business, Stanford University, Stanford, CA 94305-5015, USA; [mcmillan\\_john@gsb.stanford.edu](mailto:mcmillan_john@gsb.stanford.edu), [pzoido@stanford.edu](mailto:pzoido@stanford.edu). For comments, we thank Jonathan Bendor, Gerhard Casper, Peter Gourevitch, Stephen Haber, Stephen Krasner, Phillip Leslie, David McKenzie, Luis Moreno Ocampo, John Roberts, and Barry Weingast. This research was supported by the Center for Global Business and the Economy at the Stanford Graduate School of Business, the Center for Democracy, Development, and the Rule of Law at the Stanford Institute for International Studies, and a 2003 John M. Olin Program in Law and Economics Summer Research Fellowship to Zoido.

substance. How did they go about undermining democracy? We discuss the workings of covert authoritarianism: the negotiation and enforcement of the secret deals.

We use the bribe prices to quantify the checks and balances. The size of the bribes indicates how much Montesinos had to pay to buy off those who could have checked his power. (See Tables 2, 3, and 4 below.) The typical bribe paid to a television-channel owner was about a hundred times larger than that paid to a politician, which was somewhat larger than that paid to a judge. One single television channel's bribe was five times larger than the total of the opposition politicians' bribes. The strongest of the checks and balances on the Peruvian government's power, by Montesinos's revealed preference, was television.

## **1. The Montesinos Virus**

Democratic institutions form a system of incentives shaping and constraining the government's behavior. Most analyses of the checks and balances examine them separately: elections (Maskin and Tirole, 2004), political parties (Persson et al., 1997), the judiciary (La Porta et al., 2004), and the news media (Besley and Prat, 2001; Djankov et al., 2003b). The parts of the system interact, however. A pair of governance mechanisms may be complementary, in the sense that one works better when the other is in place, or strengthening one increases the marginal effectiveness of the other (Milgrom and Roberts, 1990). Opposition politicians are more potent, for example, the freer the press. The checks and balances reinforce each other.

The number of countries that are democratic has jumped. In the mid-1970s, there were 39 electoral democracies, with political rights and civil liberties; by 2001 there were 104 (Diamond, 2002, p. 26). At the same time has come an increase in the number of countries that are imperfectly democratic, having the form of democracy but falling short on the substance. Not only Peru under Fujimori, but also countries like Russia under Vladimir Putin, Zimbabwe under Robert Mugabe, Malaysia under Mahathir Mohamed, Haiti under Jean-Bertrand Aristide, and Mexico before Ernesto Zedillo have, or had, a *competitive authoritarian* regime. Under competitive authoritarianism, as defined by Levitsky and Way (2002, pp. 52-53), formal democratic institutions operate, but the

incumbent violates the rules to such an extent that “the regime fails to meet conventional minimum standards for democracy.” Unlike ordinary authoritarianism, elections are held, and the democratic institutions give opposition forces the means to challenge the incumbent. “As a result, even though democratic institutions may be badly flawed, both authoritarian incumbents and their opponents must take them seriously.” Unlike true democracy, on the other hand, “incumbents routinely abuse state resources, deny the opposition adequate media coverage, harass opposition candidates and their supporters, and in some cases manipulate electoral results.”

The “Montesinos virus” is a more vivid label for it, coined by the Polish journalist and former democracy activist Adam Michnik (2000): “a newly discovered cancerous disease found most commonly in contemporary democratic states.” With ordinary authoritarianism becoming harder to sustain because of globalization and new communications technologies, competitive authoritarianism has become more common around the world. Twenty-one competitive authoritarian regimes existed as of 2001, by the count of Diamond (2002), all of them in developing or ex-communist countries.

Understanding the ways in which democratic institutions can be subverted—where the weak points are and how the parts of the system interact with each other—might be useful in designing governance systems elsewhere that are less corruptible. Montesinos’s bribes reveal which of the checks is the most expensive to undermine.

## **2. Lies and Videotape**

In 1990, Fujimori, a political novice, was elected president of Peru, a country in turmoil. Economic mismanagement had brought hyperinflation and negative growth. An insurgency driven by the Shining Path, a murderous band of Maoist guerillas, would by its end bring 69,000 deaths.<sup>2</sup>

Fujimori appointed Montesinos his advisor and ad hoc head of the Servicio de Inteligencia Nacional (SIN, the national intelligence service). Montesinos had had a checkered career. Starting out as an army officer, he had been expelled from the army on

---

<sup>2</sup> The 69,000 estimate is from the 2003 report of the government-appointed Truth and Reconciliation Commission (Juan Forero, “Peru Report Says 69,000 Died in 20 Years of Rebel War,” *New York Times*, August 29, 2003, p. A3).

charges of selling secret documents to the United States; then in the 1980s he had been a lawyer for Colombian drug dealers. He made good use of the connections he had forged in his time in the military, obtaining his influence by serving as a bridge between a weak military and a weak president, says Peruvian political analyst Umberto Jara (2003, p. 38). He was “the nexus capable of uniting two weaknesses: an army that had lost its prestige because of subversion and human rights violations, and a political unknown, absolutely solitary, without a political organization or a social base.” According to his biographers Sally Bowen and Jane Holligan (2003, p. 127), Montesinos used to boast that he could manipulate the president, saying Fujimori “is completely malleable: he does nothing at all without my knowing it.”

Fujimori claimed two major early successes: ending the terrorist insurrection and sparking economic growth. The Shining Path leader, Abimael Guzmán, was captured in 1992, and then thousands of his followers. An influx of foreign investment followed economic reforms, with deregulation and privatization and a successful anti-inflation program (bringing inflation down from 7,540 percent in 1990 to 10.5 percent in 1995: Marcus-Delgado and Tanaka, 2001). As a result, whereas from 1981 to 1990 annual growth had averaged –1.2 percent, from 1991 to 2000 it averaged 4.0 percent. However, the government became increasingly repressive. Mario Vargas Llosa, the novelist who had been the losing presidential candidate in 1990, noted, “Fujimori was very popular. Though dirty things were going on—torture, killings and corruption—his image was of a strongman who would defend people against the terrorists.”<sup>3</sup>

An assault on democracy came in 1992, when Fujimori mounted a coup against his own government (*autogolpe*), closing the Congress and suspending the constitution. He decreed laws specifying harsh sentences for terrorists, trying some of them in secret courts with judges hooded to protect them from reprisals. Democracy returned, at least superficially, with an election in 1995, which Fujimori won. In May 2000, Fujimori won re-election to a third term. In order to run, he had to persuade the Congress to override the presidential term limit. The election was widely regarded as rigged.

Just three and a half months after the election, the Fujimori government fell, after one of Montesinos’s videotapes was broadcast on television. Montesinos was seen

---

<sup>3</sup> Maya Jaggi, “Fiction and Hyper-Reality,” *Guardian*, March 16, 2002.

paying opposition politician Alberto Kouri US\$15,000 per month to switch sides and support the president. Other videotapes subsequently were broadcast, becoming Peru's own distinctive form of reality television. The tapes, which came to be called the *vladivideos*, revealed the breadth of Vladimiro Montesinos's reach. They showed him, for example, offering Alipio Montes de Oca, a Supreme Court Justice, the presidency of the National Elections Board plus an extra \$10,000 monthly salary, medical care, and personal security; bribing Ernesto Gamarra, a member of a congressional committee investigating Montesinos's sources of money, to direct the investigation away from Montesinos; and assuring the owner of Lucchetti, a Chilean pasta company, of a favorable judgment in a legal dispute over the construction of a factory.

Montesinos and Fujimori fled. Fujimori obtained asylum in Japan, from where he resigned the presidency by fax. Montesinos was arrested in Venezuela, despite having altered his appearance with plastic surgery, and returned to Peru to be charged not only with corruption but also with murder, arms running, and drug dealing. Over 1,400 Peruvians faced criminal charges from having been in the Montesinos network.

The total number of *vladivideos* remains a mystery. Initial reports suggested there were about 2,000. From jail, Montesinos claimed to have more than 30,000. Many Peruvians believe that when Fujimori fled he took several hundred. A room in Peru's Congress houses more than 1,600, only a fraction of which have been made public. Transcripts of some are available on the Congress's website.<sup>4</sup> It is impossible to obtain a complete picture of what went on inside the SIN, but much has emerged as more videos have become available and the judicial process has advanced. We collected additional information from journalistic, legal, and academic sources in Peru. Our data cover events in the final three years of the Fujimori regime, 1998 to 2000, when Montesinos's main goal was get Fujimori reelected for a third term.

While it may seem peculiar that Montesinos videotaped meetings where he was the corruptor, there is logic to it. The tapes were Montesinos's proof of the others' complicity. He made sure the videos recorded the bribe-takers accepting his cash. (See Figure 2.) One shows Montesinos pulling wads of bills from a plastic bag and putting them into a briefcase. Another shows him beginning to count the money: "And now

---

<sup>4</sup> Congress website: <http://200.37.159.14/SICR/diariodebates/audiovideos.NSF/indice>.

comes the good stuff. One, two, three, four, five, six.” His counterpart said, “Here there is a million. Better this other little briefcase, no?” Montesinos replied, “Which one? No, no, this is great because you can close it ... You can keep it as a gift. Look: one, two, three, four, five, six, seven, eight, nine, ten, a million. One, two, three, four, five, six, seven, eight, nine, ten, two million.”<sup>5</sup> Montesinos told some people he was taping their meetings. On one occasion he said, “It is already filmed.” On another, his interlocutor asked, “Do you have that recorded?” and he responded in the affirmative.<sup>6</sup> In the event that the whole network collapsed, the tapes gave him a threat he could use against anyone who might turn against him. The tapes also gave him the power to destroy the president, so Fujimori could not fire him.

### **3. The Bribes**

Montesinos had various sources for his bribe money. The SIN budget, which was secret and unsupervised by the Congress, increased from 1990 to 2000 by 50 or 60 times. By 2000, it was about \$1.5 million per month, of which about a quarter went to operational costs, salaries, etc., leaving about \$1.1 million for Montesinos to spend. He was not required to justify how he spent it. In addition, he received under-the-table sums via the Ministry of the Interior and the military (see Table 1). By 2000, he was getting about \$750,000 per month in unrecorded cash from these other government agencies. Further, he siphoned money from state contracts. When he needed more, he requested contributions from his accomplices in arms deals and other illegal businesses. According to his bookkeeper, Matilde Pinchi Pinchi, by 2000 money was flowing into the SIN at a rate of \$8 million to \$9 million per month. Money was not short. After Montesinos’s arrest, the prosecutors estimated the Fujimori regime had embezzled over \$600 million.<sup>7</sup>

The bribe prices of politicians are in Table 2. The politicians’ bribes are mostly between \$5,000 and \$20,000 per month. (Compare these sums with a congressman’s

---

<sup>5</sup> Video 1349-50 “Meeting Dr.-Crousillat-Gisela” 26 February 1999. Jochamowitz 2002, p. 13, and Video 1780 “Calmell-Vicente-General Delgado ” undated. Jochamowitz 2002, p. 24.

<sup>6</sup> Video 866 “Alex-Absalón-Luz and Dr” 15 January 1998. Jochamowitz 2002, p. 46, and Video 1312 “Meeting Dr. – Patricio Ricketts” 12 January 1998.

<sup>7</sup> The data on Montesinos’s money sources come from Bowen and Holligan (2003, pp. 272-273, 326-327) and Rospigliosi (2000, p. 201). The \$600 million figure is from [http://www.transparency.org/pressreleases\\_archive/dnld/gcr\\_highlights.DOC](http://www.transparency.org/pressreleases_archive/dnld/gcr_highlights.DOC)

official monthly pay, which in 1995 was about \$4,500 plus \$4,500 for expenses: Pollarolo, 2001.) One outlier is Rodriguez Aguillar, who got \$50,000 per month. According to Montesinos, “the conversations with the lady [Rodriguez] were slower, they lasted more or less three weeks, because she is a difficult person, and because her husband, who is the mayor of Piura, was always counseling her.” The bribe was higher than usual, it seems, because she was a good bargainer and because two politicians came for the price of one. In addition to monthly payments, Montesinos sometimes made one-time payments of up to \$100,000, calling them campaign contributions, though since they came from the intelligence service they were hardly conventional campaign money.

Bribes went not only to opposition congressmen but also to Fujimori’s cabinet. A prominent example is Federico Salas, Fujimori’s last prime minister, who confessed to accepting an extra salary from Montesinos of \$30,000 per month.<sup>8</sup> While it may seem odd that Fujimori felt a need to pay off his own allies, perhaps this came about because he had entered politics without a party and had to build his own. Peru’s politics were driven less by ideology or policy than by distributional issues.

The congressmen’s deals were consummated in April and May of 2000, during the run-up to the presidential election. Montesinos made an initial payment immediately upon signing, then monthly payments, the signing bonus usually being the same amount as the monthly payment. These congressmen signed three documents: a receipt for the bribe; a letter asking Fujimori to admit him or her into Fujimori’s party, Peru 2000; and, on congressional letterhead paper, a *compromiso de honor* (a promise on one’s honor, a gentleman’s agreement). An example of a *compromiso de honor* (in English translation) is in Appendix 1. Congressman Mario Gonzalez Inga agrees to switch to Peru 2000 for five years, the duration of a congressional term. He promises to “act in close collaboration” with Montesinos, from whom he will “directly receive instructions.”

Bribes going to judges are in Table 3. The sums going to judges are more uncertain than for politicians and the media, for our data are incomplete. The numbers in the first column of bribe data in Table 3 show aggregates of an unknown number of payments, the frequency with which the judges were paid is unclear, though in one case,

---

<sup>8</sup> BBC News, “Peru’s ex-PM to Face Investigation,” 12/2/00, <http://news.bbc.co.uk/2/hi/americas/1050950.stm>

that of Montes de Oca, there is video evidence that he received a \$10,000 payment monthly.<sup>9</sup> The numbers in the second column of bribe data in Table 3 come from receipts such as those in Figure 1. Our best guess is that the judges' payments were made monthly, as was the case for the politicians and the news-media executives, and that the second column of bribe data shows monthly payments. The judges' bribes tend to be lower than the politicians'. The bribe price for Supreme Court and Superior Court judges is mostly \$5,000 to \$10,000 per month, two or three times their official salaries.

Bribes of the news media are in Table 4. The director of *Expreso*, a broadsheet newspaper, received \$1 million in two payments three weeks apart, ostensibly so he could buy a controlling block of the company's shares. *El Tío*, a tabloid newspaper, was paid a reported total of \$1.5 million over two years (or roughly \$60,000 per month), under an incentive contract based on content: \$3,000 to \$4,000 for a front-page headline, \$5,000 for a full-page article, \$500 for a shorter article. Other tabloids like *El Chato*, *El Chino*, *La Chuchi*, *El Mañanero*, and *El Diario Más*, according to Conaghan (2002, p. 118), received similar deals.

Among television channels, one was state-owned, Channel 7, and Montesinos had control over its content. The five privately-owned television broadcasters, Channels 2, 4, 5, 9, and 13, were bought off, as was a cable service, CCN. One television channel alone was not bribed: the other cable outlet Channel N. Its monthly fee putting it outside the budget of most Peruvians, however, its viewership was only in the tens of thousands (Bowen and Holligan, 2003, pp. 332-37).

Channel 4, with the largest viewership, got \$1.5 million per month in bribes. Channel 2 received \$500,000 per month, and Channel 5 a similar sum. The other two channels, with smaller viewerships, received payoffs via share purchases and other business deals and judicial favors.

The contract between Montesinos and Channel 2 is in Appendix 2 (in English translation). In the contract, Montesinos purchases full control over news broadcasts for a monthly payment of US\$500,000. The channel agrees to allow Montesinos to review each day's news programs before they air, and not to broadcast anything about

---

<sup>9</sup> Videos 888 and 889, May 3 1998. Jochamowitz 2002, p. 192.



presidential or congressional candidates, or any program referring “explicitly or implicitly to political issues,” without Montesinos’s written approval.

The contract is presented as a legal document. Montesinos, who held the sole copy, is not named, but just called the “Contractor.” The contract adds that this “does not however nullify the legal value of this document” (oddly, since it clearly has no legal status at all). At the start of each month, Montesinos is to pay Channel 2 its half-million dollars. At the same time, the channel is to give him a letter of credit equal to this amount, which he will destroy after the channel fulfils its duties. If he is late with a payment he incurs a penalty of 1 percent per day, rising to 5 percent after seven days. Montesinos’s contractual duties include, “To do whatever else is necessary.” If the channel ever fails to act as agreed, Montesinos may resolve the matter without the channel “having any right to complain in any way.”

How much did Montesinos pay in total? The cost of bribing the politicians to get a majority in Congress added up to less than \$300,000 per month. The total cost of bribing judges (at a guess, because we do not have complete data for judges) was \$250,000 per month.<sup>10</sup> The total cost of bribing the television channels was more than \$3 million per month. Television was the priciest of the checks by an order of magnitude.

#### **4. Montesinos’s Control**

The videos show Montesinos crowing about his control of the media. “Each channel takes, damn, \$2 million monthly, but it is the only way, that is why, damn, we have won, because we have sacrificed in this way.” Talking to some associates about the television owners, he said, “We have made them sign on paper and all. Now we are playing with something very serious. They are all lined up. Every day at 12:30 pm I have a meeting with them . . . and we plan what is going to be aired in the evening news.” At one point, Montesinos even offered the owner of one of the television channels a team

---

<sup>10</sup> The judges’ total is arrived at as follows. Adding the monthly totals from the last column of Table 3, we get about \$100,000. We lack data for 11 Supreme Court judges and 15 ordinary judges who, according to Bresani (2003), were also bribed. If we assume the missing Supreme Court judges got the about same bribes as those for whom we have data, and that the ordinary judges got \$3,000 a month, then the total rises to about \$250,000.

of SIN agents who could work for him as an “investigative unit.”<sup>11</sup> Montesinos devoted considerable resources to controlling the media, his own time and SIN manpower, providing further evidence of how important he saw the media to be.

The cash payments underestimate Montesinos’s bribes, for he channeled further money to the newspapers and television by means of government advertising. The state became Peru’s biggest advertiser, with spending increasing by 52 percent from 1997 to 1999. Also, in 1999, the government permitted media outlets with outstanding taxes to work off their tax obligations by carrying free advertisements for the government health agency. In addition, companies with which Montesinos had side deals were asked to advertise in particular media outlets as a way of supporting Fujimori’s reelection (Bresani, 2003; Degregori, 2000; Schmidt, 2001).

Cash was not all that Montesinos used to sway people. Favors were common: promotions, judicial string-pulling, support in election campaigns, and congressional votes (Moreno Ocampo, 2003). Sometimes what was exchanged was a mere promise of undefined future favors. After agreeing to a request from a television-channel owner, for example, Montesinos said, “You give me the difficult tasks.” His interlocutor replied, “But, of course, in return I am at your disposal for anything you like.”

The television channels received various favors. Montesinos helped Channel 5 maneuver a difficult lawsuit by interceding with the judiciary. To support the owner of the cable channel CCN, he arranged the purchase of shares in his company by the Military Police pension fund. He arranged a complex deal involving Channel 2, Channel 4, and Peru’s second-largest bank, Wiese Sudameris Bank. The two channels owed the bank \$13 or \$14 million. Montesinos persuaded the bank’s managing director to refinance their debts. In return, he resolved a tax problem for the banker.<sup>12</sup>

Judges and politicians also got noncash bribes, such as a car or a house. A judge on the National Elections Board, Rómulo Muñoz Arce, negotiated jobs for his wife and son as well payment for his daughter’s education in the United States. Montesinos threw

---

<sup>11</sup> Quotes from, respectively, Video 1792 “Meeting of the general commanders of the armed forces, the Winter brothers, Carlos Boloña Behr, and Montesinos,” 26 November 1999. Jochamowitz 2002, p. 17; Audio 1736 “Meeting Dr.-Eduardo Calmell” 14 September 1999; and Audio B-139 “A-4” undated.

<sup>12</sup> Respectively Audio 896 “Julio Vera Gutierrez and Vladimiro Montesinos” 20 January 1998, and Video 1790 “Eugenio Bertini” 10 November 1999.

in a first-class airfare for her, exclaiming, when the judge remarked on this, “First class? Of course I wouldn’t send her coach!”<sup>13</sup>

Montesinos exerted control not only by bribery but sometimes by blackmail. He would obtain video proof of sexual indiscretions and use these tapes for persuasion. Some were filmed in a brothel where SIN agents had installed hidden cameras. (After he was imprisoned, the judges handed dozens of these videos over to the Roman Catholic Church, to be returned to those featured in them.)<sup>14</sup>

Montesinos did not control everything. The one unbribed television channel, the small cable outlet Channel N, continued to offer independent investigative journalism. As it turned out, it was on this channel that the Kouri videotape that brought everything down was first aired. Some newspapers like *La República* and *El Comercio* and some magazines like *Caretas* courageously continued to criticize the government despite being harassed, reporting for example on abuses in the lead-up to the 2000 election. The harassment ranged from libel suits to arbitrary detention to death threats. In an attempt to discredit any journalists who dared investigate the government, the tabloids carried hundreds of stories defaming them with bizarre labels: “a mental midget,” “a she devil,” “undercover terrorist,” “paid coup provocateur.” A headline in *El Chino* proclaimed three journalists “the rabid animals of the anti-Peruvian press.”<sup>15</sup>

While the tabloids read by the majority of Peruvians were mostly under Montesinos’s control, it was the more educated and affluent Peruvians who read the independent newspapers and magazines. Montesinos seems to have decided these outlets were not influential enough to be worth bribing. A vladivideo shows him saying he was unconcerned. “What do I care about *El Comercio*? They have an 80,000 print run. 80,000 newspapers is shit. What worries me is Channel 4 . . . It reaches 2 million people . . . *La República* can do whatever they want. What is a 20,000 print run?”<sup>16</sup> Also, the owners of *El Comercio* may have placed so high a value on their reputation as to be incorruptible. Unlike some of the other news outlets, *El Comercio* was in sound financial

---

<sup>13</sup> Video 1318.

<sup>14</sup> Alistair Scrutton, “Peru Bishops to Get Custody of ‘Intimate’ Spy Tapes,” *Reuters*, February 21, 2001.

<sup>15</sup> On harassment of journalists: Conaghan (2002, p. 116), Schmidt (2001, pp. 2-3). On tabloid slanders: Jorge Salazar Cussiánovich, “The ‘Devils’ of the Peruvian Press,” *Pulso del Periodismo*, September 12, 1999, <http://www.pulso.org/English/Archives/Devils%20of%20Peruvian%20Press.htm>.

<sup>16</sup> Video 1318, November 11, 1998.

health. Founded in 1839, it had been controlled since 1898 by one family, the Miró Quesadas. A Montesinos crony once joked: “You want a paper like *El Comercio*? I will make you *El Comercio*. You give me the money and you give me 125 years.”<sup>17</sup> *El Comercio* owned Channel N, the television channel that Montesinos left unbribed.

As a last resort, Montesinos had the option of silencing a television channel if it refused to fall into line. He did it once and the episode is revealing. The second-largest channel, Frecuencia Latina or Channel 2, was majority-owned by Baruch Ivcher, a naturalized Peruvian citizen of Israeli origin. After initially being loyal to the government, in 1997 the channel began broadcasting investigative reports: one on SIN agents being tortured for talking about SIN to the press; another on Montesinos’s tax returns, showing his income far exceeded his government salary. In retaliation, the Interior Ministry stripped Ivcher of his citizenship. As a noncitizen he was not permitted, by law, to own a television channel. A tame judge assigned the channel’s ownership to minority shareholders beholden to Montesinos. Thereafter, Frecuencia Latina broadcast Fujimori propaganda. (Ivcher later told a US reporter that, six months before being stripped of his citizenship, he had been offered and declined a \$19 million bribe, in return for which the government would have had veto over the content of news programs.<sup>18</sup>)

The Ivcher episode shows the severity with which Montesinos punished defection. Ivcher lost his citizenship, his company, and much of his wealth. The episode shows, also, that retribution was costly to the government. Ivcher’s harassment prompted noisy demonstrations in Lima. The Peruvian Bishop’s Conference denounced Ivcher’s citizenship revocation as “illegal and dangerous.” Overseas, as well, there was fallout. The US House of Representatives, citing the Ivcher case, issued a resolution condemning Peru’s interference with the freedom of the press.<sup>19</sup> The Inter-American Court of Human Rights held a hearing on the Ivcher case, after which Fujimori withdrew Peru from the court’s jurisdiction. Fujimori bore some costs to silence a television channel, and thus the television channels had bargaining power.

---

<sup>17</sup> Quotes from, respectively, Video 1318, November 11, 1998, and Videos 1459 and 1460, April 7, 1999.

<sup>18</sup> Tyler Bridges, “Peruvian Broadcaster Returns from Exile, Fights for TV Station,” *Miami Herald*, March 30, 2002

<sup>19</sup> H.Res. 57, October 4, 1999. The text of it is at <http://usembassy.state.gov/lima/wwwshou.shtml>.

## 5. Why Television?

The checks and balances are complementary. Each check reinforces the others; the absence of one impairs the others. Without judicial independence, the media are weakened. For example, a compliant judge aided the clampdown on the media when he ratified the expropriation of Ivcher's television channel. Without judicial independence, also, political competition is enfeebled. For example, the judges on the National Elections Board overrode the constitution to allow Fujimori to stand for a third term. Without political competition, judicial independence is at risk. For example, upon suspending Congress in the 1992 self-coup, Fujimori was able to gain control over the judges. With a compromised press, political competition is enfeebled. A vladivideo shows Montesinos speaking of a press conference of opposition presidential candidate Alberto Andrade: "No television channel aired the press conference. It never existed."

This chain of complementarities means that checks and balances form a package. If one is weak, all are weak. In this sense, each of the checks is vital. Nevertheless, the bribes differed, television being the most expensive check to undermine. In this sense, television was the crucial constraint. Why?

A straightforward explanation for why the television owners were more expensive to bribe than the politicians and judges is simply that they were richer. The judges' bribes were one-and-a-half times to four times their official salaries. The politicians' bribes were multiples of their official income. By contrast, a few thousand dollars a month may not have impressed a wealthy television-channel owner. However, this does not seem to be the complete explanation. Indeed, an argument has been made in the opposite direction. The television channels (which were privately owned and closely held) were heavily indebted, and this is said to be the reason their owners were ready to accept Montesinos's bribes (Conaghan, 2002). Had they been more financially secure, they would have been even harder to bribe.

The explanation for why television is different must go deeper. We offer two complementary explanations. First, a television channel has more bargaining power than a politician or a judge. Second, television is part of a constraining mechanism that is arguably more fundamental than the politicians or the judges.

To form a winning coalition in the Congress, Montesinos had to bribe only some of the opposition politicians. The Congress has 120 members. In 2000, Fujimori's party Peru 2000 won 51 seats. Fujimori thus needed ten more votes for a bare majority. Montesinos bribed twelve congressmen to change parties and join Fujimori's, so he had two more than the minimum he needed for a majority. He did not stop there, however. He bought five more congressmen, but asked them not to switch but instead to remain in their own parties and act as his secret informants. Montesinos had calculated, evidently, that he needed to buy only 17 of the 69 opposition congressmen.

Similarly, Montesinos had to bribe only some of the judges. In 1995, Fujimori had enacted what he called judicial "reform," which reduced judicial independence by setting up "provisional" judges, who could be dismissed by the government. By 1997, 73 percent of the judiciary had been shifted to provisional status (Hernandez Breña, 2003). The lack of secure tenure made these judges susceptible to pressure. In the lower courts, Montesinos had some power to allocate judges to cases, so he could assign a friendly judge to a sensitive case (García Calderón, 2001, p. 49; World Bank, 2001a, paragraph 8-23). In the Supreme Court, decisions are made by majority vote, so three of the five Supreme Court judges were enough.

Given that not all of the judiciary was bought, why did the remaining honest judges not expose the corrupt ones? Again, it comes down to the interlinkages among the checks and balances. With the news media captured, it would have been difficult for the honest judges to get a hearing, and Montesinos could have slandered the whistleblowers so as to discredit them.

With television, by contrast, Montesinos had to bribe *all* of the widely watched channels. If he had succeeded in bribing all but one, that renegade channel could harm him unilaterally (Besley and Prat, 2004). Television channels were limited in number and, as the Ivcher case shows, costly to shut down even for a ruthless government.

Each television channel, therefore, had bargaining power. By contrast, given that the supply of corruptible politicians and judges exceeded Montesinos's limited demand, the politicians and judges had little bargaining power, so their price, as the data show, was relatively low. The bargaining game of Stole and Zwiebel (1996) fits this situation. The equilibrium of this game, applied here, has Montesinos buying a few more

politicians than the minimum he needs. (This result was also obtained by Groseclose and Snyder, 1996.) Having extra politicians on hand means no individual's vote could be pivotal, so none individually has hold-up power. As noted, Montesinos did in fact bribe more politicians than he needed for a congressional majority. With judges the story is the same. Montesinos pays the judges and politicians a little more than their fallback, the value they attach to their reputations. The news outlets, in contrast, individually have hold-up power, regardless of how many of them he has bought already. Thus the surplus (the value to Montesinos of absolute control minus what he pays judges and politicians) would be, according to the Stole-Zwiebel model, divided between Montesinos and the news media. The media's bribes would be a sizeable portion of the surplus.

The second, distinct reason why television's bribes were high in addition to hold-up power, we argue, is that the size of a bribe reflected Montesinos's perception of how much was at stake, and that this was highest with television.

The ultimate constraint on any democratic government is not an independent judiciary or opposition politicians or the constitution: it is the citizenry as a whole. The citizens have a stake in ensuring that the government maintains the institutions of democracy. If a large number are able to react to any government violation of the rules, they effectively pre-empt such violations. The citizens' credible threat to depose the government makes the constitution self-enforcing. As Weingast (1997) points out, however, they face a coordination problem in establishing the rule of law. They are effective in concert, not alone. As in any coordination game, any one citizen's best action depends on what she believes the others will do. It pays her to react to the government's violation only if she expects that many others will react too. Although in Weingast's analysis the coordination problem is exacerbated by differences in interests among the citizens, a prior source of coordination difficulties is a lack of information.

If our hypothetical citizen realizes the others are unaware of the government's transgression, it will not be in her interest to act alone. Merely not knowing whether the others know—a lack of common knowledge—is enough to foil coordinated action. By informing everyone about the government's violation of the rules, and informing everyone that everyone knows, television helps solve the citizens' coordination problem. Broadcast over television, the transgression becomes common knowledge.

This logic harks back to the view of philosopher Alexander Meiklejohn that, in the separation-of-powers scheme, the citizens play a crucial role. The First Amendment to the US Constitution, which juxtaposes the freedom of the press and of assembly, is a statement not of individual rights but of self-government by an informed citizenry. Its purpose is that “whatever truth may become available shall be placed at the disposal of all the citizens of the community” (Meiklejohn, 1960, p. 75). In a democracy, “it is not enough that the truth is known by someone else . . . The voters must have it, all of them.”

The difference, then, between the news media and the other checks and balances is that television, informing the citizenry, can bring forth the ultimate sanction of citizen reactions. In the absence of the citizens’ oversight, there would be little to prevent the government from buying off politicians and judges.

The difference between television and the print media is in their reach. That the bribes paid to print newspapers were lower than to the television channels reflects the fact that far more Peruvians get their news from television than the press. Television arials sprout from the poorest of Lima’s shanty towns; 95 percent of Lima households own a television set. The largest-selling newspapers were the serious *El Comercio*, with a readership of some 600,000, and the sensationalist *Ojo*, with some 300,000 (Schmidt, 2001, p. 13). These readers were a small fraction of broadcast-television viewership, most of Peru’s 28 million people.

“If we do not control the television we do not do anything,” said a Montesinos crony at a 1999 meeting involving Montesinos, some generals, and some television executives.<sup>20</sup> He did not say this of the judiciary or the Congress. Our argument that the checks differ in their effectiveness, while being complementary to each other, can be summarized as follows. Since politicians and judges are symmetric in our story, for simplicity let us omit the politicians. Montesinos has a value of control,  $V(M, J)$ . Here  $M$  equals either one or zero, meaning he does, or does not, control the media, and  $J$  equals either one or zero, meaning he does, or does not, control the judiciary. The two checks are complementary, by definition, if the value of securing both the judiciary and the

---

<sup>20</sup> Said by General Elesvan Bello. Video 1792, “Meeting of the general commanders of the armed forces, the Winter brothers, Carlos Bolona Behr, and Montesinos,” 26 November 1999. Jochamowitz (2002).



media exceeds the sum of the values of securing each of them separately, or  $V(1, 1) > V(1, 0) + V(0, 1)$ . An extreme form of complementarity, all or nothing, would have  $V(1, 1) > 0$  and  $V(0, 1) = V(1, 0) = 0$ . The less extreme pattern we are arguing for here has  $V(1, 0) > 0$ , so Montesinos gets some value out of controlling the media alone;  $V(1, 1) > V(1, 0)$ , so the checks complement each other and he gets extra from controlling the judiciary in addition to the media; and  $V(0, 1) = 0$ , so if he does not control the media all is lost. This is the sense in which we can say the media are the crucial part of the interdependent system of checks and balances.

Demonstrating its power, it was television that finally toppled Fujimori, with the help of an honest politician. Congressman Fernando Olivera obtained the videotape of Montesinos bribing congressman Kouri. It is not known how the tape was purloined from Montesinos's office. Olivera played it at a press conference on September 14, 2000 in a Lima hotel. According to a reconstruction of the events by Bowen and Holligan (2003, pp. 389-394), Montesinos's reaction was to threaten the television owners. "Play this down," he ordered. "If I am screwed, then so are all of you." He told Fujimori to be patient: "After all, we have the press under control." However, the sole unbought television channel, the cable outlet Channel N, started showing the video over and over. Panicking, Fujimori threatened to fire Montesinos, who responded with a threat. Referring, presumably, to his collection of videotapes, he said, "If necessary, I can set the prairie on fire." The other television channels started broadcasting the Kouri tape, despite Montesinos's intimidation. Why did they break ranks? Perhaps they reasoned that enough people had watched the tape on Channel N or heard about it that they could not ignore it. Also, Kouri went on television to deny he was corrupt, claiming the \$15,000 was merely a personal loan from the secret-police chief, which in its sheer implausibility may have further spread the news. Peruvians had suspected the government was crooked. Now they had proof. The regime imploded.

Why did Montesinos fail to bribe the channel that was to bring him down, Channel N? He may have wanted to but been unable to. As noted, it was owned by *El Comercio*, whose owners placed a high value on their reputation. Also, he may have miscalculated, reckoning that, with only tens of thousands of viewers, it was harmless. The press conference that he remarked "never existed" aired on Channel N.

## 6. Doing Secret Deals

To evade the democratic checks and balances, Montesinos ran a massive covert operation. His web of transactions, with more than 1,400 people, had to be carried out in secrecy. How did he manage his network?

“The addiction to information is like the addiction to drugs,” Montesinos declared. He considered information the basis of his power. “Here you feel the need for information... We live on information. I need information.” He tapped the telephones of enemies and of allies. On a wall of his SIN office, 25 television screens showed scenes beamed live from hidden cameras in the presidential palace, the Congress, the courts, downtown Lima, and the airport. Information was needed to identify opportunities and to ensure deals were kept. He carefully monitored the media’s news reports to verify that the owners did comply with what they had agreed. He explained to one of the television owners: “I have the monitoring on 24 hours; 24 hours they are transcribing for me. I have the summary of what airs . . . I measure the time and I monitor the characters and at the end I summarize the day: how much they devoted to this activity, how much to that one, how much in favor, how much against.”<sup>21</sup>

Although Montesinos sometimes required those he bribed to sign formal written contracts, such as that in the appendix, his contracting was not supportable by the courts and had to be self-enforcing. How did he structure his deals so as to create incentives for his respondents to live up to them?

Montesinos tried to prevent defection by cultivating camaraderie. To a media-company director he said, “The important thing, brother, is that . . . we all make a team . . . and damn, we support each other.” Again: “We are all here a homogeneous work team.” And again: “There is a feeling, because you are my kind, there is a chemistry of friendship.” What united the network’s members, he liked to say, was something bigger than their self-interest. “How do friends help friends? . . . Not to say that: hey, I give you this so that you do this.” Again: “When one works in a team, one does not work for

---

<sup>21</sup> Respectively, Videos 872-3 “Meeting Alex Kouri-Dr.” 26 January 1998. Jochamowitz 2002, p. 55; Videos 1347-8 “Meeting Dr. Crousillat Gisela” 26 February 1999. Jochamowitz 2002, p. 55; and Video 1677-1679 “Meeting Dr. –Delgado Parker-Schutz” 25 August 1999. Jochamowitz 2002, p. 49. On the television screens: Bowen and Holligan (2003, p. 266).

oneself.”<sup>22</sup> We can only guess what those he was speaking to must have made of this ruthless man’s avowals of fellowship.

Camaraderie aside, when Montesinos asked people to sign documents for him, he would, in secret, verify their signatures by checking them against the signatures on their national identity cards. No one tried to cheat him in this way, though.

His position as secret-police chief endowed Montesinos with some enforcement powers. However, he maintained he tried to avoid using violence, as he considered it too costly. For instance, rejecting a subordinate’s suggestion to use death threats against Baruch Ivcher, he said, “Remember why Pinochet had his problems. We will not be so clumsy. And, besides, what’s the purpose of ordering the death of anybody? This is madness.”<sup>23</sup> Montesinos ran death squads, so this should be taken with a grain of salt, but perhaps he calculated that using violence excessively could be counterproductive. If he threatened someone, others might become reluctant to transact with him. He had other methods for enforcing agreements.

Montesinos used the shadow of the future to create incentives for those he bribed. He commonly arranged his payments in monthly installments, under which defection was less likely than with a large one-shot payment. The television-channel contract given in Appendix 1 stipulated that payments were to be made monthly and were to be backed by a letter of credit. As another example, he told a public official to whom he had given a job, “Apart from the salary, that is ten or fifteen thousand *soles*, I am going to give you \$10,000 monthly . . . You come here every month, I give you a little envelope and that’s it. And then you do not have the economic problem.”<sup>24</sup>

It might have been expected that Montesinos would have all of the bargaining power, so he could make take-it-or-leave-it offers to squeeze out all the rents. But he did not. The videotapes show him haggling with the recipients of his largesse. One example

---

<sup>22</sup> Respectively, Video 1783 “Dr. Schutz” 10 November 1999. Jochamowitz 2002, p. 27; Video 1575 Meeting of Mr. Vladimiro Montesinos Torres with Dionisio Romero Seminario, the General Saucedo Sanchez, General Fernando Dianderas Ottone, Almirant Ibárcena Amico, General Villanueva Ruesta and General Bello Vasquez 14 June 1999. Jochamowitz 2002, p. 47; Videos 1291-1292 “Meeting Dr. Joy Way-Cuculiza” 5 January 1999. Jochamowitz 2002, p. 153; Video 1492 “Meeting Dr. Eduardo Calmell” 21 April 1999. Jochamowitz 2002, p. 153; and Video 1323-6 “Meeting Montesinos Juan M. Guillen, Arequipa’s Major” 23 November 1998.

<sup>23</sup> Audio CD 1289, 129A-B “Meeting with Dr. Congressman Carlos Ferrero” 31 December 1998. Jochamowitz 2002, p. 45.

<sup>24</sup> Videos 888-89, untitled, 3 May 1998 Jochamowitz 2002, p. 192.

is his account of negotiating with a congressman to switch parties: “I said: five. No, he said, I can’t do anything with five, I spend it in a week. Twenty he wants monthly. Now, I am not going to quibble, good, twenty then.”<sup>25</sup> Montesinos left some rents with the bribe-takers, perhaps so they would have an incentive to go on dealing with him.

The need for enforcement mechanisms was mitigated by one general feature of all corrupt deals. The very fact that an illicit deal has been done makes both parties dependent on each other, for either could denounce the other (Lamsdorff, 2002). Speaking of an opposition congressman, Montesinos said, “He is one of us, brother, he is committed.” Referring to a member of the National Elections Board, he affirmed: “yes, he is with us... He has risked it a thousand times for us, a thousand and one.”<sup>26</sup>

Montesinos created, then, a web of covert deals and mutual obligations. How might a similar corrupt network elsewhere be destabilized? Pro-democracy policy might focus on ways of upsetting the web of obligations. Promising whistle-blowers immunity from prosecution and cash rewards, for example, could induce insiders to defect. Which brings us back to the news media: corrupt networks necessarily being covert, the media, with their threat of exposure, are their natural challengers.

## **7. The Cost of SIN**

Does all of this matter? Fujimori and Montesinos were justified in running Peru as they did, it has been argued. “Fujimori restored order, destroyed the Shining Path, and attained significant economic growth,” note Djankov et al. (2003a, p. 614). He achieved these goals by “entrenching himself in power through Montesinos’ corrupt deals. From the perspective of Peruvian institutions, these deals reflect a move to eliminate disorder and increase dictatorship, which was probably efficient.” The view that Fujimori’s authoritarianism was efficient is questionable on both political and economic grounds.

The bribing of the judges, politicians, and news media described in this paper occurred in the lead-up to Fujimori’s campaign to be reelected for a third term, from 1998 to 2000. Fujimori’s outstanding achievement, restoring order by destroying the terrorists,

---

<sup>25</sup> Audio B-139 A-4, untitled, undated. Jochamowitz 2002, p. 163.

<sup>26</sup> Audio 352-A, no title, undated, and Audio 1196 “Joy Way Serpa and Bringas,” 14 August 1998.

followed the capture of Shining Path leader Guzmán in 1992. The self-coup, which Fujimori argued was needed to give him extra antiterrorist powers, took place in 1992. Terrorist disorder had been eliminated before the events described here. While Fujimori is credited with boosting Peru's growth by ending inflation and opening up the economy, toward the end of his term growth fell. From 1998 to 2000, it averaged just 1.2 percent.

What political harm came from what Michnik calls the Montesinos virus? "The accumulation of all powers, legislative, executive, and judiciary, in the same hands," said James Madison, "may justly be pronounced the very definition of tyranny."<sup>27</sup> The Fujimori regime, by stealth, accumulated all of these powers, plus power over the news media. Political and economic freedom is reduced, according to the cross-country data of Djankov et al. (2003b), by government ownership of the media. While Fujimori's government did not own the media, it had control over them.

Democracy can die, retrogressing into dictatorship. The cross-country data show retrogression is associated with per capita income. According to Przeworski et al. (2000, p. 98), in no country with per capita income above \$10,000 (in 2000 purchasing-power-parity US dollars), has democracy ever been replaced by autocracy. Below this cutoff, there is a significantly positive probability of democracy dying. With a per capita income of \$4,600 in 2000, Peru by this calculation was well into the danger zone. While Peru did not retrogress all the way into full dictatorship under Fujimori, it went much of the way and risked sliding further.

What is the economic harm from the Montesinos virus? By corrupting the judges, Fujimori and Montesinos probably fettered Peru's economy. When judges are not immune from political interference, contracting becomes undependable. For example, in 1998 a US company, Newmont Mining Corporation, had a dispute with a French company, BGRM, over their joint ownership of a huge goldmine in the Andes. The case made its way to the Supreme Court of Peru. One vladivideo shows a Newmont vice president asking Montesinos to intervene with the Supreme Court; then another shows Montesinos leaning on one of the judges.<sup>28</sup> The judge complied and the court ruled for Newmont, requiring BGRM to sell its stake in the mine to Newmont at a court-set price.

---

<sup>27</sup> Federalist Paper No. 47 (Hamilton et al., 1961, p. 301).

<sup>28</sup> For more details, see McMillan and Zoido (2004).

The cross-country evidence shows that, where judges decide cases not on their merits but under political pressure, property rights are insecure and firms are deterred from investing (Johnson et al., 2002; La Porta et al., 2004). In 2001, the year after Fujimori fell, the World Bank ran a survey of Peruvian managers asking about the obstacles to doing business (World Bank, 2001b, p. 9). Of the managers polled, 72 percent said “uncertainty generated by the judiciary” was “a very serious obstacle.”

The effects of a corrupted judiciary have outlasted Fujimori. It takes years to build a judiciary that is honest and perceived to be honest. Ironically, respect for democracy, according to Alejandro Toledo, Fujimori’s successor as president, prevented the new government from rooting out the corrupt judges. Interviewed in 2004, Toledo said that, because of the “independence of all checks and balances” he had been unable to intervene in the judiciary to reform it. “I cannot act like Fujimori, who shut down the judicial power and the Congress. The law does not permit me to do anything.”<sup>29</sup>

The news media also suffered damage. In a 2001 poll, Peruvians were asked whether they agreed with the statement, “I trust the information that I read in newspapers.” Just 16 percent said they completely agreed.<sup>30</sup> The lack of trust in news reporting is a concern, given the media’s role in constraining government power.

## **8. The Media as Watchdog**

The news media are the most potent of the democratic checks and balances. This is our main conclusion. Measured by the bribes Montesinos paid, the legislature and the judiciary are far less pressing constraints on the executive branch of government than television. Those other checks and balances obtain their force via the threat of exposure to the citizens, and television gives widest exposure. Our finding applies only to 1990s Peru, of course. However, cross-country regressions (Ahrend, 2002; Brunetti and Weber, 2003) indicate that countries that lack a free press tend to have high levels of corruption. Thus our finding may extrapolate to nascent democracies elsewhere.

---

<sup>29</sup> *El País*, “Interview with Alejandro Toledo, President of Peru,” February 25, 2004

<sup>30</sup> *TGI Latina* survey, reported at <http://www.zonalatina.com/Zldata231.htm>. Other Latin American countries like Mexico and Venezuela also had low perceived news credibility.

That the news media are the chief watchdog has implications for policy. The checks and balances work as a system, so an independent judiciary and genuine political competition are needed. But measures to safeguard the media's independence from political influence and to ensure their credibility to the public are perhaps the crucial policies for shoring up democracy.

## References

Ahrend, Rudiger, "Press Freedom, Human Capital, and Corruption," Working Paper no. 2002-11, DELTA, Paris, February 2002.

Besley, Timothy, and Prat, Andrea, "Handcuffs for the Grabbing Hand? Media Capture and Government Accountability," LSE, April 2004

Bowen, Sally, and Holligan, Jane, *The Imperfect Spy: The Many Worlds of Vladimiro Montesinos*, Lima, Peisa, 2003

Bresani, Augusto, *Ocaso y Persecucion*, Lima 2003

Runetti, Aymo, and Weder, Beatrice, "A Free Press Is Bad News for Corruption," *Journal of Public Economics* 87, 2003, 1801-24

Conaghan, Catherine, "Cashing In on Authoritarianism: Media Collusion in Fujimori's Peru," *Harvard International Journal of Press/Politics* 7, 1 (Winter 2002): 115-125

Degregori, Carlos Ivan, *La Decada de la Antipolitica*, Lima, Instituto de Estudios Peruanos, 2000

Diamond, Larry, "Thinking About Hybrid Regimes," *Journal of Democracy* 13 (2), April 2002, 22-35

Djankov, Simeon, Glaeser, Edward, La Porta, Rafael, Lopez-de-Silanes, Florencio, and Shleifer, Andrei, "The New Comparative Economics," *Journal of Comparative Economics* 31 (4), Dec. 2003a, 595-619

Djankov, Simeon, McLeish, Carralee, Nenova, Tatiana, and Shleifer, Andrei, "Who Owns the Media?" *Journal of Law and Economics* 46 (2), Oct. 2003b, 341-382

García Calderón, Ernesto, "Peru's Decade of Living Dangerously," *Journal of Democracy* 12 (2), April 2001, 46-58

Groseclose, Tim, and Snyder, James M., Jr., "Buying Supermajorities," *American Political Science Review* 90 (2), June 1996, 303-315

Hamilton, Alexander, Madison, James, and Jay, John, *The Federalist Papers*, New York, Mentor, 1961

Hernandez Breña, Wilson, *Indicadores sobre administracion de justicia*, Lima, Instituto de Defensa Legal, 2003

Jara, Humberto, *Ojo por Ojo*, Lima, Norma, 2003

Jochamowitz, Luis. *Conversando con el doctor*. Lima, Peru: El Comercio Ediciones.

Johnson, Simon, McMillan, John, and Woodruff, Christopher, "Property Rights and Finance," *American Economic Review* 92, Dec. 2002, 1335-56



Lamsdorff, Johan Graf, "Making Corrupt Deals in the Shadow of the Law," *Journal of Economic Behavior and Organization* 48, 2002, 221-241

La Porta, Rafael, Lopez-de-Silanes, Florencio, Pop-Eccles, Christian, and Shleifer, Andrei, "Judicial Checks and Balances," *Journal of Political Economy*, 2004

Levitsky, Steven, and Way, Lucan, "The Rise of Competitive Authoritarianism," *Journal of Democracy* 13 (2), 2002, 51-65

Marcus-Delgado, Jane, and Tanaka, Martin, *Lecciones del Final del Fujimorismo*, Lima, Instituto de Estudios Peruanos, 2001

Maskin, Eric, and Tirole, Jean, "The Politician and the Judge: Accountability in Government," *American Economic Review*, to appear

McMillan, John, and Zoido, Pablo, "Newmont in Peru," Stanford Graduate School of Business Case IB-51, February 2004

Meiklejohn, Alexander, *Political Freedom: The Constitutional Powers of the People*, New York, Harper, 1960 [first published 1948]

Michnik, Adam, "The Montesinos Virus," conference on "Civil Society Revisited," New School University, Nov. 2, 2000, <http://www.newschool.edu/centers/tcds/bul037.htm#bul3702>

Milgrom, Paul R., and Roberts, John, "The Economics of Modern Manufacturing: Technology, Strategy and Organization," *American Economic Review* 80, June 1990, 511-528

Moreno Ocampo, Luis, "Power Networks and Institutions in Latin America," presented at the Stanford Institute for International Studies workshop on corruption, January 2003

Persson, Torsten, Roland, Gerard, and Tabellini, Guido, "Separation of Powers and Political Accountability," *Quarterly Journal of Economics* 112 (4), Nov. 1997, 1163-1202

Pollarolo, Pierina, "Country Report on the National Integrity System in Peru," Transparency International, November 2001, [http://www.transparency.org/tilac/indices/estudios/dnld/estudio\\_integridad\\_peru.pdf](http://www.transparency.org/tilac/indices/estudios/dnld/estudio_integridad_peru.pdf)

Przeworski, Adam, Alvarez, Michael E., Cheibub, José Antonio, and Limongi, Fernando, *Democracy and Development*, Cambridge, Cambridge University Press, 2000

Rospigliosi, Fernando. *Montesinos y las fuerzas armadas: Cómo controló durante una década las instituciones militares*. Instituto de Estudios Peruanos (2000), Lima, Peru.

Schmidt, Corinne, *Press, Power, and Politics: Peru 2000*, Arlington, VA, Freedom Forum, 2001

Stole, Lars A., and Zwiebel, Jeffrey, "Intra-Firm Bargaining under Non-Binding Contracts," *Review of Economic Studies* 63 (3), July 1996, 375-410

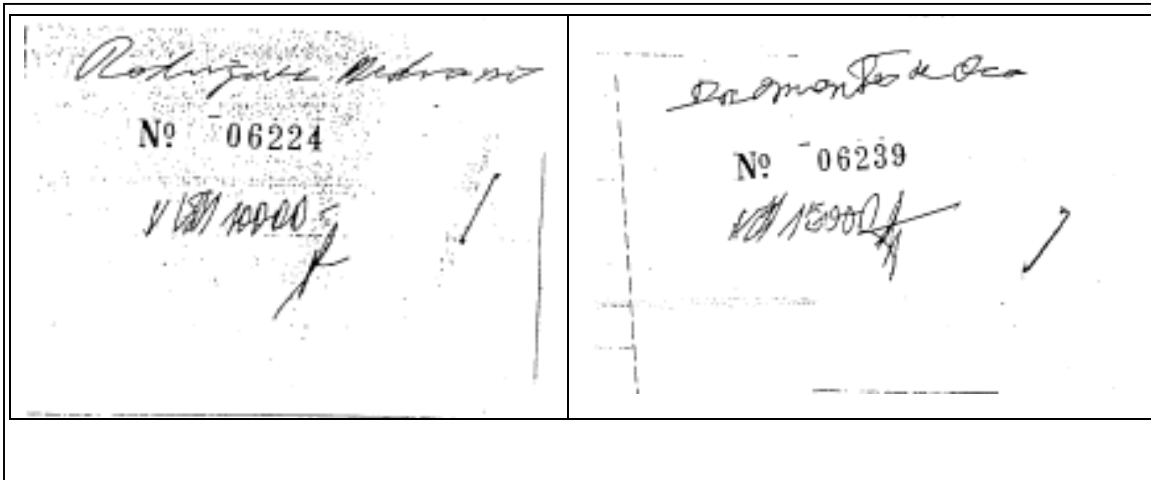
Weingast, Barry R., "The Political Foundations of Democracy and the Rule of Law," *American Political Science Review* 91 (2), June 1997, 245-63

World Bank, *Peru Institutional Governance Review*, 2001a

[http://www.worldbank.org/wbi/governance/peru/pdf/peru\\_gov\\_corr\\_econ.pdf](http://www.worldbank.org/wbi/governance/peru/pdf/peru_gov_corr_econ.pdf)

World Bank, “Voices of the Misgoverned and Misruled: An Empirical Diagnostic Study on Governance, Rule of Law and Corruption for Peru,” 2001b

**Figure 1: Bribe receipts**



These are typical receipts demanded by Montesinos. Left: a Supreme Court justice acknowledges being paid US\$10,000. Right: a member of the National Electoral Board acknowledges being paid US\$15,000.

**Figure 2: Counting out a bribe**



Montesinos counting out \$1.5 million for José Francisco Crousillat, the vice president of América Televisión, Channel 4. (From a vladivideo.)

Source: Peruvian Congress, El Heraldo, Photo Archive

**Table 1**

**Money Contributed To The SIN By Other Public Agencies**

(in millions of US dollars)

(Presented by Colonel Jose Villalobos Candela during his deposition on October 19, 2002 to the investigative congressional commission.)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
<b>Ministry of Interior</b>		3.0	2.7	2.7	2.4	2.3	2.0	1.8	1.4	18.4
<b>Ministry of Defense</b>	4.4	6.0	4.4	4.3	3.9	3.6	3.3	2.8	7.7	40.4
<b>Peruvian Marines</b>			0.3							0.3
<b>Peruvian Air Force</b>			0.3							0.3
<b>Peruvian Army</b>			0.5	1.3	1.1	1.4	1.8	1.0		7.2
<b>TOTAL</b>	4.4	9.1	8.2	8.2	7.4	7.3	7.1	5.6	9.1	66.5

Source: Informe Final de la Subcomision Investigadora de la Denuncia Constitucional No. 6 available at: <http://www.congreso.gob.pe/congresista/2001/destrada/denuncias/denuncia-6.pdf>.

**Table 2: Political Capture**

<b>Those who changed their party for Peru 2000 (Fujimori's party)</b>			
<b>Name</b>	<b>Party (Presidential candidate)</b>	<b>Bribe (monthly)</b>	<b>Favors</b>
José Luis Cáceres Velásquez	FREPAP (Ataucusi)	\$20,000	(?)+\$50,000 (one-time) +\$100,000 (one-time) +Judicial favors
Róger Cáceres Pérez	FREPAP (Ataucusi)	\$20,000	
Ruby Rodríguez de Aguilar	APRA (Salinas)	\$50,000	Judicial favors for her husband
Jorge Polack Merel	PSN (Castañeda)	(??)	Vice President of the Foreign Relations Commission in Congress
Juan Carlos Miguel Mendoza del Solar	PSN (Castañeda)	\$10,000	
Gregorio Ticona Gómez	PP (Toledo)	\$10,000	\$15,000 (signing bonus) +\$20,000 (car) +\$3,000 (apartment). Land deal in Titicaca Lake that would insure his reelection
José Luis Elías Ávalos	A (Salas)	\$15,000	+\$40,000 ("campaign reimbursement") +\$60,000 (continue campaigning)
Antonio Palomo Orefice	PP (Toledo)	\$20,000	
Mario Gonzáles Inga	PP (Toledo)	\$20,000	
Alberto Kouri	PP (Toledo)	\$15,000	
Edilberto Canales Pillaca	PP (Toledo)		Judicial favors
Eduardo Farah	PSN (Castañeda)		
<b>Those who did not change their party (informants or moles)</b>			
Jorjue D'Acunha Cuervas	PP (Toledo)	\$10,000	
Waldo Enrique Ríos Salcedo	FIM (Olivera)		\$10,000 (one time payment) +Judicial help with the National Electoral Board
Maria del Milagro Huamán	PP (Toledo)	\$30,000	
José León Luna Gálvez	PSN (Castañeda)	\$7,000	
Guido Pennano Allison	FIM (Olivera)	\$15,000	(\$30,000 Pinchi) +\$20,000 (car)
<b>Members of Fujimori's party</b>			
Rolando Reátegui	P00	\$3,000	
Luz Salgado	P00	\$20,000	
Carmen Lozada de Gamboa	P00	\$20,000	
Manuel Vara Ochoa	P00	\$20,000	
Martha Chavez Cossío de Ocampo	P00	\$20,000	
Sobero Taira	P00	\$20,000	
<b>Members of the executive</b>			
Victor Joy Way	Prime Minister	\$10,000	
Federico Salas	Prime Minister	\$30,000	
Alberto Bustamante	Minister of Justice	\$5,000	

Sources: Informe Final de la Subcomisión Investigadora de la Denuncia Constitucional No. 6, at:

<http://www.congreso.gob.pe/congresista/2001/destrada/denuncias/denuncia-6.pdf>, Public deposition of Montesinos before this commission, at: [http://www.agenciaperu.com/actualidad/2002/ene/vladi\\_com\\_estrada.htm](http://www.agenciaperu.com/actualidad/2002/ene/vladi_com_estrada.htm), The transcript of the first video, where Montesinos hands \$15,000 to Kouri is at La República, 15 September 2000, The source of Federico Salas confession is *El Comercio*, at: [http://www.elcomercio.com.pe/ecespe/html/montesinos/montesinos\\_archivo1.html](http://www.elcomercio.com.pe/ecespe/html/montesinos/montesinos_archivo1.html)

Notes: Party affiliations are Frente Popular Agrícola del Perú (FREPAP), Partido Aprista (APRA), Perú Posible (PP), Avancemos (A), Frente Independiente Moralizador (FIM), Partido Solidaridad Nacional (PSN), Perú 2000 (P00). Payments are monthly unless otherwise stated.

(?) The source of this number is Matilde Pinchi Pinchi, Montesinos's bookkeeper, not Montesinos.

(??) Pinchi also claims that Polack received three payments on the amounts of \$80,000, \$250,000, and \$160,000. When Montesinos was asked about this, he did not deny it but asked to be allowed not to talk about it in public because it concerned a "private matter."

**Table 3: Judicial Capture**

<b>Position</b>	<b>Name</b>	<b>Bribe Data (Bresani)</b>	<b>Bribe Receipts</b>
General Manager of the Judicial Power	Ricardo Mendoza Torres (Montesinos' cousin)	\$55,000	\$10,000 +\$5,000 +\$10,000 +\$10,000
Justice in the National Elections Board	Alipio Montes de Oca	\$50,000	\$15,000 +\$10,000
Justice in the National Elections Board	Luis Serpa Segura	\$45,000	\$10,000 +\$10,000 +\$10,000
President of the Supreme Court	Victor Raul Castillo Castillo	\$35,000	\$10,000
Supreme Justice	Luis Ortiz Bernardini	\$25,000	\$10,000
President of the Superior Court	Pedro Infantes Mandujano	\$24,000	\$5,000 +\$3,000 +\$3,000
Superior Justice	Raul Lorenzzi Goicochea	\$25,000	
Justice in the Appeals Court	William Paco Castillo Castillo	\$16,000	\$10,000
Supreme Justice, Provisional	Alejandro Rodriguez Medrano	\$10,000	\$5,000 +\$5,000 +\$10,000
Supreme Justice	Carlos Saponara Miligan	\$10,000	\$5,000 +\$5,000
Superior Justice in a local Court	Daniel Bedrinana Garcia	\$2,500	
Judge	Percy Escobar Lino	\$10,000	\$5,000 +\$5,000
Judge	Fernando Aguirre Infante	\$10,000	
Judge	Manuel Ruiz Cueto	\$6,000	
Judge	William Ardiles Campos	\$3,000	
Judge	Victor Martinez Candela	\$3,000	
Judge	Sonia Pineda	\$2,500	
Judge	Alminda Lopez Pizarro	\$2,500	
Judge	Willy Herrera Casina	\$2,500	
Judge	Nicolas Trujillo López (Ivcher case)		\$5,000
President of the Public Law Court	Sixto Muñoz Sarmiento (Lucchetti and Ivcher cases)		\$3,000 +\$3,000

**Others involved but without data on bribes:**

Supreme Court Justices: Orestes Castellares Camac, Eliana Salinas de Alencastre, Jorge Gonzales Campos, Arturo Chocano Polanco, Jose Pariona Pastrana, Caslos Alarcon del Portal, Wilber Villafuerte Mogollon, Juan Quespe Alcalá, Luis Castro Reyes, Carlos Henriquez Clfer, Juan Miguel Ramos Lorenzo.

Judges: Segundo Sarria Carbajo, Carlos Alcantara Perez, Karina Sanchez Alarcon, Ricardo Nunez Espinoza, Arturo Vilchez Requejo, Jose Rios Olson.

*Source:* Bresani (2003) and author calculations. The list of the others' involved come from Bresani (2003) and has been confirmed by several journalistic reports.

*Note:* The data in the first column of bribes are from Bresani (2003). The second column of bribe data is from a set of receipts like those in Figure 1 that we collected from journalistic sources in Peru. From the information available, the frequency of these payments is unclear. It is probable that the data in Bresani (2003) aggregate the receipts, but Bresani gives no reference for these data.

**Table 4: Media Capture**

<b>TV Channels</b>	<b>Bribe Estimates</b>
<b>America Television</b> (Channel 4) Jose Francisco Crousillat	<b>\$9,000,000</b> in a signed contract for \$1,500,000 per month from November 1999 to April 2000, possibly more (C) <b>\$619,000</b> in October 1998, promised more monthly payments (C) (BH)
<b>Frecuencia Latina</b> (Channel 2) Samuel and Mendel Winter (owners after Baruch Ivcher exiled)	<b>\$3,000,000</b> in a signed contract for \$500,000 per month from November 1999 to April 2000, possibly more (R) <b>\$3,073,407</b> on December 1999 for an increase of capital that gave 27% of shares to Montesinos (R)
<b>PanamERICAN Television</b> (Channel 5) Manuel Delgado Parker (brother of Genaro) and Ernest Schutz (shareholders)	<b>\$9,000,000</b> contract agreed by Shutz and Montesinos on video 1783. In total Montesinos claims he handed \$10,600,000 to Schutz (BH) <b>\$350,000</b> handed by Montesinos to Shutz, video screened by congress 10/02/01 (BH)
<b>Cable Canal De Noticias CCN</b> (Cable Channel Network) Vicente Silva Checa (Video 1778)	<b>\$2,000,000</b> for his shares in the CCN to the Ministry of Defense in November 1999 (C)
<b>Andina de Television (ATV)</b> (Channel 9) Julio Vera	<b>\$50,000</b> to fire Cecilia Valenzuela and Luis Iberico (C)
<b>Red Global</b> (Channel 13) Genaro Delgado Parker (brother of Manuel)	In exchange business help and judicial favors, Delgado Parker fired popular commentator Cesar Hidelbrandt (C)

<b>Print Media</b>	<b>Bribe Estimates</b>
<b>Expreso</b> (mainstream newspaper) Eduardo Calmell del Solar (director and stockholder)	<b>\$1,000,000</b> in two installments, to buy shares in the newspaper (C) and videos 1492, 1736, 1753
<b>El Tío</b> , (Chicha/popular press) Jose Olaya Correa (owner and director)	<b>\$1,500,000</b> between 1998 and 2000 (C) <b>\$3,000-\$4,000</b> per headline, <b>\$5,000</b> for full coverage inside, <b>\$500</b> for smaller stories (C)
<b>La Chuchi</b> (Chicha/popular press) Oliveri and Estenos (owners).	<b>\$8,000</b> weekly, same press house as El Mañanero, Editora Americana) (B)
<b>El Chato</b> , Rafael Document (founder) and Ruben Gamarra (director) out	<b>\$1,000</b> each time it comes, small circulation, only comes out two to three days a week. (B)

<b>Media Not Captured</b>	<b>Newspapers:</b> <i>La República and El Comercio</i> <b>Magazine:</b> <i>Caretas</i> <b>Cable News TV Channel:</b> <i>Canal N (owned by El Comercio)</i>
---------------------------	--

<b>State-Owned Media</b>	<b>Newspaper:</b> El Peruano <b>TV Channel:</b> Televisión Nacional Peruana <b>Radio Station:</b> Radio Nacional
--------------------------	--

Sources: (B) Bresani (2003), (BH) Bowen and Holligan (2003), (C) Conaghan (2002), (R) La República Feb 24. 2001.

## Appendix 1: Example of a *Compromiso de Honor*

### COMMITMENT OF HONOR

The subscriber of this document GONZALEZ INGA, Mario, elected as Congressman of the Republic in the recent General Elections; with the present document renounces irrevocably being part of the Political Group “PERU POSIBLE”, in which list I participated as a candidate; and therein I recover my political independence, committing to support the political group “PERU 2000,” which I join for the five years of duration of my congressional duties, for which I will act in close collaboration with the bearer of this document, from whom I will directly receive instructions about these particulars.

In faith of which and as an expression of the Commitment of Honor that I voluntarily assume as of now, I subscribe in the city of Lima, the twenty second day of April of the year 2000.

MARIO GONZALEZ INGA

*Source:* Informe Final de la Subcomision Investigadora de la Denuncia Constitucional No. 6, <http://www.congreso.gob.pe/congresista/2001/destrada/denuncias/denuncia-6.pdf>



## **Appendix 2: The contract between a television channel and Montesinos (denoted “the Contractor”)**

With the present document, the SERVICE PROVISION CONTRACT between one party, the “Compañía de Latinoamericana de Radio Difusion SA” (CHANNEL 2, FRECUENCIA LATINA), represented by its president and vice-president, Mr. Mendel Winter Zuzunaga and Samuel Winter Zuzunaga, who will be referred herein for the effects of this contract only as “the Channel;” and the other party, “the Contractor.” For reasons of strict confidentiality and with express consent from the Channel, the name and address of the Contractor are not specified; this does not however nullify the legal value of this document, in which the following terms and conditions are approved:

FIRST: The object of the present contract is to establish the rules according to which the Channel binds itself voluntarily to comply with the obligations specified in the fourth clause of this contract for the duration of its validity.

SECOND: To correspond what was established in the later clause the Channel will receive monthly and in advance from the Contractor the amount of FIVE HUNDRED THOUSAND AMERICAN DOLLARS (US\$500,000), an amount that will be delivered within four workdays of the end of each month and for which a receipt will be signed, with exception of the first monthly payment, to be paid when this contract is signed.

THIRD: The present contract will be valid from the date of this document and it will end on 9 April, 2000, and it could be renewed with common agreement of the parties, in which case the rules that guide it will be establish at that time.

FOURTH: The duties of the Channel from the moment this contract is valid are:

- Not to admit nor pass any political propaganda direct or indirectly, unless the Contractor so asks.
- Not to broadcast any political advertisement of any sort from the presidential candidates, the Congress, or any other public office for the 2000 campaign, unless the Contractor so requests explicitly.
- Not to promote directly or indirectly the image of any political group, party, or political movement nor of its leaders or representatives, without the written approval of the Contractor.
- Not to broadcast any interview, debates, or reports from presidential candidates and/or congressional candidates without the written approval of the Contractor.
- Not to show any other program whose contents refer explicitly or implicitly to political issues without these being accepted and/or approved by the Contractor
- To schedule news programs at their usual time from Monday to Saturday; content and headlines will be coordinated and approved by the Contractor.
- To review daily with the Contractor the contents of all headlines and all news programs before they air at the national level, to incorporate the observations that the Contractor may deem necessary and also to include the themes that he might decide for those news programs.

- To give the Contractor the necessary time to develop the contents and headlines for the Sunday program “Contra Punto,” the execution of which the Channel is charged with.
- To be responsible for any declarations that its staff makes through other news media, television channels, or radio stations, that are not in accordance with the spirit of this contract.
- To meet the Contractor as many times as necessary to coordinate the fulfillment of what is established in this contract.

FIFTH: The duties of the Contractor are:

- To fulfill dutifully the payments here agreed.
- To coordinate with the Channel the review of all news programs and the Sunday program “Contra Punto.”
- To do whatever else is necessary.

SIXTH: As a warranty, the Channel will sign a letter of credit to the bearer for the monthly amount that they receive with a date of expiration of 30 days. Once this monthly payment is cancelled, it will be burned and renewed with a new one in the same conditions until the end of this contract.

SEVENTH: Failure to comply with any of these clauses will lead to the following punishments:

- The Contractor will pay the Channel 1 percent of the monthly payment each day payment is late, until the first seven days, after which this will increase to 5 percent until its cancellation.
- If the Channel fails to act as is agreed here, the Contractor may through written or verbal communication request that corrective action be taken. In the event that the failure is repeated, the Contractor will be permitted to resolve the contract without the Channel having any right to complain in any way.

EIGHTH: The Contractor may at any point in the duration of this contract veto the participation of any commentator or journalist in the Channel.

NINTH: The parties, in accordance with what is agreed here, sign this contract, in a single copy that will be held by the Contractor.

In Lima, November 6, 1999.

*Source: La República, February 24, 2001*