# Do Civil Liberties Matter for State Capture? Evidence from Latin America 1996-2017

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## Abstract

This study explores the impact of civil liberties on state capture. It employs a mixed effects regression model using a novel dataset for the years 1996-2017 where time serves as the level 1 units and countries as the level 2 units. The study tests two main hypotheses: 1) As civil liberties increase in a country, state capture will correspondingly decrease; 2) Latin American countries in the mid-range of civil liberties will experience the highest levels of state capture overall relative to countries with either low and or high levels of civil liberties. The results demonstrate that as civil liberties increase, we may not see a corresponding decrease in state capture

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which is contrary to the prevailing literature on the importance of a strong civil society and civil liberties for inhibiting corruption and state capture. However, this study has definitively shown that countries in the mid-range of civil liberties relative to countries with low and or high levels of civil liberties, will experience greater amounts of state capture. Overall, the findings of this study present a significant contribution to the field and help us to generalize the true impact of civil liberties on state capture to other regions of the world.

**Keywords:** Civil Liberties; Civil Society; Corruption; Latin America; State Capture

### *Résumé*

Cette étude explore l'impact des libertés civiles sur la capture de l'État. Elle utilise un modèle de régression à effets mixtes à l'aide d'un nouvel ensemble de données pour les années 1996-2017, où le temps sert d'unité de niveau 1 et les pays d'unités de niveau 2. L'étude teste deux hypothèses principales : 1) Plus les libertés civiles augmentent dans un pays, plus la capture de l'État diminue ; 2) Les pays d'Amérique latine se situant dans la moyenne des libertés civiles connaîtront les niveaux les plus élevés de capture de l'État dans l'ensemble par rapport aux pays ayant des niveaux de libertés civiles faibles ou élevés. Les résultats démontrent qu'à mesure que les libertés civiles augmentent, il se peut que la capture de l'État ne diminue pas en conséquence, ce qui est contraire à la littérature dominante sur l'importance d'une société civile forte et des libertés civiles pour inhiber la corruption et la capture de l'État. Cependant, cette étude a définitivement montré que les pays se situant dans la moyenne des libertés civiles par rapport aux pays ayant des niveaux faibles ou élevés de libertés civiles, connaîtront une plus grande capture de l'État. Dans l'ensemble, les résultats de cette étude apportent une contribution significative au domaine et nous aident à généraliser l'impact réel des libertés civiles sur la capture de l'État dans d'autres régions du monde.

Mots-clés : Libertés civiles ; Société civile ; Corruption ; Amérique latine ; Capture de l'État

State capture, defined as the systematic shaping of the rules of the game by private sector actors through illicit and non-transparent payments to public officials, represents a grand form of corruption (Hellman et al., 2000, p. 2). Distinguished from petty corruption, such as bribes to evade minor offenses or rent-seeking behavior by public sector bureaucrats (Hellman, Jones, & Kaufmann, 2000), state capture has thrived in the post-Cold War era with the globalization of markets and economies (Ouzounov, 2003; Ackerman & Palifka, 2016).

In Latin America, the fall of mixed economies and the transition from authoritarian rule in the 1980s raised hopes for democratic consolidation and improved governance in the region. Democracy and democratic institutions are often associated with higher growth and lower corruption compared to countries with deficient democratic systems (Aidt, Dutta, and Sena, 2008). However, the reality did not align with these expectations, particularly regarding corruption. Scholars like Weyland (1998) and Morris (2006) observed a growing perception that corruption was on the rise in Latin America, prompting a renewed focus on combating political corruption by various stakeholders, including voters, politicians, social institutions, and international organizations. This shift underscored the recognition of corruption as a direct threat to democracy in the region. The persistence of corruption despite the process of democratization raises a crucial question: why haven't the institutional configurations of democracy effectively reduced corruption and state capture in Latin America? This inquiry highlights the need for a deeper understanding of the factors contributing to corruption dynamics in the region (Lederman and Loayza, 2005).

To understand the drivers of pervasive corruption and state capture in Latin America, it is crucial to examine the factors that go beyond the influence of democracy alone. One factor that has garnered attention in addressing corruption and state capture is the role of a strong and robust civil society, which safeguards civil liberties. The impact of civil liberties on inhibiting state capture has gained prominence, although the evidence on its specific impact remains incomplete. There is substantial variation in the strength of civil society and the corresponding levels of civil liberties and state capture across Latin American countries. Figure 1 illustrates this

variation, depicting a 2-panel plot showcasing state capture over time in the left panel derived from the Control of Corruption index from the World Bank and civil society strength derived from the Varieties of Democracy Dataset (used as a proxy for civil liberties) over time in the right panel for a random sample of six Latin American countries with distinct regime types. Notably, the left-panel plot reveals a dilemma in which Cuba, an authoritarian state, exhibits lower levels of state capture on a 0-5 scale (least to highest) compared to Peru and Honduras, both democracies albeit weak ones. This paradox warrants scrutiny to better understand the complex relationship between civil liberties, state capture, and the influence of different regime types.

**Figure 1**

*State Capture and Civil Society over Time*
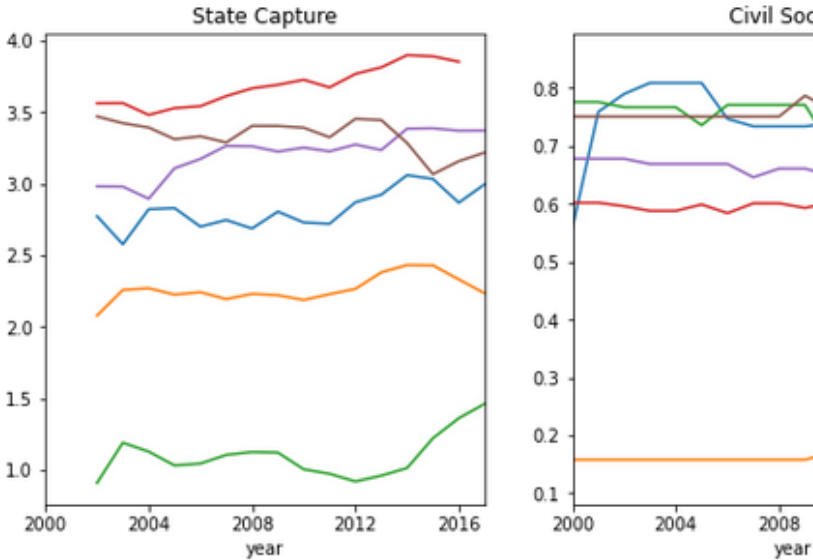
Continuing with the focus on Figure 1, we turn to the right panel that illustrates the plot of civil society strength over time on a scale from 0 to 1 (low to high). Here, another dilemma becomes apparent. When comparing Cuba to Honduras and Peru, Cuba consistently exhibits a significantly lower level of civil society strength, which aligns with its authoritarian regime, while both Honduras and Peru, as democracies, generally have stronger civil societies. However, it is puzzling that despite its weaker civil society, Cuba experiences lower levels of state capture compared to the other two countries. One would expect that countries with stronger civil societies and resultant civil liberties would have lower levels of state capture and corruption over time, as they offer greater transparency, accountability, and the ability to express dissent. Figure 1 challenges this assumption. Moreover, the plot indicates that countries in the mid-range of civil society strength, such as Venezuela and Nicaragua, with values between 0.3 and 0.7 on the scale, exhibit the highest levels of state capture, as depicted in the left panel of Figure 1. Hence, it becomes

evident that civil society strength and the resulting civil liberties make a difference in state capture dynamics. However, a deeper analysis is necessary to fully understand their impact. The existing literature also presents conflicting views. Crabtree (2020) argues that in Peru, business actors have gained power at the expense of a politically active civil society, suggesting that a weak civil society enables mechanisms of state capture. Conversely, Hellman et al. (2000) propose that the impact of civil society strength on state capture is most pronounced in the mid-level range, where civil liberties are in a state of flux. Thus, it is imperative to thoroughly investigate the true effects of civil liberties on state capture, which is the objective of this paper.

This study makes several significant contributions to our understanding of *state capture* in Latin America. For one, by highlighting the crucial role of the mid-range of *civil liberties* where civil liberties are neither necessarily weak nor strong, the findings demonstrate that countries experiencing a mid-range level of *civil liberties* are particularly vulnerable to higher levels of *state capture* compared to countries with either high or low levels of *civil liberties*. This supports and extends the findings of Hellman et al. (2000) in the Eastern European region to Latin America.

Finally, this paper also makes a methodological contribution by employing a mixed effects regression model with a random intercept. This approach allows for the inclusion of country-level variation by assigning each country its own intercept, capturing unobserved heterogeneity that may influence *state capture* dynamics. By utilizing this model, the study provides a robust framework to analyze the relationship between *civil liberties* and *state capture* in Latin America, while also offering the ability to generalize the findings across the region. This methodological advancement is particularly significant considering the limited availability of quantitative research on *state capture* in Latin America to date.

The remainder of the paper is structured as follows: First, I provide a background on the relationship between civil society, civil liberties, and state capture in Latin America from the 1990s to the present. The subsequent section presents a comprehensive literature review on the determinants of corruption and state capture. I then focus on

the independent variable, civil liberties, and its significance in relation to state capture, including the derivation of hypotheses. Following that, I describe the data and methods employed to test my argument. The empirical analysis and results are presented in the subsequent section, followed by a discussion of robustness checks. Finally, I offer concluding remarks on the impact of civil liberties on state capture and provide suggestions for future research.

### Background: Civil Society Strength, Civil Liberties, and State Capture in Latin America

Latin America, comprising diverse countries with unique historical and socio-political contexts, has witnessed varying degrees of success in promoting and protecting civil liberties. For instance, countries like Uruguay and Costa Rica have established robust democratic systems that prioritize civil liberties and human rights, while others have grappled with authoritarian regimes, social inequalities, and systemic corruption. It is within this complex landscape that the relationship between civil liberties and state capture in Latin America emerges.

Several studies have explored the positive correlation between the strength of civil society and the protection of civil liberties in the region (Durand 2019; Crabtree 2020). A vibrant and autonomous civil society acts as a crucial check on state power, advocating for the rights of citizens and holding governments accountable for their actions. It fosters an environment where individuals and organizations can freely express their opinions, mobilize for collective action, and participate in shaping public policies (Crabtree, 2020).

However, the prevalence of state capture poses significant challenges to the protection and exercise of civil liberties in Latin America. State capture undermines democratic governance by co-opting state institutions, eroding the separation of powers, and subverting the rule of law (Durand, 2019). It enables a small elite to manipulate political processes, control public resources, and undermine the functioning of civil society. As a result, civil liberties are threatened, as dissent is suppressed, freedom of expression is curtailed, and the ability of civil society to advocate for human rights, social, and economic justice is weakened (Hellman et al., 2000).

To further understand the relationship between civil liberties and state capture in Latin America, it is crucial to examine the contextual factors that have shaped the region's political landscape. The 1990s marked a period of significant political transitions and economic reforms, as many Latin American countries embraced market-oriented policies and embarked on democratic transitions. These changes brought hopes for greater respect for civil liberties and human rights, but they also created new challenges, such as increasing inequalities, weak institutional frameworks, and the persistence of systemic corruption (Schneider and Soskice, 2009; Fukayama 2008).

Moreover, the present day is characterized by a growing awareness and demand for greater transparency, accountability, and inclusive governance across the region. Civil society organizations and grassroots movements have played pivotal roles in exposing corruption scandals, advocating for reforms, and mobilizing citizens to actively participate in democratic processes (Smulovitz and Peruzzotti, 2000). However, the struggle against state capture and the protection of civil liberties remains ongoing, as new challenges emerge and authoritarian tendencies resurface in some countries (Hunter and Power 2019; Meléndez-Sánchez 2021).

By delving into the contextual dimensions of the relationship between civil liberties and state capture in Latin America, this study aims to shed light on the intricate dynamics that have influenced the region's democratic development. The findings will contribute to a deeper understanding of the role of civil society and resultant civil liberties on state capture, and the challenges posed by state capture in Latin America.

## Literature Review
### State capture
Scholars, such as David-Barrett (2021, 2023), have made significant strides in understanding state capture and its mechanisms. A formative contribution by Hellman et al. (2000) sheds light on how state capture operates. They argue that in capture economies, formidable barriers to entry persist, favoring incumbent domestic firms. In this context, captor firms resort to illicit practices, including

bribery, to gain market access (Hellman, Jones, and Schankerman, 1999). Consequently, they effectively purchase private property protection from the state, perpetuating an environment of uncertain property rights and fluctuating rules. Certain businesses enjoy privileged treatment, such as preferential government contracts and licenses, while others struggle to operate legitimately, free from corruption and state capture. This captor environment hinders economic development and exacerbates inequalities, granting disproportionate power and wealth to the few at the expense of the majority. Silencing the voices of the majority, it perpetuates skewed policies that serve entrenched interests. Recognizing the urgency of addressing this issue, we must continuously explore novel variables and employ innovative methodologies to uncover the causal mechanisms of state capture. By doing so, we can empower citizens living under captor economies and provide policymakers with valuable insights to prevent state capture and foster inclusive economic livelihoods.

One such variable is civil liberties which serves as a crucial variable in inhibiting acts of corruption and state capture. The impact of civil liberties on state capture exhibits variation over time and space. Civil liberties, in this study, specifically refer to the extent of freedoms and rights enjoyed by individuals within a country. Strong civil liberties are only achievable when accompanied by a robust civil society that safeguards and promotes these liberties. Therefore, civil liberties are operationalized as the variable used in this study to test the argument.

**Civil Society, Civil Liberties, and State Capture**
Civil liberties play a crucial role in challenging the entrenched privileges of groups, such as the landed elites, that have historically held power over Latin American political economies. During transitions to democracy in the region, scholars like O'Donnell and Schmitter (1986) emphasize the importance of a vibrant civil society to counteract autocratic interests, a view shared by Acemoglu and Robinson (2006). Bratton and Walle (1992) and Bunce, McFaul, and Stoner-Weiss (2010) support this notion, highlighting the significance of a strong and independent civil society for opposition leaders to pose a credible threat to entrenched elites. However, caution is necessary, as autocratic and populist actors, like Rafael Correa in

Ecuador, have been adept at dismantling civil society and curtailing civil liberties to consolidate their power (Bermeo, 2016; De la Torre, 2018). Therefore, it is vital for society to remain vigilant and protect the rights of all individuals against attempts to undermine them.

The salience of a contentious political environment, as stated by Burmeo (1997), highlights the role of civil society in challenging entrenched interests and fostering democratization. However, a weak civil society, constrained private sector, and impoverished civil liberties contribute to the perpetuation of autocratic governments and the interests they serve. Cameron (2020) underscores how a feeble civil society enables powerful economic elites to corrupt public institutions in their favor. Conversely, Levitsky et al. (2010) and Hellman et al. (2000) argue that strengthening civil society raises the costs of repression and state capture, aligning with Burmeo's contention. On the contrary, March (2017) posits that without a strong civil society and robust civil liberties, democratization efforts often falter, leaving entrenched interests in privileged positions. Levitsky and Way (2010) find that authoritarianism prevails when civil society is weak and state institutions lack robustness. Fortunately, a strong civil society can overcome these barriers (Rivero, 2018; Bunce & Wolchik, 2011). However, in Nicaragua, the absence of a strong civil society severely hindered equitable economic growth and development, with corruption thriving under President Daniel Ortega. Diamond (2020) attributes Ortega's ability to dismantle civil society and suppress civil liberties to his ability to keep the business community and investors satisfied, allowing business to continue unaffected. In Mexico, Guerrero (2010) also observes similar instances of state capture facilitated by strong, organized economic actors in the presence of a weak civil society.

Durand (2019) emphasizes the exponential growth of corporate power in Latin America, leading to significant power imbalances and questioning the foundations of democracy. The lack of a robust civil society has allowed unchecked collusion between economic and political elites, resulting in the re-entrenchment of interests favoring economic elites at the expense of other societal groups. Durand (2019) argues that economic elites are capturing the state, reinforcing oligarchy and preventing radical change. Riggirozzi (2015) and Chodor (2021) suggest that civil society in Latin America

often lacks significant impact, with invited actors participating through consultations and lobby mechanisms rather than having effective decision-making power. Visser and Kalb (2010) caution that civil society can become captured by specific interests. Moreover, Latin American social groups face the challenge of overcoming deep-rooted issues such as patrimonialism, patronage, corruption, and abuse of power. To ensure state capture is prevented, it is crucial to neutralize corporate influence and strengthen civil society and its corresponding civil liberties. Durand (2019) notes that corporate state capture is most prominent in countries where political and economic liberalism are at their peaks, weakening the state and civil society while sustaining a fragile democracy. Overcoming state capture requires the collective efforts of corporate players, government actors, and civil society (Ouzounov, 2003). In summary, civil society plays a vital role in preventing state capture by safeguarding strong civil liberties.

Thus, the undermining of civil society in Latin America is contributing to the rise of state capture by corporate actors (Durand, 2019). A weakened civil society, lacking resources and cohesion, hampers the ability of people to voice their concerns and participate in shaping economic policies. Understanding state capture requires examining the state of civil society and its implications for elite actions. Activated civil society has the potential to challenge the power asymmetry imposed by elites, allowing citizens to exercise their civil liberties, express discontent, and resist oppressive dynamics. Over time, civil society organizations can effectively oppose and demand accountability from both economic and political elites (Durand, 2019). However, the opacity and pervasive elite power in Latin American countries present significant challenges for civil society in dismantling the unchecked influence of corporate actors.

With all of this said, the importance of civil society strength for state capture becomes evident when considering the extent of civil liberties, as highlighted by Hellman, Jones, and Kaufmann (2000). According to their findings, countries with low levels of civil liberties have limited state capture due to strong state control over the economy. Conversely, countries with robust civil liberties and an active civil society exhibit minimal state capture as civil society acts as a safeguard. However, state capture thrives in environments of

partial political and economic liberalization, characterized by moderate levels of civil liberties. While Hellman et al. (2000) focused on Eastern European countries, their insights can be extended to the Latin American region. Based on the descriptive analysis conducted in the introduction, the background provided clarifying the causal links between civil liberties and state capture, and the literature review, Latin American countries with higher levels of civil liberties experience less state capture compared to those with lower levels. However, countries in the mid-range of civil liberties in Latin America are likely to experience the highest levels of state capture. I test two core hypotheses derived from these observations.

**H1:** The greater the level of civil liberties in a given country in Latin America – the less state capture there will be overall.
**H2:** Countries in Latin America that have a mid-level range of civil liberties experience greater state capture overall relative to countries that have an extremely weak level of civil liberties and or a strong/robust level of civil liberties.

## Methodology

**Variables**
### Civil Liberties
The measurement of civil liberties in this study relies on the widely recognized and reputable assessment provided by Freedom House, an independent organization dedicated to the promotion and protection of democracy and human rights worldwide (Freedom House, 2023). Freedom House employs a systematic methodology to evaluate civil liberties which includes various indicators and qualitative assessments to assign a numerical score to each country.

Freedom House's methodology for measuring civil liberties involves assessing the extent to which individuals can exercise their political and civil rights in each country (Freedom House, 2023). This includes evaluating factors such as freedom of expression, assembly, and association, as well as the independence and effectiveness of the judiciary, respect for the rule of law, and the presence of restrictions or infringements on individual liberties. The assessment process involves gathering information from diverse sources, including local and international experts, human rights organizations, media reports, and legal documents.

To provide a standardized measure, Freedom House assigns scores ranging from 1 to 7 for civil liberties, with 1 representing the most severe restrictions and 7 signifying the highest level of protection and respect for civil liberties (Freedom House, 2023). In this study, for interpretability purposes, the values of the variable were reversed so that 1 corresponds to extremely weak/non-existent civil liberties and 7 corresponds to very strong civil liberties.

The utilization of Freedom House's measurement of civil liberties ensures the consistency and comparability of the data across different countries and time periods. It also benefits from the expertise and extensive research conducted by Freedom House in assessing the state of civil liberties globally. This approach provides a reliable and comprehensive measure of civil liberties, allowing for a more nuanced understanding of the relationship between civil liberties and state capture in Latin America.

### *Mid-Range Civil Liberties*

In addition to the variable measuring the overall level of civil liberties, I created a new variable called "mid-range civil liberties" for the purpose of testing hypothesis 2 in this study. This variable focuses specifically on country-year observations where the civil liberties score falls in the middle range, represented by a value of 4. By isolating this subset of observations, I examine the relationship between mid-range civil liberties and the extent of state capture in Latin American countries.

To create the mid-range civil liberties variable, I coded all country-year observations with a civil liberties score of 4 as 1, indicating the presence of mid-range civil liberties out of the original measure (a 1 to 7 scale). All other observations received a code of 0, signifying the absence of mid-range civil liberties. This coding strategy allows for a targeted analysis of countries situated in the middle range of civil liberties and their potential association with extreme levels of state capture.

This variable is used to test hypothesis 2, which suggests that countries in Latin America with mid-range civil liberties are more

likely to experience higher levels of state capture. By focusing on this specific subset, I aim to identify patterns or relationships that may exist between the middle range of civil liberties and the prevalence of state capture, shedding light on the dynamics at play within these countries.

Overall, the inclusion of the mid-range civil liberties variable provides a valuable lens through which to examine the hypothesis regarding the relationship between civil liberties and state capture in Latin America. By isolating the observations within the middle range of civil liberties, I seek to uncover potential nuances and variations in the impact of civil liberties on state capture, contributing to a more comprehensive understanding of this relationship.

### *State Capture*

The dependent variable in this study is *state capture,* which is derived from the Control of Corruption index provided by the World Bank. The Control of Corruption index measures the extent to which state institutions are prone to corruption and capture by powerful individuals or interest groups. Originally, the variable was scaled on a range from -2.5 to 2.5, with -2.5 representing the highest levels of state capture and 2.5 signifying the absence of state capture (WGI, 2022). To ensure the interpretability of results, I inverted the state capture variable, so that higher values on the index indicate higher levels of state capture. Subsequently, I transformed the variable to produce a scaled measure ranging from 0 to 5, where 0 represents low levels of state capture and 5 signifies high levels of state capture. I performed this transformation by adding 2.5 to every observation, converting the variable into positive integers for ease of analysis.

The Control of Corruption index formulated by the World Bank is a composite measure that combines various indicators and qualitative assessments to evaluate the presence and extent of corruption and state capture within a country. The index draws upon multiple data sources, including surveys, expert assessments, and other quantitative data related to corruption and governance. It accounts for factors such as bribery, embezzlement, favoritism, and the effectiveness of anti-corruption measures implemented by governments (WGI, 2022). The World Bank's methodology for

formulating the Control of Corruption index ensures a comprehensive assessment of state capture and corruption risks. The use of this widely recognized index for assessing state capture enhances the reliability and validity of the state capture variable used in my analysis (Aidt and Dutta, 2008; Aidt et al., 2008; Bagashka, 2014; Blake and Morris, 2009; Innes, 2014; Kaufmann, 2016; Meon and Weill, 2010).

### *Control Variables*

I use an extensive range of control variables, as suggested by the literature, to account for various political, economic, institutional, and social factors that are known to significantly influence state capture.

*Time.* To capture the temporal scope of the study from 1996 to 2017 and account for the observed increase in state capture and corruption in the Latin American region over time (Weyland, 1998; Durand, 2019), I include a time counter ranging from 1 to 22.

*Democracy.* Considering Latin America's historical challenges with weak democratization, the study recognizes that porous democratic systems create favorable conditions for state capture to thrive (Kupferschmidt, 2009). To account for the influence of democracy, I include the *v2x_polarchy* variable from the Varieties of Democracy dataset (Coppedge et al., 2022).

*Urban Population %.* I measure the level of urbanization in a country using the Urban Population % indicator, obtained from the World Development Indicators (World Bank, 2023). This indicator represents the percentage of a country's total population residing in urban areas and is expressed on a percentile scale from 0 to 100 (Korman, 2023).

*Economic Freedom.* The Economic Freedom Index, developed by the Heritage Foundation, is utilized to assess the level of economic freedom within countries (Heritage Foundation, 2023). This composite measure combines various indices that gauge factors such as business freedom and overall business friendliness. Prior research has shown a negative correlation between the openness of

an economy, as reflected in higher economic freedom scores, and the prevalence of corruption (Morris, 2004).

*Log GDPPC.* I employ *log GDPPC* (logarithm of Gross Domestic Product per capita) as an indicator of a country's economic prosperity. It measures the average economic output per person on a logarithmic scale. Previous research has indicated a negative relationship between the level of economic development, as captured by *log GDPPC*, and the occurrence of state capture. Higher levels of economic prosperity have been associated with lower levels of state capture, as countries with stronger economies tend to have more robust institutions, greater transparency, and reduced incentives for corruption (Korman, 2022).

**Methodology**

In this study, I examine the relationship between civil liberties and state capture in Latin American countries. The analysis includes a pooled time series cross-sectional dataset of 19 Latin American countries[22] from 1996 to 2017. The data for the dependent variable, *state capture*, is derived from the World Bank, while data for other explanatory variables (control variables) are obtained from the Heritage Foundation, Freedom House, and the Varieties of Democracy dataset. The study estimates a mixed effects model to account for temporal variation and handle missing values, providing a robust estimation technique (Hodges, 2013).

The main model focuses on the continuous and dummy variable form of civil liberties to estimate its effects on state capture and test Hypothesis 1 and 2 respectively. I chose to use a mixed effects model due to its suitability for analyzing continuous variables and

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[22] The 19 Latin American countries analyzed are the following: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela

temporal variation in the dataset. A mixed effects model addresses the limitations of missing values and allows for robust estimation compared to pooled time series regressions (Snijders and Bosker, 2012). The model includes additional control variables known to influence state capture, encompassing both continuous and dummy variables.

To address autocorrelation, I incorporate an AR(1) term into the mixed effects model. Additionally, I include a robustness check by excluding Cuba from the sample due to its extreme outlier status regarding civil society strength and civil liberties. This step ensures the robustness of the main results. The robustness check analysis is presented in Appendix A, with the total number of observations reduced from 359 to 339 after excluding Cuba.

Table 1 below showcases the descriptive statistics for the main model and its variables. Following is a discussion of the results.

**Table 1**

*Descriptive Statistics*

|  | Mean | Median | Standard Deviation | Range | Minimum | Maximum |
|---|---|---|---|---|---|---|
| *State Capture* | 2.77 | 2.92 | 0.69 | 2.99 | 0.90 | 3.89 |
| *Civil Liberties* | 4.99 | 5.0 | 1.29 | 6 | 1 | 7 |
| *Time* | 10.5 | 10.5 | 6.35 | 21 | 0 | 21 |
| *GDPPC* | 5274.78 | 4123.38 | 3808.16 | 18685.89 | 5 | 18690.89 |
| *Democracy* | 0.48 | 0.45 | 0.22 | 0.80 | 0.05 | 0.86 |
| *% Population Urban* | 70.88 | 72.58 | 13.59 | 51.79 | 43.44 | 95.24 |
| *Economic Freedom* | 60.10 | 61.8 | 10.78 | 52.3 | 26.7 | 79 |
|  |  |  |  |  |  |  |

## Results

To estimate the effects of the independent variables on state capture, I utilize a mixed effects model, incorporating both fixed effects and random intercept. The equation can be expressed as:

$$State\ Capture\ =$$

$$B_0 + B_1 * Civil\ Liberties + B_2 * Mid - Level\ Civil\ Liberties + B_3 * Time + B_4 * \log GDPPC + B_5 * Democracy + B_6 * \%\ Population\ Urban + B_7 * Economic\ Freedom + u + \varepsilon$$

Within this equation, "State Capture" represents the dependent variable. The β coefficients ($B_1, B_2, B_3, B_4, B_5, B_6, B_7$) denote the regression coefficients for each independent variable ($Civil\ Liberties$, $Mid - Level\ Civil\ Liberties$, $Time$, $\log GDPPC$, $Democracy$, $* \%\ Population\ Urban$, $Economic\ Freedom$). The random intercept term, denoted as "$u$," captures the unobserved individual-specific effects, accounting for variations across different country-level groups in the dataset.

By including the random intercept, the mixed effects equation accommodates the presence of individual-specific heterogeneity, allowing for a more comprehensive analysis of the relationship between the independent variables and state capture (Snijders and Bosker, 2012). The $\varepsilon$ term represents the error term, representing unexplained variability in the model. Together, the mixed effects equation provides a robust framework for examining the impacts of the independent variables on state capture, considering both fixed effects and individual-specific random effects, while accounting for temporal variation.

In Table 2, I present the results of the mixed effects regression for the full sample, providing estimations for the main model. The mid-range form represents countries with civil liberties score of 4, falling within the mid-range of our index, coded as 1, while other countries are coded as 0.

**Table 2**

*Full model results*

| Fixed Effects | Main Model |
|---|---|
| Time | 0.013*** |
| | (-0.006) |
| Civil Liberties | -0.080*** |
| | (0.024) |
| Civil Liberties Mid-Range | 0.068*** |
| | (-0.033) |
| Democracy | -0.471*** |
| | (-0.178) |
| % Population Urban | -0.016*** |
| | (-0.008) |
| Economic Freedom | -0.007*** |
| | (-0.003) |
| Log GDPPC | -0.325*** |
| | (-0.104) |
| Constant | 5.819*** |
| | (-0.625) |
| **Random Effects** | |
| Intercept | 9.196 |
| | (-1.82) |
| Residual | 0.541 |
| | (-0.06) |
| Correlation Structure (AR1) | 0.979 |

| Observations | 358 |
| Log Likelihood | 247.349 |
| AIC | -472.76 |
| BIC | -430.07 |

Note: ∗p<0.1;∗∗p<0.05;∗∗∗p<0.01

### Discussion

The main model represented in Table 2 demonstrates the effects of the independent variables, including *civil liberties*, on *state capture*. Controlling for other regressors in the model, *civil liberties* were found to be statistically significant at the p < .01 level with a negative coefficient estimate of 0.080. This leads me to reject the hypothesis (H1) that greater levels of *civil liberties* would lead to reduced *state capture* as this result shows that as *civil liberties* move from good to worse, *state capture* decreases. This finding could in part be explained by the fact that Latin American countries to begin with already have low levels of civil liberties and weak democracies to begin with resulting in a continual reduction in space and opportunity for private sector actors to shape the rules of the game in their favor as society becomes less and less free. However, these findings align with the argument put forth by Hellman et al. (2000) that a mid-range level of *civil liberties* may be more conducive to state capture.

To that end, the results indicate that in the Latin American region, an increase in mid-range *civil liberties* corresponds to an increase in *state capture*. This suggests that the conditions most favorable for state capture occur when *civil liberties* are in the mid-range. In this range, the state is not strong enough to severely repress *civil liberties*, nor is civil society robust enough to ensure the protection of strong *civil liberties*. These circumstances create an environment where *state capture* can flourish. The variable representing *mid-range civil liberties*, constructed to capture this concept, yields a positively signed coefficient estimate of 0.068, which is statistically

significant at the p < .01 level, even when accounting for other variables.

Therefore, for Latin American countries with *mid-range civil liberties*, *state capture* is expected to increase by approximately 0.068 units compared to countries with high or low levels of *civil liberties*. This evidence means that we fail to reject hypothesis H2. This result is congruent with Hellman et al. (2000) which found a positive relationship between mid-range civil liberties and state capture in Eastern Europe. Replicating this result in Latin America through my study contributes to a better understanding of *state capture*. Despite H1 not being confirmed and the results showing the reverse of the initial argument, the confirmation of H2 and the findings in Table 2 shed light on the true impact of *civil liberties* on *state capture*.

The inclusion of the AR(1) term in Table 2's model output revealed the presence of significant autocorrelation or "time dependence" within the model. By incorporating this term, we accounted for and addressed the observed autocorrelation. Overall, the findings from the main model in Table 2 demonstrated robustness.

However, the results for H1 were counter to the initial prediction for Latin America. Instead of observing an increase in *state capture* as *civil liberties* worsened, the analysis revealed an unexpected decrease in *state capture*. This discrepancy raised intriguing questions. On the other hand, the findings related to H2 provided valuable insights. By examining the varying levels of *civil liberties* in detail, the study uncovered that it is the mid-level range of *civil liberties* that truly impacts *state capture*. Countries situated in this mid-range category are more likely to experience higher levels of *state capture* overall.

In summary, while the findings for H1 were contrary to expectations, the analysis of mid-range levels of *civil liberties* supported H2, highlighting the significance of the mid-level range in driving *state capture* outcomes.

Among the control variables included in the study, *Democracy* exhibited a statistically significant negative coefficient of -0.471, indicating that higher levels of democracy were associated with lower

levels of *state capture*. This finding aligns with expectations and previous literature, suggesting that stronger democratic institutions and processes act as a deterrent to *state capture*.

Additionally, the variable *% Population Urban* showed a statistically significant negative coefficient of -0.016, implying that a higher proportion of the population residing in urban areas was associated with lower levels of *state capture*. This suggests that urbanization may play a role in fostering transparency, accountability, and a more competitive business environment, reducing opportunities for *state capture*.

Overall, in examining the relationship between *civil liberties* and *state capture* in Latin America, the findings revealed intriguing insights. Contrary to the initial hypothesis (H1), the analysis demonstrated that as *civil liberties* worsened, *state capture* actually decreased. However, the results aligned with the theoretical proposition of a mid-level range of *civil liberties* being critical for *state capture* (H2), with countries in this range experiencing higher levels of *state capture*. These findings expanded upon previous research and shed light on the nuanced dynamics within Latin American countries.

Furthermore, the control variables in the study provided significant insights. Higher levels of *democracy* were found to be associated with lower levels of *state capture*, emphasizing the importance of strong democratic institutions in preventing corruption. Additionally, the proportion of the population residing in urban areas showed a negative relationship with *state capture*, suggesting that urbanization contributes to transparent and accountable governance, thus reducing opportunities for state capture.

These findings contribute to a comprehensive understanding of the factors influencing *state capture* in Latin America, highlighting the complex interplay between civil liberties, democracy, urbanization, and state capture. The study underscores the importance of considering specific contexts and the mid-level range of *civil liberties* when assessing the impact of these factors on *state capture* dynamics.

### Conclusion

This study examined the complex relationship between *civil liberties* and *state capture* in Latin America. While the findings revealed an unexpected negative correlation between worsening *civil liberties* and *state capture*, they confirmed a statistically significant, positive impact of the mid-range level of *civil liberties* on *state capture*. These results contribute to the existing literature and extend the understanding of *state capture* dynamics beyond the Eastern European region, as demonstrated by Hellman et al. (2000).

The implications of the study's findings are clear for state actors, civil society, and the private sector. Strengthening *civil liberties* beyond the mid-range level is crucial in combating *state capture*. Domestic political leaders, local business actors, and civil society play key roles in leading the fight against state capture (Hellman and Kauffmann, 2001; Rupert, 2016). Transparency mechanisms, such as in-depth surveys of citizens and firms, can empower civil society and drive reform. Public officials should disseminate survey results widely to mobilize support and foster accountability. Implementing "public hearings" for procurement and government contracts can further combat state capture. The importance of democracy, democratic institutions, and a robust civil society with watchdog groups and independent media cannot be underestimated in this context (Blake and Morris, 2009).

To address the challenge of weak civil society and civil liberties, policymakers can consider appealing to nationalism to mobilize the population against entrenched interests (Way 2005). Reigniting a sense of urgency among civil society groups and protecting the rule of law are vital steps in limiting corporate power and state capture (Kalaitzake, 2015; Weyland 2020). However, reversing state capture requires sustained efforts and overcoming the influence of powerful entities in Latin America. Notably, countries like Chile, Uruguay, and Costa Rica have shown leadership in anti-corruption initiatives, demonstrating that action across different spheres of society can make a positive impact (Rotberg, 2019).

In summary, this study highlights the importance of the mid-range level of *civil liberties* and its influence on *state capture* in Latin America. By strengthening *civil liberties* and promoting transparency,

mobilization, and accountability, Latin American countries can mitigate the detrimental effects of *state capture* and pave the way for a region characterized by reduced corruption and enhanced democratic governance.

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**Appendix A: Robustness Check**

Table A below presents a robustness check of the main model in Table 2, with the exclusion of Cuba from the analysis. Cuba was intentionally omitted due to its extreme outlier status in terms of *civil liberties*, scoring zero or non-existent *civil liberties* across the board according to the scale employed by Freedom House. This omission ensures that the estimates are not unduly influenced by Cuba's unusual position.

Upon examining Table A, it is evident that the results remain highly robust and consistent with those of the main model in Table 2. The signs for the two key variables, *civil liberties* and *civil liberties mid-range*, remain the same and highly statistically significant. However, as with the main model, H1, which examines *civil liberties*, shows an opposite sign but remains statistically significant. Conversely, the results for H2, which examines *civil liberties* mid-range, continue to hold, confirming that countries within the mid-level range of civil liberties experience higher levels of *state capture* overall.

In summary, the robustness check in Table A demonstrates that the results remain consistent and reliable, supporting the findings of the main model. The exclusion of Cuba from the sample accounts for its unique level of *civil liberties*, ensuring the integrity of the analysis. This further underscores the significance of the mid-level range of *civil liberties* in understanding *state capture* dynamics in Latin America.

## Table A

*Robustness Results*

| Fixed Effects | Main Model |
|---|---|
| Time | 0.013*** |
| | (-0.006) |
| Civil Liberties | -0.077*** |
| | (0.025) |
| Civil Liberties Mid-Range | 0.063** |
| | (0.034) |
| Democracy | -0.515*** |
| | (0.182) |
| % Population Urban | -0.015** |
| | (0.008) |
| Economic Freedom | -0.008** |
| | (0.003) |
| Log GDPPC | -0.331*** |
| | (-0.106) |
| Constant | 5.907*** |
| | (-0.619) |
| **Random Effects** | |
| Intercept | 5.31 |
| | -1.86 |
| Residual | 0.525 |
| | -0.08 |
| Correlation Structure (AR1) | 0.976 |

| | |
|---|---|
| Observations | 339 |
| Log Likelihood | 229.398 |
| AIC | -436.796 |
| BIC | -394.701 |

Note:∗p<0.1;∗*p<0.05;∗∗*p<0.01